

NEXUS RECOVERY CENTER, INC.

Combined Financial Statements
(With Independent Auditor's Report Thereon)

August 31, 2023 and 2022

NEXUS RECOVERY CENTER, INC.
Combined Financial Statements and
August 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nexus Recovery Center, Inc.

Report on the Audit of the Combined Financial Statements

Opinion

We have audited the combined financial statements of Nexus Recovery Center, Inc. (a nonprofit organization), which comprise the combined statements of financial position as of August 31, 2023 and 2022 and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Nexus Recovery Center, Inc. as of August 31, 2023 and 2022, and the changes in its net assets and its cash flows for years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Nexus Recovery Center, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Nexus Recovery Center, Inc.'s ability to continue as a going concern for one year after the date that the combined financial statements are issued.

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Nexus Recovery Center, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Nexus Recovery Center, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

STILL BURTON LLP

Still Burton LLP

Farmers Branch, Texas
January 12, 2024

NEXUS RECOVERY CENTER, INC.
 Combined Statements of Financial Position
 August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS:		
Cash and cash equivalents	\$ 2,103,659	\$ 752,230
Investments	1,457,139	482,866
Service fee receivables, net	823,639	846,007
Grant and other receivables	309,464	301,394
Pledges receivable, net	6,813,735	4,650,055
Prepaid and deferred expenses	130,061	115,083
Financing right-of-use assets, net	137,892	-
Fixed assets, net	4,228,055	4,122,482
TOTAL ASSETS	<u>\$ 16,003,644</u>	<u>\$ 11,270,117</u>
LIABILITIES:		
Accounts payable	\$ 176,936	\$ 132,963
Accrued liabilities	660,168	594,615
Financing right-of-use liabilities	144,991	-
Line of credit	-	475,000
Total Liabilities	<u>982,095</u>	<u>1,202,578</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	5,046,371	5,759,007
Board-designated	2,574,847	305,000
Total without donor restrictions	<u>7,502,599</u>	<u>6,064,007</u>
With donor restrictions	<u>7,518,950</u>	<u>4,003,532</u>
Total Net Assets	<u>15,021,549</u>	<u>10,067,539</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,003,644</u>	<u>\$ 11,270,117</u>

See accompanying notes and independent auditor's report.

NEXUS RECOVERY CENTER, INC.
 Combined Statements of Activities and Changes in Net Assets
 Years Ended August 31, 2023 and 2022

