

# **Buckner International and Subsidiaries**

Consolidated Financial Report

December 31, 2018

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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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### 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, 2018 and 2017, 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.

## **Emphasis of Matter**

As discussed in Note 2, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

As discussed in Note 2, BRS adopted certain updated guidance in ASU 2014-09, Topic 606, "Revenue from Contracts with Customers," whereby the costs of acquiring initial continuing-care contracts that are expected to be recovered from future contract revenues can no longer be capitalized and amortized. Buckner has chosen the "modified" approach, where this change is effective January 1, 2018. The effect of this adoption is the write off of \$5,590,762 of capitalized direct-response advertising costs in 2018. Our opinion is not modified with respect to this matter.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
May 10, 2019

**Buckner International and Subsidiaries**  
Consolidated Statements of Financial Position  
December 31, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 20,825,579	\$ 21,256,590
Investments	345,780,739	347,794,496
Assets whose use is limited	22,578,992	10,391,438
Receivables, net	4,441,378	6,255,145
Pledges and bequests receivable, net	4,756,654	361,426
Inventories and supplies	227,911	229,152
Notes receivable	7,702,200	21,256
Prepaid expenses	134,618	1,042,247
Other assets	314,406	5,859,929
Revenue bond proceeds held by trustee	92,156,644	206,275,058
Real estate held for investment	1,993,340	1,125,041
Property and equipment, net	358,768,607	235,919,014
<b>TOTAL ASSETS</b>	<b>\$ 859,681,068</b>	<b>\$ 836,530,792</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 10,203,130	\$ 6,313,107
Retainage payable	11,208,520	-
Accrued liabilities	5,543,832	5,539,969
Lines of credit	1,100,000	1,100,000
Short-term notes payable	-	852,725
Revenue bonds payable, net	382,872,741	385,733,932
Notes payable	18,001,382	8,142,819
Resident deposits	2,313,742	2,185,531
Refundable fees	26,490,904	24,708,848
Deferred revenue from advance fees	1,642,060	1,721,466
Annuity and life income fund liability	4,500,469	4,801,655
Other	2,929,113	2,307,310
Total liabilities	466,805,893	443,407,362
<b>NET ASSETS</b>		
Without Restrictions	264,516,926	289,489,323
With Restrictions	128,358,249	103,634,107
Total net assets	392,875,175	393,123,430
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 859,681,068</b>	<b>\$ 836,530,792</b>

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, 2018 and 2017

	2018			2017		
	Without Restrictions	With Restrictions	Total	Without Restrictions	With Restrictions	Total
<b>REVENUES</b>						
Client support and related income	\$ 79,221,895	\$ -	\$ 79,221,895	\$ 77,534,524	\$ -	\$ 77,534,524
Investment income	25,265,505	777,288	26,042,793	24,942,352	333,418	25,275,770
Contributions						
Baptist General Convention of Texas	481,497	-	481,497	484,231	-	484,231
Individual and business gifts	12,468,083	8,025,136	20,493,219	12,259,835	2,037,712	14,297,547
Bequests	243,880	88,293	332,173	1,063,655	156,049	1,219,704
Gain on sales of real estate held for investment	100,708	-	100,708	511,806	-	511,806
Other	722,995	50,000	772,995	785,351	-	785,351
Net assets released from restrictions	6,245,590	(6,245,590)	-	1,312,793	(1,312,793)	-
	<u>124,750,153</u>	<u>2,695,127</u>	<u>127,445,280</u>	<u>118,894,547</u>	<u>1,214,386</u>	<u>120,108,933</u>
<b>EXPENSES</b>						
Salaries and benefits	61,811,815	-	61,811,815	61,079,146	-	61,079,146
Supplies and direct expenses	23,437,617	-	23,437,617	25,110,909	-	25,110,909
Occupancy and insurance	14,267,579	-	14,267,579	12,835,197	-	12,835,197
Travel and transportation	2,656,980	-	2,656,980	2,544,379	-	2,544,379
Administration	9,627,246	61,006	9,688,252	9,397,438	61,006	9,458,444
Depreciation	8,388,362	-	8,388,362	7,994,019	-	7,994,019
Interest expense	5,389,504	-	5,389,504	4,387,909	-	4,387,909
	<u>125,579,103</u>	<u>61,006</u>	<u>125,640,109</u>	<u>123,348,997</u>	<u>61,006</u>	<u>123,410,003</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	(828,950)	2,634,121	1,805,171	(4,454,450)	1,153,380	(3,301,070)
<b>NONOPERATING ITEMS</b>						
Net realized and unrealized gains (losses) on investments	(5,269,104)	8,740,710	3,471,606	18,709,985	13,107,932	31,817,917
Other, net	(13,283,581)	13,349,311	65,730	85,810	200,431	286,241
	<u>(19,381,635)</u>	<u>24,724,142</u>	<u>5,342,507</u>	<u>14,341,345</u>	<u>14,461,743</u>	<u>28,803,088</u>
<b>CHANGE IN NET ASSETS</b>	(19,381,635)	24,724,142	5,342,507	14,341,345	14,461,743	28,803,088
<b>NET ASSETS, BEGINNING OF YEAR</b>	289,489,323	103,634,107	393,123,430	275,147,978	89,172,364	364,320,342
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	(5,590,762)	-	(5,590,762)	-	-	-
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 264,516,926</u>	<u>\$ 128,358,249</u>	<u>\$ 392,875,175</u>	<u>\$ 289,489,323</u>	<u>\$ 103,634,107</u>	<u>\$ 393,123,430</u>

