BUCKNER INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2012

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Buckner International

Report on the Consolidated Financial Statements

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, 2012 and 2011, 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 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Buckner as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2013 on our consideration of Buckner's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Buckner's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 15, 2013

BUCKNER INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
ASSETS		
Cash and cash equivalents	$ 13,268,425	$ 9,925,858
Investments	31,801,574	29,331,256
Receivables, net	3,765,763	3,695,912
Pledges and bequests receivable, net	1,852,231	3,958,843
Inventories and supplies	133,909	145,655
Notes receivable	51,050	53,417
Prepaid expenses	1,569,511	1,513,948
Due from related foundation	503,461	1,139,751
Other assets	985,401	1,085,575
Revenue bond proceeds held by trustee	9,705,896	8,268,324
Real estate held for investment	1,872,218	1,901,347
Property and equipment, net	148,823,956	146,581,184
Interest in net assets of related foundation	229,754,008	195,197,795
Bond issuance costs, net	1,267,726	1,318,966
TOTAL ASSETS	$ 445,355,129	$ 404,117,831
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 1,178,986	$ 1,378,165
Accrued liabilities	4,140,344	3,693,875
Lines of credit	1,642,903	1,729,083
Short-term notes payable	793,566	692,364
Revenue bonds payable, net	100,703,839	103,141,118
Notes payable	5,103,506	344,922
Resident deposits	1,789,272	1,679,063
Refundable fees	10,372,955	10,044,650
Deferred revenue from advance fees	7,324,711	7,212,815
Annuity and life income fund liability	413,663	431,340
Other	2,498,949	2,482,853
Total liabilities	135,962,694	132,830,248
NET ASSETS		
Unrestricted	227,192,658	194,124,263
Temporarily restricted	10,692,167	10,853,353
Permanently restricted	71,507,610	66,309,967
Total net assets	309,392,435	271,287,583
TOTAL LIABILITIES AND NET ASSETS	$ 445,355,129	$ 404,117,831

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, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Client support and related income	$ 75,268,423	$ -	$ -	$ 75,268,423	$ 72,598,922	$ -	$ -	$ 72,598,922
Investment income	2,698,102	30,103	89,932	2,818,137	2,667,177	30,466	87,991	2,785,634
Distributions from related foundation	16,570,227	-	-	16,570,227	12,094,298	-	-	12,094,298
Contributions								
Baptist General Convention of Texas	723,413	-	-	723,413	783,193	-	-	783,193
Individual and business gifts	23,807,424	1,050,300	289,745	25,147,469	15,961,373	55,704	81,505	16,098,582
Bequests	1,269,846	-	200,000	1,469,846	787,299	-	-	787,299
Gain (loss) on sales of real estate held for investment	2,047,923	-	-	2,047,923	(325,744)	-	-	(325,744)
Other	695,727	-	200	695,927	852,235	3,461	-	855,696
Net assets released from restrictions	2,785,004	(2,785,004)	-	-	2,969,100	(2,969,100)	-	-
Total revenues	125,866,089	(1,704,601)	579,877	124,741,365	108,387,853	(2,879,469)	169,496	105,677,880
EXPENSES								
Salaries and benefits	55,492,177	-	-	55,492,177	53,492,686	-	-	53,492,686
Supplies and direct expenses	30,665,243	-	-	30,665,243	20,516,656	-	-	20,516,656
Occupancy and insurance	12,296,561	-	-	12,296,561	12,648,833	-	-	12,648,833
Travel and transportation	4,204,258	-	-	4,204,258	4,498,457	-	-	4,498,457
Administration	10,221,246	61,005	-	10,282,251	9,577,249	-	-	9,577,249
Depreciation	7,170,544	-	-	7,170,544	6,861,055	-	-	6,861,055
Interest expense	5,265,181	-	-	5,265,181	5,393,801	-	-	5,393,801
Total expenses	125,315,210	61,005	-	125,376,215	112,988,737	-	-	112,988,737
CHANGE IN NET ASSETS FROM OPERATIONS	550,879	(1,765,606)	579,877	(634,850)	(4,600,884)	(2,879,469)	169,496	(7,310,857)
NONOPERATING ITEMS								
Net realized and unrealized gains (losses) on investments	1,173,272	693,274	847,869	2,714,415	558,088	(733,206)	(621,214)	(796,332)
Increase (decrease) in interest in net assets of related foundation	29,601,215	904,921	4,050,076	34,556,212	13,035,547	(20,832)	1,460,466	14,475,181
Other, net	1,743,029	6,225	(280,179)	1,469,075	1,265,391	36,570	(135,993)	1,165,968
CHANGE IN NET ASSETS	33,068,395	(161,186)	5,197,643	38,104,852	10,258,142	(3,596,937)	872,755	7,533,960
NET ASSETS, BEGINNING OF YEAR	194,124,263	10,853,353	66,309,967	271,287,583	183,866,121	14,450,290	65,437,212	263,753,623
NET ASSETS, END OF YEAR	$ 227,192,658	$ 10,692,167	$ 71,507,610	$ 309,392,435	$ 194,124,263	$ 10,853,353	$ 66,309,967	$ 271,287,583