	<u>2023</u>			<u>2022</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
GENERAL REVENUES AND OTHER SUPPORT:						
General contributions	\$ 549,759	\$ 571,500	\$ 1,121,259	\$ 1,132,283	\$ 1,500	\$ 1,133,783
Foundation contributions	984,069	3,075,000	4,059,069	877,781	4,013,000	4,890,781
United Way support	150,949	-	150,949	335,821	-	335,821
Volunteer services and donated items	585,321	185,189	770,510	323,149	212,413	535,562
	<u>2,270,098</u>	<u>3,831,689</u>	<u>6,101,787</u>	<u>2,669,034</u>	<u>4,226,913</u>	<u>6,895,947</u>
TREATMENT REVENUES:						
Managed care - behavioral health organizations	3,047,910	-	3,047,910	2,596,666	-	2,596,666
Texas Health and Human Services	2,855,553	-	2,855,553	3,096,711	-	3,096,711
Other state and local governmental contracts	163,512	-	163,512	157,872	-	157,872
Medicaid	1,272,267	-	1,272,267	1,046,029	-	1,046,029
Other funders, including self-pay	591,357	-	591,357	520,563	-	520,563
	<u>7,930,599</u>	<u>-</u>	<u>7,930,599</u>	<u>7,417,841</u>	<u>-</u>	<u>7,417,841</u>
OTHER REVENUES:						
Clinical Trials Network research fees	73,713	-	73,713	298,103	-	298,103
Lone Star Card/USDA Special Nutrition Programs	45,105	-	45,105	54,655	4,687	59,342
Daycare service fees	102,563	-	102,563	74,009	-	74,009
Special event (net of direct costs \$69,258)	289,761	-	289,761	11,372	-	11,372
Loss on sale of assets	(1,628)	-	(1,628)	(8,064)	-	(8,064)
Investment income	27,518	2,316	29,834	-	-	-
Employee retention credit	2,764,304	-	2,764,304	-	-	-
American Rescue Plan funds	1,054,639	-	1,054,639	-	-	-
COVID relief funds	261,329	-	261,329	841,021	-	841,021
Miscellaneous	46,814	-	46,814	23,941	-	23,941
	<u>4,664,118</u>	<u>2,316</u>	<u>4,666,434</u>	<u>1,295,037</u>	<u>4,687</u>	<u>1,299,724</u>
	14,864,815	3,834,005	18,698,820	11,381,912	4,231,600	15,613,512
NET ASSETS RELEASED FROM RESTRICTIONS:						
Satisfaction of restrictions	318,587	(318,587)	-	320,951	(320,951)	-
	<u>15,183,402</u>	<u>3,515,418</u>	<u>18,698,820</u>	<u>11,702,863</u>	<u>3,910,649</u>	<u>15,613,512</u>
TOTAL REVENUES AND OTHER SUPPORT						
	<u>15,183,402</u>	<u>3,515,418</u>	<u>18,698,820</u>	<u>11,702,863</u>	<u>3,910,649</u>	<u>15,613,512</u>
EXPENSES:						
Program services	11,597,159	-	11,597,159	10,554,845	-	10,554,845
General and administrative	1,396,717	-	1,396,717	1,089,251	-	1,089,251
Fundraising	750,934	-	750,934	520,360	-	520,360
TOTAL EXPENSES	<u>13,744,810</u>	<u>-</u>	<u>13,744,810</u>	<u>12,164,456</u>	<u>-</u>	<u>12,164,456</u>
CHANGES IN NET ASSETS	1,438,592	3,515,418	4,954,010	(461,593)	3,910,649	3,449,056
NET ASSETS AT BEGINNING OF YEAR	6,064,007	4,003,532	10,067,539	6,525,600	92,883	6,618,483
NET ASSETS AT END OF YEAR	<u><u>7,502,599</u></u>	<u><u>\$ 7,518,950</u></u>	<u><u>\$15,021,549</u></u>	<u><u>\$ 6,064,007</u></u>	<u><u>\$ 4,003,532</u></u>	<u><u>\$10,067,539</u></u>

See accompanying notes and independent auditor's report.

NEXUS RECOVERY CENTER, INC.
 Combined Statements of Functional Expense

	Year Ended August 31, 2023				Year Ended August 31, 2022			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 5,730,635	\$ 761,955	\$ 425,664	\$ 6,918,254	\$ 5,171,444	\$ 652,634	\$ 340,496	\$ 6,164,574
Benefits	1,667,186	253,482	57,577	1,978,245	1,644,436	197,715	105,806	1,947,957
Professional fees	1,405,558	153,165	136,981	1,695,704	1,015,672	79,854	47,948	1,143,474
Supplies and food	995,521	66,007	2,158	1,063,686	1,180,592	43,513	841	1,224,946
Building, grounds, vehicles	394,361	12,846	252	407,459	435,383	201	365	435,949
Depreciation	320,710	13,290	3,222	337,222	318,144	11,833	3,066	333,043
Uncollectible accounts	282,071	-	39,392	321,463	196,586	-	-	196,586
Other client costs	320,056	-	175	320,231	240,532	-	25	240,557
Telephone/utilities/rent	251,165	15,328	501	266,994	287,984	722	-	288,706
Miscellaneous	90,653	74,245	54,992	219,890	40,422	76,849	12,736	130,007
Amortization-right-of-use	115,793	4,908	1,250	121,951	-	-	-	-
Postage/printing/publications	9,748	18,342	23,307	51,397	5,020	13,873	2,905	21,798
Travel/training/meetings	13,702	23,149	5,463	42,314	18,630	12,057	6,172	36,859
TOTAL EXPENSES	<u>\$ 11,597,159</u>	<u>\$ 1,396,717</u>	<u>\$ 750,934</u>	<u>\$ 13,744,810</u>	<u>\$ 10,554,845</u>	<u>\$ 1,089,251</u>	<u>\$ 520,360</u>	<u>\$ 12,164,456</u>

See accompanying notes and independent auditor's report.