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

# Buckner International and Subsidiaries

## Consolidated Statements of Cash Flows

### Years Ended December 31, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,342,507	\$ 28,803,088
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,388,362	7,994,019
Donated land included in contributions	(1,325,000)	-
Amortization	(1,002,116)	(863,684)
Charge for extinguishment of long-term debt	-	393,245
Recognition for closure of facility	-	(1,199,722)
Disposal of facility repositioning costs	-	681,799
Debt issuance costs	(280,858)	-
Accretion expense and ARO revisions	67,265	64,351
Gain on sales of real estate held for investment	(100,708)	(511,806)
Gain on sale or disposal of facility assets	(56,220)	(159,671)
Net realized and unrealized gains on investments	(3,471,606)	(31,817,917)
Changes in operating assets and liabilities:		
Assets whose use is limited	13,920,613	(721,099)
Receivables	(2,560,205)	1,719,985
Inventories and supplies	1,241	(5,928)
Prepaid expenses	907,629	940,072
Other assets	(45,239)	(1,583,462)
Accounts payable	15,098,543	1,533,572
Accrued liabilities	3,863	696,060
Resident deposits	128,211	133,010
Refundable fees	1,782,056	2,108,378
Deferred revenue from advance fees	313,865	229,756
Annuity and life income fund liability	(5,577)	(2,417)
Other liabilities	554,537	269,308
Net cash provided by operating activities	37,661,163	8,700,937
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(131,788,102)	(70,560,818)
Decrease in revenue bond proceeds held by trustee	102,076,449	82,129,326
Purchases of investments	(19,010,847)	(19,426,504)
Proceeds on sales or redemptions of investments	20,144,222	16,248,114
Proceeds from sale of property and equipment	585,869	3,380,200
Proceeds from sales of real estate held for investment	557,409	816,596
Proceeds advanced to Community Development Entity (CDE)	(7,702,200)	-
Net cash provided by (used in) investing activities	(35,137,200)	12,586,914
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from revenue bonds payable and notes payable	349,834	1,049,235
Payments on revenue bonds payable and short-term notes payable	(3,304,808)	(20,440,898)
Net cash provided by (used in) financing activities	(2,954,974)	(19,391,663)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(431,011)	1,896,188
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	21,256,590	19,360,402
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 20,825,579	\$ 21,256,590
<b>SUPPLEMENTAL DISCLOSURE</b>		
Cash paid for interest	\$ 20,969,053	\$ 12,777,209
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>		
Financing of insurance contract	\$ -	\$ 852,725
Funding and premium on revenue bonds	\$ -	\$ 292,084,968
Refunding of 2007 revenue bonds	\$ -	\$ 49,200,000
Bond issuance costs on revenue bonds	\$ -	\$ 5,592,021
Proceeds from revenue bonds sent to escrow	\$ -	\$ 247,207,900
Refinancing Notes Payable	\$ 7,915,736	
Proceeds from New Markets Tax Credit (NMTC) program	\$ 10,780,000	
Debt issuance costs on NMTC	\$ 420,343	

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

**Buckner International and Subsidiaries**  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2018

	<u>Ministry Activities</u>						<u>Total Ministry Activities</u>	<u>Supporting Activities</u>		<u>Total Supporting Activities</u>	<u>Total Expenses</u>
	<u>Foster Care and Adoption</u>	<u>Family Hope Centers</u>	<u>Family Pathways</u>	<u>Ministry Engagement</u>	<u>International Ministries</u>	<u>Senior Care Services</u>		<u>General and Administration</u>	<u>Fundraising</u>		
Salaries and benefits	\$ 4,955,997	\$ 5,791,777	\$ 2,647,434	\$ 2,845,401	\$ 665,086	\$ 33,799,780	\$ 50,705,475	\$ 7,660,962	\$ 3,445,378	\$ 11,106,340	\$ 61,811,815
Supplies and direct expenses	5,209,753	530,948	913,309	3,921,119	3,360,716	8,981,721	22,917,566	4,328	515,723	520,051	23,437,617
Occupancy and insurance	735,991	1,307,380	1,320,272	605,551	31,981	8,515,618	12,516,793	1,694,802	55,984	1,750,786	14,267,579
Travel and transportation	435,004	441,634	150,236	721,378	80,813	295,824	2,124,889	359,386	172,705	532,091	2,656,980
Administration	440,570	619,482	289,770	344,888	172,184	3,295,104	5,161,998	2,490,697	2,035,557	4,526,254	9,688,252
Depreciation	313,258	377,237	676,422	247,830	-	6,248,631	7,863,378	524,984	-	524,984	8,388,362
Interest expense	-	-	-	-	-	5,347,433	5,347,433	42,071	-	42,071	5,389,504
<b>Total Expenses</b>	<b>\$ 12,090,573</b>	<b>\$ 9,068,458</b>	<b>\$ 5,997,443</b>	<b>\$ 8,686,167</b>	<b>\$ 4,310,780</b>	<b>\$ 66,484,111</b>	<b>\$ 106,637,532</b>	<b>\$ 12,777,230</b>	<b>\$ 6,225,347</b>	<b>\$ 19,002,577</b>	<b>\$ 125,640,109</b>