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, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 38,104,852	$ 7,533,960
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,170,544	6,861,055
Amortization	(505,100)	(488,278)
Increase (decrease) in accretion expense and ARO revisions	(69,664)	55,335
Loss (gain) on sales of real estate held for investment	(2,047,923)	325,744
Loss on sale or disposal of facility assets	1,423,296	-
Net realized and unrealized losses (gains) on investments	(2,714,415)	796,332
Noncash contribution of real estate held for investment	(831,325)	-
Changes in operating assets and liabilities:		
Receivables	2,036,761	2,063,373
Inventories and supplies	11,746	21,265
Prepaid expenses	738,003	1,005,755
Other assets	15,929	349,583
Due from related foundation	636,290	1,254,099
Interest in net assets of related foundation	(34,556,213)	(14,475,181)
Accounts payable	(199,179)	(449,978)
Accrued liabilities	446,470	(1,244,817)
Resident deposits	110,209	360,193
Refundable fees	377,173	555,506
Deferred revenue from advance fees	646,707	919,956
Annuity and life income fund liability	(17,677)	(26,195)
Other liabilities	103,127	(1,816,427)
Net cash provided by operating activities	10,879,611	3,601,280
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of notes receivable	2,367	6,016
Purchases of property and equipment	(10,373,747)	(9,170,395)
Decrease in revenue bond proceeds held by trustee	-	2,082,416
Purchases of investments	(1,768,313)	(269,642)
Proceeds on sales or redemptions of investments	574,838	1,804,487
Proceeds from sales of real estate held for investment	2,061,123	522,912
Proceeds from sales of property and equipment	351,093	-
Net cash used in investing activities	(9,152,639)	(5,024,206)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	4,850,000	7,796,659
Payments on revenue bonds payable and short-term notes payable	(3,234,405)	(10,823,768)
Net cash provided by (used in) financing activities	1,615,595	(3,027,109)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,342,567	(4,450,035)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,925,858	14,375,893
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 13,268,425	$ 9,925,858
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	$ 5,277,524	$ 5,399,653
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Financing of insurance contract	$ 793,566	$ 825,274

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

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

Buckner consolidates the following not-for-profit corporations:

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

The Board of Trustees of Buckner serve as directors of 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

Accordingly, net assets of Buckner and changes therein are classified and reported as follows:

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

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

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity. There was no allowance for uncollectible contributions at December 31, 2012 and 2011.

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 $1,209,638 and $973,580 for the years ended December 31, 2012 and 2011, 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 $985,401 and $1,085,575 were reported in other assets, in Buckner's consolidated statements of financial position as of December 31, 2012 and 2011, 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Asset Retirement Obligations

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

Deferred Revenue

The right to occupy various living units is granted under life tenancy agreements under which the tenants pay a certain sum (entrance fee) which entitles them to live in the unit for life. Currently two basic types of tenancy agreements are offered: 1. Nonrefundable and 2. Refundable upon re-occupancy

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Revenue – Continued

2. Refundable upon re-occupancy: Under this plan, upon death of, or termination by, the tenant and upon re-occupancy of the unit, the tenant or their estate receives a refund of the appropriate percent of the original entrance fee paid. The non-refundable portion of the entrance fee is recognized as revenue over the actuarial life expectancy of the resident. The refundable portion (upon re-occupancy) is amortized to revenue over the life expectancy of the building.

