BUCKNER INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2011

CONTENTS

weaver

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Buckner International

We have audited the accompanying consolidated statements of financial position of Buckner International and Subsidiaries (collectively, Buckner) as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Buckner's management. 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 as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Buckner International and Subsidiaries as of December 31, 2011 and 2010, and their consolidated statement of activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.

Dallas, Texas
May 14, 2012

BUCKNER INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
ASSETS		
Cash and cash equivalents	$ 9,925,858	$ 14,375,893
Investments	29,331,256	32,385,904
Receivables, net	3,695,912	3,716,272
Pledges and bequests receivable, net	3,958,843	6,001,856
Inventories and supplies	145,655	166,920
Notes receivable	53,417	59,433
Prepaid expenses	1,513,948	1,694,429
Due from related foundation	1,139,751	2,393,850
Other assets	1,085,575	1,535,332
Revenue bond proceeds held by trustee	8,268,324	9,627,269
Real estate held for investment	1,901,347	2,337,003
Property and equipment, net	146,581,184	144,684,844
Interest in net assets of related foundation	195,197,795	180,722,614
Bond issuance costs, net	1,318,966	1,370,066
TOTAL ASSETS	$ 404,117,831	$ 401,071,685
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 1,378,165	$ 1,828,143
Accrued liabilities	3,693,875	4,938,692
Line of credit	1,729,083	1,292,450
Short-term notes payable	692,364	881,190
Revenue bonds payable, net	103,141,118	105,465,207
Note payable	344,922	543,110
Resident deposits	1,679,063	1,318,870
Refundable fees	10,044,650	9,550,103
Deferred revenue from advance fees	7,212,815	6,798,817
Annuity and life income fund liability	431,340	457,535
Other	2,482,853	4,243,945
Total liabilities	132,830,248	137,318,062
NET ASSETS		
Unrestricted	196,080,276	185,840,052
Temporarily restricted	15,279,144	19,440,268
Permanently restricted	59,928,163	58,473,303
Total net assets	271,287,583	263,753,623
TOTAL LIABILITIES AND NET ASSETS	$ 404,117,831	$ 401,071,685

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, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Client support and related income	$ 72,598,922	$ -	$ -	$ 72,598,922	$ 68,861,398	$ -	$ -	$ 68,861,398
Investment income	2,667,177	118,457	-	2,785,634	2,407,733	19,352	-	2,427,085
Distributions from related foundation	12,094,298	-	-	12,094,298	10,458,235	-	-	10,458,235
Contributions								
Baptist General Convention of Texas	783,193	-	-	783,193	808,363	-	-	808,363
Individual and business gifts	15,961,373	55,704	81,505	16,098,582	16,304,021	291,983	81,390	16,677,394
Bequests	787,299	-	-	787,299	429,803	-	-	429,803
Loss on sales of real estate held for investment	(325,744)	-	-	(325,744)	(750)	-	-	(750)
Other	852,235	3,461	-	855,696	1,326,882	474	-	1,327,356
Net assets released from restrictions	2,969,100	(2,969,100)	-	-	2,179,446	(2,179,446)	-	-
Total revenue	108,387,853	(2,791,478)	81,505	105,677,880	102,775,131	(1,867,637)	81,390	100,988,884
EXPENSES								
Salaries and benefits	53,492,686	-	-	53,492,686	50,046,820	-	-	50,046,820
Supplies and direct expenses	20,516,656	-	-	20,516,656	20,615,942	-	-	20,615,942
Occupancy and insurance	12,648,833	-	-	12,648,833	12,540,379	-	-	12,540,379
Travel and transportation	4,498,457	-	-	4,498,457	3,883,934	-	-	3,883,934
Administration	9,577,249	-	-	9,577,249	8,066,370	5,008	-	8,071,378
Depreciation	6,861,055	-	-	6,861,055	6,315,799	-	-	6,315,799
Interest expense	5,393,801	-	-	5,393,801	3,835,401	-	-	3,835,401
Total expenses	112,988,737	-	-	112,988,737	105,304,645	5,008	-	105,309,653
CHANGE IN NET ASSETS FROM OPERATIONS	(4,600,884)	(2,791,478)	81,505	(7,310,857)	(2,529,514)	(1,872,645)	81,390	(4,320,769)
NONOPERATING ITEMS								
Net realized and unrealized gains (losses) on investments	558,088	(1,348,814)	(5,606)	(796,332)	936,696	1,316,422	35,060	2,288,178
Increase (decrease) in interest in net assets of related foundation	13,035,547	(20,832)	1,460,466	14,475,181	10,951,451	(6,015)	2,929,156	13,874,592
Other, net	1,247,473	-	(81,505)	1,165,968	1,793,716	224,846	(64,035)	1,954,527
CHANGE IN NET ASSETS	10,240,224	(4,161,124)	1,454,860	7,533,960	11,152,349	(337,392)	2,981,571	13,796,528
CONTRIBUTION OF NET ASSETS OF NON-PROFIT ORGANIZATION	-	-	-	-	9,677,923	10,650,862	11,822,567	32,151,352
NET ASSETS, BEGINNING OF YEAR	185,840,052	19,440,268	58,473,303	263,753,623	165,009,780	9,126,798	43,669,165	217,805,743
NET ASSETS, END OF YEAR	$ 196,080,276	$ 15,279,144	$ 59,928,163	$ 271,287,583	$ 185,840,052	$ 19,440,268	$ 58,473,303	$ 263,753,623