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 was 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 FHC-Bachman Lake (BBL), a Texas not-for-profit corporation, was established in October 2018 as a result of a new markets tax credit arrangement entered into by BCFS, discussed further in Note 10. BBL 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)
- Buckner FHC-Bachman Lake (BBL)

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.

Effective July 30, 2018, the Board of Trustees of Buckner decided to dissolve BAMS. Upon this dissolution, the assets of BAMS were distributed directly to BCFS.

# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 2. Summary of Significant Accounting Policies

#### Basis of Presentation

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

- Net Assets Without Restrictions - Net assets that are not subject to donor-imposed stipulations. Restricted contributions received and released in the current year will be reported as activity within net asset without restrictions.
- Net Assets With Restrictions – Net assets with restrictions include net assets subject to donor-imposed stipulations that may or will be met by actions of Buckner and/or the passage of time to be used generally for capital expenditures and program support. In 2018 and 2017, these assets are made up of a portion of cash and cash equivalents, investments, and pledges and bequests receivable. Net assets with restrictions also include net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be retained permanently. Generally, the donors of these assets permit Buckner to use all or part of the income earned on related investments for general or specific purposes, including program support. In 2018 and 2017, these assets are made up of a portion of cash and cash equivalents and investments.

Revenues are reported as increases in net assets without restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with restriction (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period when unconditional promises to give are received. Bequests are recognized when the court declares the will valid and the amount is reasonably estimable. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net asset with restriction class, and a reclassification to net assets without restriction is made to reflect the expiration of such restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. There was no allowance for uncollectible contributions at December 31, 2018 and 2017.

# **Buckner International and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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

- As increases (decreases) in net assets with restriction if the terms of the gift require that they be included in the principal of a permanent endowment fund;
- As increases (decreases) in net assets with restriction if the terms of the gift impose restrictions on their use;
- As increases (decreases) in net assets without restriction in all other cases.

### **Cash Equivalents**

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

### **Investments**

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

### **Assets Whose Use is Limited**

Assets whose use is limited consists of funds held for use for debt service payments for revenue bonds payable, funds held for new markets tax credit program 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.

# **Buckner International and Subsidiaries**

## Notes to Consolidated Financial Statements

### **Split-interest Agreements**

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

### **Asset Retirement Obligations**

Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability.

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

### **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. Bond issuance costs are reported in the 2018 and 2017 consolidated statements of financial position as direct deductions from the carrying amount of the related debt liability. Amortization of bond issuance costs after construction is complete is included within administration expense in the consolidated statements of activities.

### **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.

# **Buckner International and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **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 \$2,151,518 and \$1,091,113 for the years ended December 31, 2018 and 2017, respectively, and are included in administration expense on the accompanying consolidated statements of activities.

In 2018, Buckner adopted certain updated guidance in ASU 2014-09, Topic 606, "Revenue from Contracts with Customers," whereby the costs of acquiring initial continuing-care contracts that are expected to be recovered from future contract revenues can no longer be capitalized and amortized. Previously, the costs had been 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 has chosen the "modified" approach, where this change is effective January 1, 2018. The effect of this adoption is the write off of \$5,590,762 of capitalized direct-response advertising costs in 2018.

### **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, 2018, 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 10, 2019, the date these consolidated financial statements were available to be issued. During this period, there were no material recognizable subsequent events.

# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

### New Accounting Pronouncement and Adoption

On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented which had an immaterial change to net assets.

On May 28, 2014, the FASB issued Accounting Standards Update ASU 2014-09, Topic 606, "Revenue from Contracts with Customers," whereby the costs of acquiring initial continuing-care contracts that are expected to be recovered from future contract revenues can no longer be capitalized and amortized. Buckner has chosen the "modified" approach, where this change is effective January 1, 2018. The effect of this adoption is the write off of \$5,590,762 of capitalized direct-response advertising costs in 2018.