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, 2012, 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, 2013, 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, 2012	December 31, 2011
Investments held by Baptist Foundation of Texas	$ 24,353,289	$ 22,202,464
Corporate bonds	827,458	1,369,172
U.S. government agencies	424,102	198,985
Money market funds	771,190	746,333
Equity securities - Domestic	4,841,049	4,464,181
Equity securities - International	179,211	141,121
Bond mutual funds	328,448	132,331
Other	76,827	76,669
	$ 31,801,574	$ 29,331,256

NOTE 3. INVESTMENTS – CONTINUED

The following summarizes investment return:

	Years ended December 31,	
	2012	2011
Operating		
Dividend and interest income	$ 2,818,137	$ 2,785,634
Nonoperating		
Net realized and unrealized gain (loss) on investments	2,714,415	(796,332)
	$ 5,532,552	$ 1,989,302

Buckner includes investment fees as a reduction of dividend and interest income. Fees amounted to $24,303 and $16,421 for the years ended December 31, 2012 and 2011, respectively.

NOTE 4. RECEIVABLES

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

	December 31,	
	2012	2011
Receivables, gross	$ 4,235,902	$ 4,142,161
Allowance for doubtful accounts	(470,139)	(446,249)
Receivables, net	$ 3,765,763	$ 3,695,912

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,	
	2012	2011
Pledges and bequests receivable, gross	$ 1,878,923	$ 3,989,960
Less unamortized discount at 1.72% and 1.89% at December 31, 2012 and 2011, respectively	(26,692)	(31,117)
Pledges and bequests receivable, net	$ 1,852,231	$ 3,958,843

NOTE 5. PLEDGES AND BEQUESTS RECEIVABLE – CONTINUED

The maturity of pledges and bequests receivable at December 31, 2012 is as follows:

Less than one year	$ 1,143,709
One to five years	730,914
More than five years	4,300
	$ 1,878,923

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated useful life	December 31, 2012	December 31, 2011
Buildings	10 - 40 years	$ 177,272,814	$ 177,202,028
Furniture and equipment	5 - 10 years	27,113,170	26,102,983
Vehicles	2 - 4 years	2,252,478	2,262,647
Land improvements	5 - 20 years	16,348,045	16,120,326
Total		222,986,507	221,687,984
Less accumulated depreciation		(90,379,539)	(86,573,822)
		132,606,968	135,114,162
Projects-in-process		7,169,702	2,955,156
Land		9,047,286	8,511,866
Property and equipment, net		$ 148,823,956	$ 146,581,184

Depreciation expense was $7,170,544 and $6,861,055 for the years ended December 31, 2012 and 2011, respectively.

NOTE 7. INTEREST IN NET ASSETS OF RELATED FOUNDATION

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

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

Summarized financial data of the Foundation is as follows:

	December 31, 2012	December 31, 2011
Investment assets	$ 231,363,539	$ 199,185,806
Other assets	3,889,221	2,919,450
Annuity fund liabilities	4,733,212	5,506,099
Other liabilities	765,540	1,401,362
Net assets	229,754,008	195,197,795
Total revenues	23,448,940	19,748,539
Total expenses	4,399,655	4,663,719
Distributions and other	18,149,673	13,564,084
Net realized and unrealized gain on investments	33,657,101	12,954,445

The fair value measurements, as defined in Note 16, for the financial instruments held by the Foundation as of December 31, 2012 and 2011, consisted of the following:

	Total	Level 1	Level 2	Level 3
As of December 31, 2012:				
Investment assets	$ 231,363,539	$ 43,484,170	$ 107,659,067	$ 80,220,302
Annuity fund liabilities	(4,733,213)	-	-	(4,733,213)
As of December 31, 2011:				
Investment assets	$ 199,185,806	$ 39,765,693	$ 105,422,247	$ 53,997,866
Annuity fund liabilities	(5,506,099)	-	-	(5,506,099)

NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31,	
	2012	2011
Employee vacation and sick pay	$ 868,613	$ 857,674
Employee health benefits	613,233	339,585
Nonsubscriber occupational injury	100,000	100,000
Property taxes	214,178	147,705
Wages and payroll related	924,529	750,468
Interest on revenue bonds and notes payable	902,288	914,631
Professional and general liability insurance	400,000	400,000
Other	117,503	183,812
	$ 4,140,344	$ 3,693,875

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).