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, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 7,533,960	$ 13,796,528
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,861,055	6,315,799
Amortization	(488,278)	(708,359)
Contributed cash from non-profit organization	-	8,370
Increase in accretion expense and ARO revisions	55,335	52,937
Loss on sales of real estate held for investment	325,744	-
Gain on sale or disposal of facility assets	-	(3,440)
Net realized and unrealized losses (gains) on investments	796,332	(2,288,178)
Noncash contribution of real estate held for investment	-	(56,880)
Changes in operating assets and liabilities:		
Receivables	2,063,373	632,423
Inventories and supplies	21,265	(43,773)
Prepaid expenses	1,005,755	360,437
Other assets	349,583	(261,328)
Due from related foundation	1,254,099	(529,070)
Interest in net assets of related foundation	(14,475,181)	(13,874,592)
Accounts payable	(449,978)	(656,342)
Accrued liabilities	(1,244,817)	43,773
Resident deposits	360,193	78,600
Refundable fees	555,506	145,518
Deferred revenue from advance fees	919,956	775,218
Annuity and life income fund liability	(26,195)	(1,252)
Other liabilities	(1,816,427)	170,573
Net cash provided by operating activities	3,601,280	3,956,962
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection (issuance) of notes receivable	6,016	(40,293)
Purchases of property and equipment	(9,170,395)	(19,827,912)
Decrease in revenue bond proceeds held by trustee	2,082,416	17,352,392
Purchases of investments	(269,642)	(443,731)
Proceeds on sales or redemptions of investments	1,804,487	1,663,828
Proceeds from sales of real estate held for investment	522,912	-
Proceeds from sales of property and equipment	-	3,440
Net cash used in investing activities	(5,024,206)	(1,292,276)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	7,796,659	1,049,124
Payments on revenue bonds payable and short-term notes payable	(10,823,768)	(3,337,373)
Net cash used in financing activities	(3,027,109)	(2,288,249)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,450,035)	376,437
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,375,893	13,999,456
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,925,858	$ 14,375,893
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	$ 5,393,801	$ 3,833,980
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Financing of insurance contract	$ 825,274	$ 899,424
Contribution of net assets of non-profit organization	$ -	$ 32,151,352

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

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION

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

Effective January 1, 2009, Buckner Adoption and Maternity Services, Inc. entered into an affiliation agreement with Dillon International, Inc. (Dillon). Dillon is an Oklahoma based 501(c)(3) not-for-profit corporation specializing in international adoptions since 1972. Dillon's Board of Directors consist of four board members appointed by the co-founder of Dillon and four board members of Buckner.

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 these corporations, with the exception of Dillon and BMM as noted above. 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, 2011 and 2010.

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 $973,580 and $835,010 for the years ended December 31, 2011 and 2010, 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 $1,085,575 and $1,185,750 were reported in other assets, in Buckner's consolidated statements of financial position as of December 31, 2011 and 2010, 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, 2011, the date of the most recent consolidated statement of financial position, have been evaluated for possible adjustment to the consolidated financial statements or disclosure is May 14, 2012, the date these consolidated financial statements were available to be issued. During this period, there were no material recognizable subsequent events.