### Note 3. Investments

Investments consist of the following:

	December 31,	
	2018	2017
HighGround Endowment Fund	\$ 122,058,310	\$ 183,129,291
Equity securities - domestic	44,982,231	59,580,157
Equity securities - international	29,843,363	7,573,751
Corporate bonds	24,804,845	3,274,309
U.S. government agencies	2,951,547	4,492,706
Money market funds	5,181,062	14,878,082
Bond mutual funds	36,005,105	18,655,036
Mineral interests	76,758,222	50,910,081
Other	3,196,054	5,301,083
	<u>\$ 345,780,739</u>	<u>\$ 347,794,496</u>

The following summarizes investment return:

	Years ended December 31,	
	2018	2017
Operating		
Dividend and interest income	\$ 26,042,793	\$ 24,715,225
Nonoperating		
Net realized and unrealized gain (loss) on investments	<u>3,471,606</u>	<u>31,817,917</u>
	<u>\$ 29,514,399</u>	<u>\$ 56,533,142</u>

# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 4. Receivables

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

	December 31,	
	2018	2017
Receivables, gross	\$ 4,924,350	\$ 6,695,049
Allowance for doubtful accounts	(482,972)	(439,904)
Receivables, net	\$ 4,441,378	\$ 6,255,145

### 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,	
	2018	2017
Pledges and bequests receivable, gross	\$ 4,827,699	\$ 364,054
Less unamortized discount at 2.69% and 2.40% at December 31, 2018 and 2017, respectively	(71,045)	(2,628)
Pledges and bequests receivable, net	\$ 4,756,654	\$ 361,426

The maturity of pledges and bequests receivable at December 31, 2018 is as follows:

Less than one year	\$ 3,431,366
One to five years	1,396,333
	\$ 4,827,699

### Note 6. Note Receivable

During 2018, BCFS closed on a new markets tax credit (NMTC) arrangement resulting in a note receivable from Chase NMTC Buckner Investment Fund, LLC in the amount of \$7,702,200 with interest payable annually at 1.00%. Principal and interest payments of the note are to commence in December 2019 with final payment due December 2051. As part of the arrangement, the note may be paid off early, wherein a significant portion of the debt may be forgiven through the utilization of the new markets tax credit. The note is collateralized by a security interest in the membership interests of the community development entity, DDF November, LLC. The note receivable originated with the issuance of certain debt instruments reflected in Note 10 to the consolidated financial statements. However, there is not a right of offset with these debt instruments.

# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 7. Property and Equipment

Property and equipment consists of the following:

	Estimated useful life	December 31,	
		2018	2017
Buildings	10 - 40 years	\$ 237,089,369	\$ 194,552,362
Furniture and equipment	5 - 10 years	19,952,920	17,663,632
Vehicles	5 years	1,971,911	2,022,226
Land improvements	5 - 20 years	14,667,236	14,642,490
Total		273,681,436	228,880,710
Less accumulated depreciation		(103,221,756)	(96,394,780)
		170,459,680	132,485,930
Projects-in-process		174,117,144	89,221,841
Land		14,191,783	14,211,243
Property and equipment, net		\$ 358,768,607	\$ 235,919,014

Depreciation expense was \$8,388,362 and \$7,994,019 for the years ended December 31, 2018 and 2017, respectively.

### Note 8. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2018	2017
Employee vacation and sick pay	\$ 705,265	\$ 742,865
Employee health benefits	1,175,096	1,175,096
Nonsubscriber occupational injury	100,000	100,000
Wages and payroll related	469,602	535,902
Interest on revenue bonds and notes payable	2,639,105	2,653,028
Professional and general liability insurance	100,000	100,000
Other	354,764	233,078
Total	\$ 5,543,832	\$ 5,539,969



# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 9. Debt

In October 2018, First Financial Bank, N.A. made two loans, Note A and Note B, to BMM through the Orchard Cultural Education Facilities Finance Corporation. The proceeds from the Notes will be used by BMM to finance and refinance the construction, acquisition, renovation and/or equipping of independent living, assisted living, and skilled nursing facilities in San Angelo, Texas. The outstanding principal amount of Note A at December 31, 2018 was \$7,915,736. Total interest and principal payments will begin in January 2019 and the total annual payments will be \$535,805 through September 2028. From October 2028 through October 2043, interest payments will be calculated at a variable rate and total annual interest and principal payments will be based on the variable rate. The outstanding principal amount of Note B at December 31, 2018 was \$0. First Financial Bank, N.A. shall only advance funds for Note B requested by BMM in writing up to the loan amount of \$6,584,264. Interest only on the requested draws shall be due and payable in 2019. Buckner Foundation, Inc. has entered into an account control agreement with First Financial Bank, N.A. in the amount of \$2,000,000 for the benefit of BMM related to 2018 Notes Payable.

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, 2018 is \$232,345,000. As of December 31, 2018, revenue bond proceeds of \$82,633,728 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, 2018, the unamortized premium on the Series 2017 Ventana bonds is \$146,265. 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, 2018 is \$50,980,000. As of December 31, 2018, revenue bond proceeds of \$3,198,634 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, 2018, the unamortized premium on the Series 2017 bonds is \$6,658,905.

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, 2018 is \$86,790,000. As of December 31, 2018, revenue bond proceeds of \$6,324,282 were being held by the trustee to be used for funding of capital expenditures and construction interest.

# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

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, 2018, the unamortized premium on the Series 2016 bonds is \$12,516,198.

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.