As of December 31, 2010, revenue bond proceeds of $2,082,491 were being held by the trustee to be used for funding of capital expenditures and construction interest. Semi-annual interest payments began November 15, 2007. Total principal and interest payments are approximately $7,000,000 each year from November 15, 2008 through November 15, 2037. As of December 31, 2012 and 2011, the unamortized premium on the bonds was $1,801,428 and $1,874,262, respectively.

The BRS Master Trust Indenture dated July 27, 2007 requires compliance with certain covenants. BRS is required to maintain a reserve fund to cover a year's debt service. BRS has entered into investment contracts with assets valued at $9,705,896 and $8,268,324 as of December 31, 2012 and 2011, respectively, which are recorded as a portion of revenue bond proceeds held by trustee in the consolidated statements of financial position.

The obligations under the Master Trust Indenture are further secured by a Credit and Support Agreement dated July 27, 2007 with the Foundation.

NOTE 9. DEBT – CONTINUED

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

A summary of debt is as follows:

	December 31,	
	2012	2011
Series 2007 revenue bonds, interest rates of 5.00% to 5.25%, net of unamortized premium	$ 100,703,839	$ 103,141,118
Lines of credit		
With JPMorganChase, variable interest rate currently at 1.96% expiring June 2013	1,300,000	1,300,000
With Wells Fargo, variable interest rate currently at 5.00% expiring September 2013	342,903	429,083
Notes payable		
With JPMorganChase, variable interest rate currently at 1.71% expiring July 2014	4,850,000	-
With FFIN San Angelo, variable interest rate currently at 2.75% expiring June 2016	253,506	344,922
Short-term notes payable		
Insurance contract notes, interest rates range from 3.20% to 7.75% expiring 2013	793,566	692,364
	$ 108,243,814	$ 105,907,487

NOTE 9. DEBT – CONTINUED

Scheduled debt repayments on short-term notes payable, lines of credit and revenue bonds at December 31, 2012 are as follows:

Year ending December 31,	Short-term Notes Payable	Lines of Credit	Notes Payable	Revenue Bonds	Total
2013	$ 793,566	$ 1,642,903	$ 93,911	$ 2,483,567	$ 5,013,947
2014	-	-	4,946,557	2,608,879	7,555,436
2015	-	-	63,038	2,735,438	2,798,476
2016	-	-	-	2,873,305	2,873,305
2017	-	-	-	2,856,222	2,856,222
Thereafter	-	-	-	85,345,000	85,345,000
	793,566	1,642,903	5,103,506	98,902,411	106,442,386
Add amount representing premium	-	-	-	1,801,428	1,801,428
	$ 793,566	$ 1,642,903	$ 5,103,506	$ 100,703,839	$ 108,243,814

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, 2012 and 2011 were $1,539,729 and $1,533,274, 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, 2012	2011
General and administrative	$ 10,144,060	$ 8,153,288
Children and family services	46,661,397	36,135,278
Retirement and healthcare services	61,343,511	61,048,403
Adoption and maternity services	3,622,267	3,638,062
Development	3,604,980	4,013,706
Total expenses	$ 125,376,215	$ 112,988,737

NOTE 11. FUNCTIONAL ALLOCATION OF EXPENSES – CONTINUED

Buckner incurred $2,014,214 and $1,916,744 in expenses relating to fundraising activities during the years 2012 and 2011, 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 2017. Future annual minimum lease payments due under those leases are as follows:

Year ending December 31,		
2013	$	686,070
2014		442,248
2015		250,002
2016		114,999
2017		8,648
	$	1,501,967

Rent expense under all operating leases for the years ended December 31, 2012 and 2011 was $914,886 and $821,741, 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, 2012 and 2011 was included in other liabilities.