NOTE 3. ACQUISITION OF BMM

On January 1, 2010, BRS entered into an agreement with BMM, whereby BRS became the sole member of BMM and approves the nomination and placement of the Board of Directors for BMM. In accordance with the Codification, the transaction is considered an acquisition of BMM by BRS due to BRS obtaining control of BMM. As a result of the acquisition, all assets acquired and liabilities assumed are required to be measured at fair value. No consideration was paid by BRS to BMM for the acquisition, therefore no goodwill was recognized from the acquisition and the excess of assets acquired over the liabilities assumed resulted in an inherent contribution to BRS. The contribution received by BRS is reported in the consolidated statement of activities to reflect the donor imposed restrictions in place prior to the acquisition.

The affiliation was agreed upon when the Board of Directors of BRS and the Board of Trustees of BMM determined that affiliating with each other would enable each entity to better achieve its purpose. BMM is not an obligated party to the 2007 BRS $104,755,000 tax-exempt bonds issued through the Tarrant County Cultural Education Facilities Finance Corporation.

BRS's 2010 consolidated results of operations and cash flows include the operations of the acquisition from the date of the acquisition, January 1, 2010.

NOTE 3. ACQUISITION OF BMM – CONTINUED

The fair value of each major class of asset acquired and liability assumed at acquisition is as follows:

	Acquisition date January 1, 2010
Cash	$ 8,370
Investments	23,492,206
Receivables	1,139,962
Other assets	127,458
Property and equipment	29,260,326
Total assets acquired	54,028,322
Accounts payable	352,581
Accrued expenses	950,174
Short-term debt	1,273,221
Long-term debt	4,514,449
Refundable fees	8,243,539
Deferred revenue from advance fees	6,543,006
Total liabilities assumed	21,876,970
Contribution received in the acquisition of BMM	$ 32,151,352

NOTE 4. INVESTMENTS

Investments consist of the following:

	December 31, 2011	December 31, 2010
Investments held by Baptist Foundation of Texas	$ 22,202,464	$ 23,630,096
Corporate bonds	1,369,172	1,438,665
U.S. government agencies	198,985	460,276
Money market funds	746,333	313,008
Equity securities - Domestic	4,464,181	5,927,956
Equity securities - International	141,121	169,468
Bond mutual funds	132,331	376,433
Other	76,669	70,002
	$ 29,331,256	$ 32,385,904

NOTE 4. INVESTMENTS – CONTINUED

The following summarizes investment return:

	Years ended December 31,	
	2011	2010
Operating		
Dividend and interest income	$ 2,785,634	$ 2,427,085
Nonoperating		
Net realized and unrealized gain (loss) on investments	(796,332)	2,288,178
	$ 1,989,302	$ 4,715,263

Buckner includes investment fees as a reduction of dividend and interest income. Fees amounted to $16,421 and $13,955 for the years ended December 31, 2011 and 2010, respectively.

NOTE 5. RECEIVABLES

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

	December 31,	
	2011	2010
Receivables, gross	$ 4,142,161	$ 4,243,031
Allowance for doubtful accounts	(446,249)	(526,759)
Receivables, net	$ 3,695,912	$ 3,716,272

NOTE 6. 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,	
	2011	2010
Pledges and bequests receivable, gross	$ 3,989,960	$ 6,125,420
Less unamortized discount at 1.89% and 3.30% at December 31, 2011 and 2010, respectively	(31,117)	(123,564)
Pledges and bequests receivable, net	$ 3,958,843	$ 6,001,856

NOTE 6. PLEDGES AND BEQUESTS RECEIVABLE – CONTINUED

The maturity of pledges and bequests receivable at December 31, 2011 is as follows:

Less than one year	$ 3,169,767
One to five years	815,893
More than five years	4,300
	$ 3,989,960

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated useful life	December 31, 2011	December 31, 2010
Buildings	10 - 40 years	$ 177,202,028	$ 172,282,103
Furniture and equipment	5 - 10 years	26,102,983	25,304,033
Vehicles	2 - 4 years	2,262,647	2,002,547
Land improvements	5 - 20 years	16,120,326	15,802,698
Total		221,687,984	215,391,381
Less accumulated depreciation		(86,573,822)	(79,732,623)
		135,114,162	135,658,758
Projects-in-process		2,955,156	605,710
Land		8,511,866	8,420,376
Property and equipment, net		$ 146,581,184	$ 144,684,844

Depreciation expense was $6,861,055 and $6,315,799 for the years ended December 31, 2011 and 2010, respectively.