A summary of debt is as follows:

	December 31,	
	2018	2017
Revenue bonds payable		
Series 2017 revenue bonds, interest rates of 2.25% to 5.00%, net of unamortized premium	\$ 57,638,905	\$ 59,189,802
Less: bond issuance costs	(866,045)	(908,092)
	56,772,860	58,281,710
Series 2017 Ventana bonds, interest rates of 4.00% to 6.75%, net of unamortized premium	232,491,265	232,495,645
Less: bond issuance costs	(4,460,228)	(4,593,620)
	228,031,037	227,902,025
Series 2016 revenue bonds, interest rates of 1.00% to 5.00%, net of unamortized premium	99,306,198	100,839,761
Less: bond issuance costs	(1,237,354)	(1,289,564)
	98,068,844	99,550,197
Lines of credit		
With JPMorgan Chase, variable interest rate currently at 4.00% expires December 2020	1,100,000	1,100,000
Notes payable		
With FFIN San Angelo interest rate of 4.00%, expired October 2018	-	5,306,262
With FFIN San Angelo interest rate of 4.00%, expired October 2018	-	2,420,226
With FFIN San Angelo variable interest rate of 5.25%, expired October 2018	-	416,331
With FFIN San Angelo variable interest rate of 4.58%, expires October 2043	7,915,736	-
Less: issuance costs	(278,422)	-
	7,637,314	8,142,819
DDF November, LLC Loan A, interest accrued monthly, paid annually, at 1.19%, until December 1, 2025, principal and interest is due annually until maturity December 1, 2055	7,702,200	-
DDF November, LLC Loan B, interest accrued monthly, paid annually, at 1.19%, until December 1, 2025, principal and interest is due annually until maturity December 1, 2055	3,077,800	-
Less: issuance costs	(415,932)	-
	10,364,068	-
Short-term notes payable		
Insurance contract notes, interest rates range from 4.01% to 5.95% expiring 2019	-	852,725
	\$ 401,974,123	\$ 395,829,476

## 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, 2018 are as follows:

Year ending December 31,	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
2019	\$ 1,100,000	\$ 189,954	\$ 1,290,000	\$ 2,145,000	\$ 1,030,000	\$ 4,465,000	\$ 5,754,954
2020	-	179,165	1,350,000	64,910,000	1,075,000	67,335,000	67,514,165
2021	-	188,631	1,420,000	18,245,000	1,125,000	20,790,000	20,978,631
2022	-	197,544	1,490,000	-	1,185,000	2,675,000	2,872,544
2023	-	206,878	1,565,000	-	1,245,000	2,810,000	3,016,878
Thereafter	-	17,733,564	43,865,000	147,045,000	81,130,000	272,040,000	289,773,564
	1,100,000	18,695,736	50,980,000	232,345,000	86,790,000	370,115,000	389,910,736
Less: debt issuance costs	-	(694,354)	(866,045)	(4,460,228)	(1,237,354)	(6,563,627)	(7,257,981)
Add: amount representing premium	-	-	6,658,905	146,265	12,516,198	19,321,368	19,321,368
	<u>\$ 1,100,000</u>	<u>\$ 18,001,382</u>	<u>\$ 56,772,860</u>	<u>\$ 228,031,037</u>	<u>\$ 98,068,844</u>	<u>\$ 382,872,741</u>	<u>\$ 401,974,123</u>

#### Note 10. New Markets Tax Credit Arrangement

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

##### Note Payable

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

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

## Buckner International and Subsidiaries

### Notes to Consolidated Financial Statements

BCFS, specifically BBL, was obligated on the following notes payable as of December 31:

Payable to and terms	2018
DDF November, LLC Loan A, interest accrued monthly, paid annually, at 1.190%, until December 1, 2025, principal and interest is due annually until maturity December 1, 2055.	\$ 7,702,200
DDF November, LLC Loan B, interest accrued monthly, paid annually, at 1.190%, until December 1, 2025, principal and interest is due annually until maturity December 1, 2055.	3,077,800
Less: debt issuance costs	(415,932)
Total Notes Payable	\$ 10,364,068

Remaining Notes Payable are discussed in Note 9.

#### **Note 11. Retirement Plans**

Buckner provides a defined contribution retirement plan (the Plan) for its employees. Employees are eligible to participate in the Plan after completing two years of eligible service. Buckner contributes 8% of an employee's base salary for employees who contribute at least 5% of their salary. Vesting occurs immediately upon entering the Plan. Contributions to the Plan for the years ended December 31, 2018 and 2017 were \$1,958,021 and \$1,904,367, respectively.

#### **Note 12. Functional Allocation of Expenses**

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

# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 13. 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,		
2019	\$	1,138,622
2020		1,055,489
2021		1,072,452
2022		1,089,687
2023		1,057,841
Thereafter		<u>1,513,347</u>
	<u>\$</u>	<u>6,927,438</u>

Rent expense under all operating leases for the years ended December 31, 2018 and 2017 was \$1,297,534 and \$1,213,197, respectively. The cost of Buckner's lease for office space is accounted for by the straight-line method. The difference between the net cash requirements of the lease and the straight-line method is accrued within other liabilities on the consolidated statements of financial position.

### Note 14. Asset Retirement Obligation

Asset retirement obligations (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, 2018 and 2017 was included in other liabilities.