NOTE 13. ASSET RETIREMENT OBLIGATION – CONTINUED

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

	December 31, 2012	December 31, 2011
Beginning balance	$ 1,276,866	$ 1,221,531
Accretion expense	57,843	55,335
Settlement of ARO obligations	(144,873)	-
Ending balance	$ 1,189,836	$ 1,276,866

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, 2012	Years ended December 31, 2011
Capital projects- children and family services	$ -	$ 471,159
Capital projects- retirement services	-	134,767
Program support- children and family services	2,585,000	2,163,174
Program support- retirement services	200,004	200,000
	$ 2,785,004	$ 2,969,100

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.

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

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

NOTE 16. FAIR VALUE MEASUREMENTS – CONTINUED

Information related to the financial instruments measured at fair value on a recurring basis at December 31, 2012 and 2011 is as follows:

	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:				
Equity securities - Domestic	$ 4,841,049	$ 4,841,049	$ -	$ -
Equity securities - International	179,211	179,211	-	-
Corporate bonds	827,458	-	827,458	-
U.S. government agencies	424,102	-	424,102	-
Money market funds	771,190	-	771,190	-
Bond mutual funds	328,448	-	328,448	-
Real estate	76,827	-	-	76,827
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)

	December 31, 2011			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Equity securities - Domestic	$ 4,464,181	$ 4,464,181	$ -	$ -
Equity securities - International	141,121	141,121	-	-
Corporate bonds	1,369,172	-	1,369,172	-
U.S. government agencies	198,985	-	198,985	-
Money market funds	746,333	-	746,333	-
Bond mutual funds	132,331	-	132,331	-
Real estate	76,669	-	-	76,669
Investments held by Baptist Foundation of Texas:				
Group investment funds	20,917,667	-	20,917,667	-
Real estate	498,605	-	-	498,605
Mineral interests	786,192	-	-	786,192
Pledges and bequests receivable	3,958,843	-	-	3,958,843
Revenue bond proceeds held by trustee	8,268,324	-	8,268,324	-
Interest rate swap agreement	(323,231)	-	(323,231)	-
Annuity funds liabilities for investments held in trust	(431,340)	-	-	(431,340)

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, 2010	$ 518,772	$ 622,710	$ 6,001,856	$ (457,535)
Distributions	-	-	(3,703,974)	-
Contributions	-	-	1,670,370	-
Net realized and unrealized change in investment valuation	56,502	163,482	(9,409)	26,195
December 31, 2011	575,274	786,192	3,958,843	(431,340)
Distributions	-	-	(3,236,802)	-
Contributions	-	-	885,764	-
Net realized and unrealized change in investment valuation	711	543,392	244,426	17,677
December 31, 2012	$ 575,985	$ 1,329,584	$ 1,852,231	$ (413,663)

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	
	2012	2011	2012	2011
Net assets	$ 2,857,225	$ 1,952,304	$ 51,598,761	$ 47,548,685

NOTE 17. ENDOWMENTS HELD IN BUCKNER FOUNDATION – CONTINUED

For the years ended December 31, 2012 and 2011, Buckner had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2010	$ -	$ 1,973,136	$ 46,088,219	$ 48,061,355
Investment return				
Investment income	-	-	169,724	169,724
Net realized/unrealized gains (losses)	-	391	(586,928)	(586,537)
Total investment return	-	391	(417,204)	(416,813)
Contributions to endowment	-	-	1,877,670	1,877,670
Amounts approved for expenditure	-	(21,223)	-	(21,223)
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

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, 2012 and 2011, no amounts are outstanding under the letter of credit. At December 31, 2012 and 2011, 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, 2012 and 2011, Buckner has accrued $613,233 and $339,585, 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, 2012 and 2011, 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, 2012, there were no interest or penalties recorded or included in the financial statements. As of December 31, 2012, Buckner's tax years 2009 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, 2012 and 2011 was $2,672,411 and $3,161,856, 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, 2012 and 2011 resulted in a realized gain of $85,668 and a realized gain of $23,604, respectively. The gain is included in interest expense on the accompanying consolidated statement of operations for the years ended December 31, 2012 and 2011. The market value of the swap as of December 31, 2012 and 2011 is $237,562 and $323,230, respectively, and is reported as another liability in the consolidated statements of financial position.