NOTE 8. 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 8. INTEREST IN NET ASSETS OF RELATED FOUNDATION – CONTINUED

Summarized financial data of the Foundation is as follows:

	December 31, 2011	December 31, 2010
Investment assets	$ 199,185,806	$ 186,718,376
Other assets	2,919,450	1,873,917
Annuity fund liabilities	5,506,099	5,180,407
Other liabilities	1,401,362	2,689,272
Net assets	195,197,795	180,722,614
Total revenue	19,748,539	13,144,313
Total expenses	4,663,719	3,982,318
Distributions and other	13,564,084	11,586,710
Net realized and unrealized gain on investments	12,954,445	16,299,307

The fair value measurements, as defined in Note 17, for the financial instruments held by the Foundation as of December 31, 2011 and 2010, consisted of the following:

	Total	Level 1	Level 2	Level 3
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)
As of December 31, 2010:				
Investment assets	186,718,376	49,694,669	116,941,975	20,081,732
Annuity fund liabilities	(5,180,407)	-	-	(5,180,407)

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31, 2011	December 31, 2010
Employee vacation and sick pay	$ 857,674	$ 912,299
Employee health benefits	339,585	523,802
Nonsubscriber occupational injury	100,000	100,000
Property taxes	147,705	164,224
Wages and payroll related	750,468	1,655,979
Interest on revenue bonds and notes payable	914,631	920,485
Professional and general liability insurance	400,000	400,000
Other	183,812	261,903
	$ 3,693,875	$ 4,938,692

NOTE 10. 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, 2011 and 2010, the unamortized premium on the bonds was $1,874,262 and $1,946,897, 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 $8,268,324 and $7,544,778 as of December 31, 2011 and 2010, 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 10. 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 Endowment income.

A summary of debt is as follows:

	December 31,	
	2011	2010
Series 2007 revenue bonds, interest rates of 5.00% to 5.25%, net of unamortized premium	$ 103,141,118	$ 105,465,207
Lines of credit		
With JPMorganChase, variable interest rate currently at 3.25% expiring June 2012	1,300,000	1,000,000
With Wells Fargo, variable interest rate currently at 4.00% expiring November 2011	-	59,704
With Wells Fargo, variable interest rate currently at 5.00% expiring September 2012	429,083	142,746
With Arvest Bank, fixed interest rate of 5.00% expiring February 2011	-	90,000
Notes payable		
With First State Bank of Burnet, fixed interest rate of 6.50% retired June 2011	-	28,769
With FFIN San Angelo, variable interest rate currently at 2.75% expiring June 2016	344,922	433,581
With City Bank Lubbock, fixed interest rate of 6.25% expiring July 2011	-	80,760
Short-term notes payable		
Insurance contract notes, interest rate of 3.74% to 5.95% expiring 2012	692,364	881,190
	$ 105,907,487	$ 108,181,957

NOTE 10. DEBT – CONTINUED

Scheduled debt repayments on short-term notes payable, line of credit and revenue bonds at December 31, 2011 are as follows:

Year ending December 31,	Short-term Notes Payable	Lines of Credit	Notes Payable	Revenue Bonds	Total
2012	$ 692,364	$ 1,729,083	$ 91,308	$ 2,364,445	$ 4,877,200
2013	-	-	93,908	2,483,567	2,577,475
2014	-	-	96,554	2,608,879	2,705,433
2015	-	-	63,152	2,735,438	2,798,590
2016	-	-	-	2,873,305	2,873,305
Thereafter	-	-	-	88,201,222	88,201,222
	692,364	1,729,083	344,922	101,266,856	104,033,225
Add amount representing premium	-	-	-	1,874,262	1,874,262
	$ 692,364	$ 1,729,083	$ 344,922	$ 103,141,118	$ 105,907,487

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. Prior to 2011, BMM had a defined contribution retirement plan covering substantially all employees. BMM matched up to 5% of an employee's base salary with full vesting after six years of participation in the Plan. Contributions to the plans by Buckner for the years ended December 31, 2011 and 2010 were $1,533,274 and $1,318,942, respectively.