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

	December 31,	
	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,484,882	\$ 1,420,532
Accretion expense	<u>67,265</u>	<u>64,350</u>
Ending balance	<u>\$ 1,552,147</u>	<u>\$ 1,484,882</u>

# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 15. Net Assets

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

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

	December 31,	
	2018	2017
Original donor-restricted gift amount and amounts required to be retained by donor	\$ 101,913,720	\$ 90,642,426
Gift amounts restricted by purpose	6,191,953	3,161,027
Gifts and other amounts restricted by passage of time	20,252,576	9,830,654
	\$ 128,358,249	\$ 103,634,107

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

	Years ended December 31,	
	2018	2017
Capital projects - children and family services	\$ 5,410,906	\$ 374,146
Program support - children and family services	634,684	738,647
Program support - retirement services	200,000	200,000
	\$ 6,245,590	\$ 1,312,793

### Note 16. Related Party Transactions

In prior years, Buckner has entered into transactions with its Board members on an occasional basis subject to and in compliance with the Buckner Policy on Conflict of Interest, including requiring approval of disinterested members of the Finance Committee of the Board. Such transactions are immaterial in amount and no such transactions took place in 2018 or 2017.

### Note 17. Fair Value Measurements

The Codification, accounting for fair value measurements and disclosures, established the framework for measuring fair value, which was effective for fiscal years beginning after November 15, 2007. The guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

# 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, 2018 and 2017 is as follows:

	December 31, 2018			
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	\$ 122,058,310	\$ -	\$ 122,058,310	\$ -
Equities - domestic	44,982,231	33,855,716	11,126,515	-
Equities - international	29,843,363	26,520,966	3,322,397	-
Corporate bonds	24,804,845	-	24,804,845	-
U.S. government agencies	2,951,547	-	2,951,547	-
Money market funds	5,181,062	-	5,181,062	-
Bond mutual funds	36,005,105	-	36,005,105	-
Mineral interests	76,758,222	-	-	76,758,222
Real estate / other	3,196,054	-	-	3,196,054
Pledges and bequests receivable	4,756,654	-		4,756,654
Revenue bond proceeds held by trustee	92,156,644	-	92,156,644	-
Annuity funds liabilities for investments held in trust	(4,500,469)	-	-	(4,500,469)

# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

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)

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, 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	5,301,084	50,910,081	361,426	(4,801,655)
Distributions	-	-	(2,835,816)	-
Contributions	-	-	7,231,044	-
Net realized and unrealized change in investment valuation	<u>(2,105,030)</u>	<u>25,848,141</u>	<u>-</u>	<u>301,186</u>
December 31, 2018	<u>\$ 3,196,054</u>	<u>\$ 76,758,222</u>	<u>\$ 4,756,654</u>	<u>\$ (4,500,469)</u>

# Buckner International and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 18. Restricted Assets Held in Foundation

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

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

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

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

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.

Net assets with restrictions is made up of the following:

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

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

	Imposed Restrictions		Permanent Endowment	
	2018	2017	2018	2017
Net assets	\$ 15,275,199	\$ 4,283,743	\$ 80,156,782	\$ 67,726,933

## Buckner International and Subsidiaries

### Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017, the Foundation had the following endowment-related activities:

	Imposed Restrictions	Permanent Enowment	Total
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	1,149,859	(129,491)	1,020,368
Endowment net assets, December 31, 2017	4,283,743	67,726,933	72,010,676
Investment return			
Investment income	(70,092)	642,784	572,692
Net realized/unrealized gains (losses)	(99,413)	11,102,140	11,002,727
Total investment return	(169,505)	11,744,924	11,575,419
Contributions to endowment/other	11,160,961	684,925	11,845,886
Endowment net assets, December 31, 2018	<u>\$ 15,275,199</u>	<u>\$ 80,156,782</u>	<u>\$ 95,431,981</u>

#### Funds with Deficits

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires Buckner to retain as a fund of perpetual duration. At December 31, 2018, deficiencies of this nature exist in various Foundation donor-restricted endowment funds, which together have an original gift value of \$5,360,701, a current fair value of \$4,963,833 and a deficiency of \$396,868. The deficiency resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for the donor-restricted endowment funds and continued appropriation for certain programs that were deemed prudent by management. The Foundation permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

# **Buckner International and Subsidiaries**

## Notes to Consolidated Financial Statements

### **Note 19. Liquidity**

Buckner has \$178.4 million of financial assets available within one year of the balance sheet date to meet the cash needs for general expenditures of the organization. In addition to these funds, the organization could also draw upon \$900,000 available from a line of credit. Total financial assets were reduced by certain assets and netted out for determining the \$178.4 million of available liquid assets. Assets excluded: donor restrictions on cash and cash equivalents; donor restrictions on investments; non-liquid investments; investments set aside or available for financing obligations; and pledge receivables due more than one year from the balance sheet date. As part of its liquidity management, Buckner may invest in excess of daily requirements in various short-term investments, including money market accounts. Approximately \$152.0 million of the \$178.4 million is maintained within the Foundation for investments whose earnings benefit the Buckner ministries. The Foundation has entered into a Credit and Support Agreement for the benefit of BRS related to the approximate \$138.0 million of outstanding revenue bonds payable at December 31, 2018 and this contingent amount has not reduced nor was netted out of the \$178.4 million of financial assets noted above.