NOTE 21. RECLASSIFICATION

In 2012, Buckner reclassified certain net assets related to perpetual trusts held by a third party of BMM to conform the classification of those net assets to be consistent with similar net assets held by Buckner. The net asset reclassifications between temporarily restricted net assets and permanently restricted net assets and the change in net assets relating to the prior period have been reclassified to conform to current year's presentation. The reclassifications have no effect on prior period total net assets and change in net assets. The 2011 balances in the current year consolidated statements of financial position reflect an increase in permanently restricted net assets and a decrease in temporarily restricted net assets of $6,381,803. The consolidated statements of activities as of December 31, 2011 reflect an increase in the change in temporarily restricted net assets and a decrease in the change in permanently restricted net assets of $582,106.

weaver

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, 2012, and our report thereon dated May 15, 2013, which expressed an unmodified opinion on those consolidated financial statements, 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, 2013

BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

ASSETS	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Dillon International	Eliminations	2012 Consolidated Total	2011 Consolidated Total
ASSETS								
Cash and cash equivalents	$ 539,526	$ 3,658,927	$ 8,142,149	$ 236,545	$ 691,278	$ -	$ 13,268,425	$ 9,925,858
Investments	13,564	3,156,442	28,392,354	-	239,214	-	31,801,574	29,331,256
Receivables, net	116,942	1,145,836	2,314,105	88,896	99,984	-	3,765,763	3,695,912
Pledges and bequests receivable, net	-	1,847,231	5,000	-	-	-	1,852,231	3,958,843
Inventories and supplies	-	-	133,909	-	-	-	133,909	145,655
Notes receivable	13,142	-	37,908	-	-	-	51,050	53,417
Prepaid expenses	444,687	601,617	495,576	5,000	22,631	-	1,569,511	1,513,948
Due from other companies, net	9,206,216	-	-	-	247,158	(8,949,913)	503,461	1,139,751
Other assets	-	-	985,401	-	-	-	985,401	1,085,575
Revenue bond proceeds held by trustee	-	-	9,705,896	-	-	-	9,705,896	8,268,324
Real estate held for investment	1,815,338	56,880	-	-	-	-	1,872,218	1,901,347
Property and equipment, net	5,733,432	28,925,821	114,282,064	16,960	5,641	(139,962)	148,823,956	146,581,184
Interest in net assets of related foundation	229,754,008	-	-	-	-	-	229,754,008	195,197,795
Bond issuance costs, net	-	-	1,267,726	-	-	-	1,267,726	1,318,966
TOTAL ASSETS	247,636,855	39,392,754	165,762,088	347,401	1,305,906	(9,089,875)	$ 445,355,129	$ 404,117,831
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable	$ 162,299	$ 261,956	$ 555,259	$ 32,417	$ 167,055	$ -	$ 1,178,986	$ 1,378,165
Accrued liabilities	504,540	773,584	2,760,687	25,102	76,431	-	4,140,344	3,693,875
Lines of credit	1,300,000	-	342,903	-	-	-	1,642,903	1,729,083
Short-term notes payable	793,566	-	-	-	-	-	793,566	692,364
Revenue bonds payable, net	-	-	100,703,839	-	-	-	100,703,839	103,141,118
Notes payable	4,850,000	-	253,506	-	-	-	5,103,506	344,922
Resident deposits	-	-	1,789,272	-	-	-	1,789,272	1,679,063
Refundable fees	-	-	10,372,955	-	-	-	10,372,955	10,044,650
Deferred revenue from advance fees	-	-	7,324,711	-	-	-	7,324,711	7,212,815
Annuity and life income fund liability	-	106,405	307,258	-	-	-	413,663	431,340
Other	315,230	1,214,917	769,174	-	199,628	-	2,498,949	2,482,853
Due to other companies, net	-	7,435,500	1,419,008	95,405	-	(8,949,913)	-	-
Total liabilities	7,925,635	9,792,362	126,598,572	152,924	443,114	(8,949,913)	135,962,694	132,830,248
NET ASSETS								
Unrestricted	185,250,234	26,223,481	15,033,964	172,149	652,792	(139,962)	227,192,658	194,124,263
Temporarily restricted	2,862,225	3,013,679	4,783,935	22,328	10,000	-	10,692,167	10,853,353
Permanently restricted	51,598,761	363,232	19,345,617	-	200,000	-	71,507,610	66,309,967
Total net assets	239,711,220	29,600,392	39,163,516	194,477	862,792	(139,962)	309,392,435	271,287,583
TOTAL LIABILITIES AND NET ASSETS	$ 247,636,855	$ 39,392,754	$ 165,762,088	$ 347,401	$ 1,305,906	$ (9,089,875)	$ 445,355,129	$ 404,117,831

BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Dillon International	Eliminations	2012 Consolidated Total	2011 Consolidated Total
REVENUES								
Client support and related income	$ -	$ 11,010,267	$ 62,155,320	$ 508,832	$ 1,594,004	$ -	$ 75,268,423	$ 72,598,922
Investment income	77,396	571,432	2,165,020	-	4,289	-	2,818,137	2,785,634
Distributions from related foundation	5,235,000	10,449,088	264,446	94,693	527,000	-	16,570,227	12,094,298
Contributions								
Baptist General Convention of Texas	-	488,907	187,033	47,473	-	-	723,413	783,193
Individual and business gifts	48,071	23,357,593	466,729	108,774	1,166,302	-	25,147,469	16,098,582
Bequests	346,675	1,029,058	94,113	-	-	-	1,469,846	787,299
Loss on sales of real estate held for investment	2,047,923	-	-	-	-	-	2,047,923	(325,744)
Other	10,464	339,825	104,388	-	76,574	-	531,251	714,757
Administrative fees	3,594,948	-	-	-	-	(3,430,272)	164,676	140,939
Total revenues	11,360,477	47,246,170	65,437,049	759,772	3,368,169	(3,430,272)	124,741,365	105,677,880
EXPENSES								
Salaries and benefits	6,131,602	15,407,694	32,359,768	264,804	1,328,309	-	55,492,177	53,492,686
Supplies and direct expenses	41,446	21,476,935	7,851,773	285,521	1,009,568	-	30,665,243	20,516,656
Occupancy and insurance	1,048,585	3,883,604	7,105,878	49,681	208,813	-	12,296,561	12,648,833
Travel and transportation	339,862	2,964,419	570,798	53,626	275,553	-	4,204,258	4,498,457
Administration	3,926,301	4,838,138	4,549,958	173,400	224,726	(3,430,272)	10,282,251	9,577,249
Depreciation	177,532	1,324,597	5,663,394	695	4,326	-	7,170,544	6,861,055
Interest expense	74,994	-	5,190,187	-	-	-	5,265,181	5,393,801
Total expenses	11,740,322	49,895,387	63,291,756	827,727	3,051,295	(3,430,272)	125,376,215	112,988,737
CHANGE IN NET ASSETS FROM OPERATIONS	(379,845)	(2,649,217)	2,145,293	(67,955)	316,874	-	(634,850)	(7,310,857)
NONOPERATING ITEMS								
Net realized and unrealized gains (losses) on investments	198	304,212	2,395,612	-	14,393	-	2,714,415	(796,332)
Increase in interest in net assets of related foundation	34,556,212	-	-	-	-	-	34,556,212	14,475,181
Other, net	800,113	2,842,909	(2,094,841)	(53,137)	(25,969)	-	1,469,075	1,165,968
CHANGE IN NET ASSETS	34,976,678	497,904	2,446,064	(121,092)	305,298	-	38,104,852	7,533,960
NET ASSETS, BEGINNING OF YEAR	204,734,542	29,102,488	36,717,452	315,569	557,494	(139,962)	271,287,583	263,753,623
NET ASSETS, END OF YEAR	$ 239,711,220	$ 29,600,392	$ 39,163,516	$ 194,477	$ 862,792	$ (139,962)	$ 309,392,435	$ 271,287,583