NOTE 12. 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,	
	2011	2010
General and administrative	$ 8,153,288	$ 6,718,744
Children and family services	36,135,278	35,088,683
Retirement and healthcare services	61,048,403	56,134,593
Adoption and maternity services	3,638,062	3,950,560
Development	4,013,706	3,417,073
Total expenses	$ 112,988,737	$ 105,309,653

NOTE 12. FUNCTIONAL ALLOCATION OF EXPENSES – CONTINUED

Buckner incurred $1,916,744 and $1,725,046 in expenses relating to fundraising activities during the years 2011 and 2010, respectively. These expenses are included in development expense above and were carried out within the Foundation for the benefit of Buckner.

NOTE 13. LEASES

Buckner has noncancelable operating lease agreements for office space that expire during 2014. Future annual minimum lease payments due under those leases are as follows:

Year ending December 31,	
2012	$ 351,750
2013	331,422
2014	75,996
	$ 759,168

Rent expense under all operating leases for the years ended December 31, 2011 and 2010 was $821,741 and $747,709, 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 (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, 2011 and 2010 was included in other liabilities.

NOTE 14. ASSET RETIREMENT OBLIGATION – CONTINUED

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

	Years ended December 31, 2011	2010
Beginning balance	$ 1,221,531	$ 1,168,594
Accretion expense	55,335	52,937
Ending balance	$ 1,276,866	$ 1,221,531

NOTE 15. 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, 2011	2010
Capital projects- children and family services	$ 471,159	$ 1,000
Capital projects- retirement services	134,767	25,000
Program support- children and family services	2,163,174	1,953,446
Program support- retirement services	200,000	200,000
	$ 2,969,100	$ 2,179,446

NOTE 16. 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 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.

NOTE 17. 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 17. FAIR VALUE MEASUREMENTS – CONTINUED

Information related to the financial instruments measured at fair value on a recurring basis at December 31, 2011 and 2010 is as follows:

	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)

	December 31, 2010			
	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	$ 5,927,956	$ 5,927,956	$ -	$ -
Equity securities - International	169,468	169,468	-	-
Corporate bonds	1,438,665	-	1,438,665	-
U.S. government agencies	460,276	-	460,276	-
Money market funds	313,008	-	313,008	-
Bond mutual funds	376,433	-	376,433	-
Real estate	70,002	-	-	70,002
Investments held by Baptist Foundation of Texas:				
Group investment funds	22,558,616	-	22,558,616	-
Real estate	448,770	-	-	448,770
Mineral interests	622,710	-	-	622,710
Pledges and bequests receivable	6,001,856	-	-	6,001,856
Revenue bond proceeds held by trustee	9,627,269	-	9,627,269	-
Interest rate swap agreement	(346,834)	-	(346,834)	-
Annuity funds liabilities for investments held in trust	(457,535)	-	-	(457,535)

NOTE 17. 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 17. 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
January 1, 2010	$ 98,001	$ -	$ 6,557,168	$ (115,765)
Distributions	-	-	(2,837,361)	-
Contributions	2	-	2,130,475	-
Contributions of net assets of non-profit corporation	441,531	471,480	26,917	(345,783)
Net realized and unrealized change in investment valuation	(20,762)	151,230	124,657	4,013
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)

NOTE 18. 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 18. 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	
	2011	2010	2011	2010
Net assets	$ 1,952,304	$ 1,973,136	$ 47,548,685	$ 46,088,219

NOTE 18. ENDOWMENTS HELD IN BUCKNER FOUNDATION – CONTINUED

For the years ended December 31, 2011 and 2010, Buckner had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2009	$ -	$ 1,979,151	$ 43,159,063	$ 45,138,214
Investment return				
Investment income	-	-	149,415	149,415
Net realized/unrealized gains	-	410	1,905,328	1,905,738
Total investment return	-	410	2,054,743	2,055,153
Contributions to endowment	-	-	874,413	874,413
Amounts approved for expenditure	-	(6,425)	-	(6,425)
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

NOTE 19. 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 $1,500,000. 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, 2011 and 2010, no amounts are outstanding under the letter of credit. At December 31, 2011 and 2010, Buckner maintained a $400,000 reserve for prior years' professional and general liability insurance.

NOTE 19. 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. At December 31, 2011 and 2010, Buckner has accrued $270,000 and $523,802, 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, 2011 and 2010, Buckner has accrued $100,000 for the non-subscriber occupational injury plan.