### **Note 20. Commitments and Contingencies**

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

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

Buckner maintains a letter of credit that is required by the insurance company for Buckner's professional and general liability insurance policies from prior years. As of December 31, 2018 and 2017, no amounts are outstanding under the letter of credit. At both December 31, 2018 and 2017, Buckner maintained a \$100,000 reserve for prior years' professional and general liability insurance.

Buckner is partially insured for employee health benefits and its non-subscriber occupational injury plan. For employee health benefits, Buckner has a stop-loss limit of \$150,000 per person per year and BMM has a stop-loss limit of \$70,000 per person per year. At December 31, 2018 and 2017, Buckner has accrued \$1,175,096 and \$1,175,096, 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, 2018 and 2017, Buckner has accrued \$100,000 for the non-subscriber occupational injury plan.

# **Buckner International and Subsidiaries**

## Notes to Consolidated Financial Statements

### **Note 21. Federal Income Taxes**

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

Tax positions taken related to Buckner's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. For the year ended December 31, 2018, there were no interest or penalties recorded or included in the financial statements. As of December 31, 2018, Buckner's tax years 2015 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 years ended December 31, 2018 and 2017, and our report thereon dated May 10, 2019, 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 10, 2019

**Buckner International and Subsidiaries**  
Consolidating Statement of Financial Position  
December 31, 2018  
(With Comparative Totals for 2017)

ASSETS	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Buckner FHC - Bachman Lake	Buckner Foundation	Eliminations	2018 Consolidated Total	2017 Consolidated Total
<b>ASSETS</b>									
Cash and cash equivalents	\$ 802,812	\$ 8,056,023	\$ 9,176,811	\$ 947	\$ -	\$ 2,788,986	\$ -	\$ 20,825,579	\$ 21,256,590
Investments	-	4,245,560	26,384,660	-	-	315,150,519	-	345,780,739	347,794,496
Assets whose use is limited	-	-	12,567,030	-	10,011,962	-	-	22,578,992	10,391,438
Receivables, net	5,668	1,450,776	2,570,083	-	-	5,650,736	(5,235,885)	4,441,378	6,255,145
Pledges and bequests receivable, net	-	4,756,654	-	-	-	-	-	4,756,654	361,426
Inventories and supplies	-	-	227,911	-	-	-	-	227,911	229,152
Notes receivable	-	7,702,200	-	-	-	-	-	7,702,200	21,256
Prepaid expenses	491,303	53,481	608,613	-	-	-	(1,018,779)	134,618	1,042,247
Due from other companies, net	8,028,628	-	-	-	-	-	(8,028,628)	-	-
Other assets	-	-	314,406	-	-	-	-	314,406	5,859,929
Revenue bond proceeds held by trustee	-	-	92,156,644	-	-	-	-	92,156,644	206,275,058
Real estate held for investment	757,574	205,765	-	-	-	1,030,001	-	1,993,340	1,125,041
Property and equipment, net	918,861	37,494,074	318,815,787	-	1,678,700	1,147	(139,962)	358,768,607	235,919,014
<b>TOTAL ASSETS</b>	<b>11,004,846</b>	<b>63,964,533</b>	<b>462,821,945</b>	<b>947</b>	<b>11,690,662</b>	<b>324,621,389</b>	<b>(14,423,254)</b>	<b>859,681,068</b>	<b>836,530,792</b>
<b>LIABILITIES AND NET ASSETS</b>									
<b>LIABILITIES</b>									
Accounts payable	\$ 178,738	\$ 500,481	\$ 9,387,172	\$ -	\$ 136,739	\$ -	\$ -	\$ 10,203,130	\$ 6,313,107
Retainage payable	-	114,538	11,093,982	-	-	-	-	11,208,520	-
Accrued liabilities	338,888	998,756	4,192,950	-	3,920	9,318	-	5,543,832	5,539,969
Lines of credit	1,100,000	-	-	-	-	-	-	1,100,000	1,100,000
Short-term notes payable	1,018,779	-	-	-	-	-	(1,018,779)	-	852,725
Revenue bonds payable, net	-	-	382,872,741	-	-	-	-	382,872,741	385,733,932
Notes payable	-	-	7,637,314	-	10,364,068	-	-	18,001,382	8,142,819
Resident deposits	-	-	2,313,742	-	-	-	-	2,313,742	2,185,531
Refundable fees	-	-	26,490,904	-	-	-	-	26,490,904	24,708,848
Deferred revenue from advance fees	-	-	1,642,060	-	-	-	-	1,642,060	1,721,466
Annuity and life income fund liability	-	43,494	189,228	-	-	4,267,747	-	4,500,469	4,801,655
Other	647,421	6,291,521	1,226,056	-	-	-	(5,235,885)	2,929,113	2,307,310
Due to other companies, net	-	4,955,298	2,597,378	947	-	475,005	(8,028,628)	-	-
<b>Total liabilities</b>	<b>3,283,826</b>	<b>12,904,088</b>	<b>449,643,527</b>	<b>947</b>	<b>10,504,727</b>	<b>4,752,070</b>	<b>(14,283,292)</b>	<b>466,805,893</b>	<b>443,407,362</b>
<b>NET ASSETS</b>									
Without restrictions	7,721,020	43,120,620	(11,808,025)	-	1,185,935	224,437,338	(139,962)	264,516,926	289,489,323
With restrictions	-	7,939,825	24,986,443	-	-	95,431,981	-	128,358,249	103,634,107
<b>Total net assets</b>	<b>7,721,020</b>	<b>51,060,445</b>	<b>13,178,418</b>	<b>-</b>	<b>1,185,935</b>	<b>319,869,319</b>	<b>(139,962)</b>	<b>392,875,175</b>	<b>393,123,430</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,004,846</b>	<b>\$ 63,964,533</b>	<b>\$ 462,821,945</b>	<b>\$ 947</b>	<b>11,690,662</b>	<b>\$ 324,621,389</b>	<b>\$ (14,423,254)</b>	<b>\$ 859,681,068</b>	<b>\$ 836,530,792</b>



# Buckner International and Subsidiaries

## Consolidating Statement of Activities for the Year Ended December 31, 2018 (With Comparative Totals For 2017)

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Buckner FHC - Bachman Lake	Buckner Foundation	Eliminations	2018 Consolidated Total	2017 Consolidated Total
<b>REVENUES</b>									
Client support and related income	\$ -	\$ 15,706,571	\$ 63,515,324	\$ -	\$ -	\$ -	\$ -	\$ 79,221,895	\$ 77,534,524
Investment income	155,007	630,088	1,616,135	-	2,138	23,639,425	-	26,042,793	25,275,770
Distributions from related foundation	10,285,563	15,992,182	652,870	142,884	-	-	(27,073,499)	-	-
Contributions									
Baptist General Convention of Texas	-	304,064	169,381	8,052	-	-	-	481,497	484,231
Individual and business gifts	254	18,711,571	215,560	52	-	1,565,782	-	20,493,219	14,297,547
Bequests	151,132	97,316	83,725	-	-	-	-	332,173	1,219,704
Gain (loss) on sales of real estate held for investment	257,654	-	-	-	-	(156,946)	-	100,708	511,806
Other	56,390	470,719	244,892	-	-	994	-	772,995	785,351
Administrative fees	6,646,333	-	-	-	-	-	(6,646,333)	-	-
Total revenues	17,552,333	51,912,511	66,497,887	150,988	2,138	25,049,255	(33,719,832)	127,445,280	120,108,933
<b>EXPENSES</b>									
Salaries and benefits	10,156,801	16,623,017	34,773,363	258,634	-	-	-	61,811,815	61,079,146
Supplies and direct expenses	254	14,441,945	8,981,721	1,697	12,000	-	-	23,437,617	25,110,909
Occupancy and insurance	1,683,094	4,027,813	8,523,515	4,358	-	28,799	-	14,267,579	12,835,197
Travel and transportation	364,063	1,840,446	437,889	14,582	-	-	-	2,656,980	2,544,379
Administration	4,856,974	6,173,578	5,116,690	27,908	-	159,435	(6,646,333)	9,688,252	9,458,444
Depreciation	221,600	1,620,438	6,545,996	-	-	328	-	8,388,362	7,994,019
Interest expense	40,540	464	5,348,500	-	-	-	-	5,389,504	4,387,909
Total expenses	17,323,326	44,727,701	69,727,674	307,179	12,000	188,562	(6,646,333)	125,640,109	123,410,003
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	229,007	7,184,810	(3,229,787)	(156,191)	(9,862)	24,860,693	(27,073,499)	1,805,171	(3,301,070)
<b>NONOPERATING ITEMS</b>									
Net realized and unrealized gains (losses) on investments	-	(471,691)	(2,417,285)	-	-	6,360,582	-	3,471,606	31,817,917
Distributions to related entities	1,420,001	(243,051)	(1,420,001)	-	-	(26,830,448)	27,073,499	-	-
Other, net	(3,369,370)	51,452	19,095	482,433	1,195,797	1,686,323	-	65,730	286,241
<b>CHANGE IN NET ASSETS</b>	(1,720,362)	6,521,520	(7,047,978)	326,242	1,185,935	6,077,150	-	5,342,507	28,803,088
<b>NET ASSETS, BEGINNING OF YEAR</b>	9,441,382	44,538,925	25,817,158	(326,242)	-	313,792,169	(139,962)	393,123,430	364,320,342
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	-	-	(5,590,762)	-	-	-	-	(5,590,762)	-
<b>NET ASSETS, END OF YEAR</b>	\$ 7,721,020	\$ 51,060,445	\$ 13,178,418	\$ -	\$ 1,185,935	\$ 319,869,319	\$ (139,962)	\$ 392,875,175	\$ 393,123,430