NOTE 20. 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, 2011, there were no interest or penalties recorded or included in the financial statements. As of December 31, 2011, Buckner's tax years 2008 through 2010 remain subject to examination.

NOTE 21. 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, 2011 and 2010 was $3,161,856 and $3,628,310, 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 unrealized gain/loss on interest rate swap in the accompanying statements of operations.

NOTE 21. DERIVATIVE FINANCIAL INSTRUMENT – CONTINUED

The differences in the Prime Rate and fixed swap rate for the years ended December 31, 2011 and 2010 resulted in a realized gain of $23,604 and a realized loss of $18,559, respectively. The gain (loss) is included in interest expense on the accompanying consolidated statement of operations for the years ended December 31, 2011 and 2010. The market value of the swap as of December 31, 2011 and 2010 is $323,231 and $346,834, respectively, and is reported as another liability in the consolidated statements of financial position.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Trustees
Buckner International

We have audited the consolidated financial statements of Buckner International as of and for the year ended December 31, 2011, and have issued our report thereon dated May 14, 2012, which contained an unqualified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating statements 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.

Dallas, Texas
May 14, 2012

AN INDEPENDENT
MEMBER OF BAKER TILLY
INTERNATIONAL

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BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

ASSETS	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Dillon International	Eliminations	2011 Consolidated Total	2010 Consolidated Total
ASSETS								
Cash and cash equivalents	$ 571,124	$ 1,268,889	$ 7,434,995	$ 128,169	$ 522,681	$ -	$ 9,925,858	$ 14,375,893
Investments	13,366	2,915,810	26,184,870	-	217,210	-	29,331,256	32,385,904
Receivables, net	106,442	882,907	2,491,371	3,228	211,964	-	3,695,912	3,716,272
Pledges and bequests receivable, net	-	3,956,013	-	-	2,830	-	3,958,843	6,001,856
Inventories and supplies	-	-	145,655	-	-	-	145,655	166,920
Notes receivable	14,337	-	39,080	-	-	-	53,417	59,433
Prepaid expenses	451,619	552,341	503,917	1,200	4,871	-	1,513,948	1,694,429
Due from other companies, net	8,555,086	-	-	187,208	61,758	(7,664,301)	1,139,751	2,393,850
Other assets	-	-	1,085,575	-	-	-	1,085,575	1,535,332
Revenue bond proceeds held by trustee	-	-	8,268,324	-	-	-	8,268,324	9,627,269
Real estate held for investment	1,828,537	72,810	-	-	-	-	1,901,347	2,337,003
Property and equipment, net	772,123	28,408,288	117,513,114	17,655	9,966	(139,962)	146,581,184	144,684,844
Interest in net assets of related foundation	195,197,795	-	-	-	-	-	195,197,795	180,722,614
Bond issuance costs, net	-	-	1,318,966	-	-	-	1,318,966	1,370,066
TOTAL ASSETS	$ 207,510,429	$ 38,057,058	$ 164,985,867	$ 337,460	$ 1,031,280	$ (7,804,263)	$ 404,117,831	$ 401,071,685
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable	$ 59,602	$ 511,341	$ 589,472	$ 1,962	$ 215,788	$ -	$ 1,378,165	$ 1,828,143
Accrued liabilities	372,592	627,199	2,605,797	19,929	68,358	-	3,693,875	4,938,692
Lines of credit	1,300,000	-	429,083	-	-	-	1,729,083	1,292,450
Short-term notes payable	692,364	-	-	-	-	-	692,364	881,190
Revenue bonds payable, net	-	-	103,141,118	-	-	-	103,141,118	105,465,207
Notes payable	-	-	344,922	-	-	-	344,922	543,110
Resident deposits	-	-	1,679,063	-	-	-	1,679,063	1,318,870
Refundable fees	-	-	10,044,650	-	-	-	10,044,650	9,550,103
Deferred revenue from advance fees	-	-	7,212,815	-	-	-	7,212,815	6,798,817
Annuity and life income fund liability	-	108,486	322,854	-	-	-	431,340	457,535
Other	351,329	998,770	943,114	-	189,640	-	2,482,853	4,243,945
Due to other companies, net	-	6,708,774	955,527	-	-	(7,664,301)	-	-
Total liabilities	2,775,887	8,954,570	128,268,415	21,891	473,786	(7,664,301)	132,830,248	137,318,062
NET ASSETS								
Unrestricted	155,223,219	26,190,112	14,187,837	293,241	325,830	(139,962)	196,080,277	185,840,052
Temporarily restricted	1,962,638	2,572,820	10,689,693	22,328	31,664	-	15,279,143	19,440,268
Permanently restricted	47,548,685	339,556	11,839,922	-	200,000	-	59,928,163	58,473,303
Total net assets	204,734,542	29,102,488	36,717,452	315,569	557,494	(139,962)	271,287,583	263,753,623
TOTAL LIABILITIES AND NET ASSETS	$ 207,510,429	$ 38,057,058	$ 164,985,867	$ 337,460	$ 1,031,280	$ (7,804,263)	$ 404,117,831	$ 401,071,685

BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Dillon International	Eliminations	2011 Consolidated Total	2010 Consolidated Total
REVENUES								
Client support and related income	$ -	$ 10,724,240	$ 59,526,566	$ 477,391	$ 1,870,725	$ -	$ 72,598,922	$ 68,861,398
Investment income	23,334	653,036	2,120,370	19	6,985	(18,110)	2,785,634	2,427,085
Distributions from related foundation	4,200,000	7,049,407	210,162	174,729	460,000	-	12,094,298	10,458,235
Contributions								
Baptist General Convention of Texas	-	534,793	197,631	50,769	-	-	783,193	808,363
Individual and business gifts	11,007	14,142,623	742,556	88,312	1,114,084	-	16,098,582	16,677,394
Bequests	60,375	725,663	1,261	-	-	-	787,299	429,803
Loss on sales of real estate held for investment	(138,506)	(187,238)	-	-	-	-	(325,744)	(750)
Other	9,361	401,337	166,717	-	147,978	(10,636)	714,757	1,214,816
Administrative fees	3,288,575	-	-	-	-	(3,147,636)	140,939	112,540
Total revenues	7,454,146	34,043,861	62,965,263	791,220	3,599,772	(3,176,382)	105,677,880	100,988,884
EXPENSES								
Salaries and benefits	5,176,172	14,299,466	32,564,572	202,686	1,249,790	-	53,492,686	50,046,820
Supplies and direct expenses	2,037	11,976,672	7,183,277	193,395	1,161,275	-	20,516,656	20,615,942
Occupancy and insurance	1,049,702	3,803,623	7,541,241	30,673	234,230	(10,636)	12,648,833	12,540,379
Travel and transportation	347,272	3,351,414	453,114	34,987	329,780	(18,110)	4,498,457	3,883,934
Administration	3,496,325	4,414,738	4,387,986	102,313	323,523	(3,147,636)	9,577,249	8,071,378
Depreciation	179,853	1,321,760	5,353,218	695	5,529	-	6,861,055	6,315,799
Interest expense	12,873	5	5,377,641	-	3,282	-	5,393,801	3,835,401
Total expenses	10,264,234	39,167,678	62,861,049	564,749	3,307,409	(3,176,382)	112,988,737	105,309,653
CHANGE IN NET ASSETS FROM OPERATIONS	(2,810,088)	(5,123,817)	104,214	226,471	292,363	-	(7,310,857)	(4,320,769)
NONOPERATING ITEMS								
Net realized and unrealized gains (losses) on investments	1,454	(59,110)	(741,603)	-	2,927	-	(796,332)	2,288,178
Increase in interest in net assets of related foundation	14,475,181	-	-	-	-	-	14,475,181	13,874,592
Other, net	1,863,954	1,677,309	(2,281,042)	(243,125)	148,872	-	1,165,968	1,954,527
CHANGE IN NET ASSETS	13,530,501	(3,505,618)	(2,918,431)	(16,654)	444,162	-	7,533,960	13,796,528
CONTRIBUTION OF NET ASSETS OF NON-PROFIT ORGANIZATION	-	-	-	-	-	-	-	32,151,352
NET ASSETS, BEGINNING OF YEAR	191,204,041	32,608,106	39,635,883	332,223	113,332	(139,962)	263,753,623	217,805,743
NET ASSETS, END OF YEAR	$ 204,734,542	$ 29,102,488	$ 36,717,452	$ 315,569	$ 557,494	$ (139,962)	$ 271,287,583	$ 263,753,623