NEXUS RECOVERY CENTER, INC.
 Combined Statements of Cash Flows
 Years Ended August 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 4,954,010	\$ 3,449,056
Adjustments to reconcile change in net assets to net cash used in/provided by operating activities:		
Depreciation and amortization	447,752	333,042
Proceeds from capital contributions restricted for fixed asset purchases	(750,000)	(250,000)
Non-cash interest and dividends reinvested	(24,255)	-
Unrealized gain on investments	(5,756)	-
Loss on sale of fixed assets	1,628	8,064
Changes in assets and liabilities:		
Service fees receivable	22,368	(206,344)
Grant fees receivable	(8,070)	(68,779)
Pledges receivable	(2,163,680)	(4,290,171)
Prepaid and deferred expenses	(14,978)	55,101
Accounts payable and accrued liabilities	104,924	171,045
Net cash provided by (used in) operating activities	2,563,943	(798,986)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(450,921)	(82,910)
Proceeds from sale of investments	165,791	198,219
Purchase of investments	(1,100,000)	-
Net cash (used in) provided by investing activities	(1,385,130)	115,309
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from capital contributions restricted for fixed asset purchases	750,000	250,000
(Payments) borrowings on line of credit, net	(475,000)	475,000
Payments on financing right-of-use liabilities	(102,384)	-
Net cash provided by financing activities	172,616	725,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,351,429	41,323
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	752,230	710,907
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,103,659	\$ 752,230
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION:		
Acquisition of property and equipment through financing right-of-use liability	\$ 248,422	\$ -
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	\$ 42,283	\$ 7,654

See accompanying notes and independent auditor's report.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements
Years Ended August 31, 2023 and 2022

1. ORGANIZATION

Nexus Recovery Center, Inc. (the Organization), organized in 1971, is a Texas nonprofit corporation with residential and outpatient facilities located in Dallas, Texas. Nexus' mission is: "We serve as a community of hope and recovery for all women and their families who strive to live healthy, resilient lives." The Nexus Board of Directors, which consists of representatives from the business and civic communities and professional fields, serves as its governing body.

The Nexus Recovery Center Foundation (the Foundation) was formed as a separate 501c3 supporting organization effective October 27, 2022. The purpose of the Foundation is to support the operations of the Organization. As of August 31, 2023, all assets and liabilities related to the Recovery Rising Capital Campaign and construction of the Doswell Medical Building have been transferred to the Foundation. Combined financial statements are presented as the Organization has a controlling interest in the Foundation through board member appointment. The Foundation files a separate Form 990 from the Organization.

Funds are received primarily from federal and state agencies. Funds are also received from the private donor community, foundations, United Way and various local government agencies, as well as occasional self-pay and private insurance clients.

The Texas Health and Human Services Commission (HHSC) contracted with Nexus to provide community-based outreach and intervention services for non-pregnant, pregnant and postpartum females with, or at risk for, substance use disorders.

Additionally, the HHSC contracted with Nexus to increase the prevalence and quality of long-term recovery from substance use disorders by mobilizing recovery support services, including peer support, coaching, and linkages to the community.

Enrollees are enrolled into one of three other medical coverage programs, as follows:

- Non-Medicaid-eligible persons in Dallas, Ellis, Hunt, Kaufman, Navarro and Rockwall counties are enrolled into the North Texas Behavioral Health Authority (NTBHA). Nexus contracts with NTBHA to provide substance use disorder treatment services to its enrollees.
- Non-Medicaid-eligible persons in Collin county are enrolled into Lifepath Systems, a non-profit organization which arranges medical services for uninsured residents of Collin County. Nexus contracts with Lifepath to provide substance use disorder treatment services to its enrollees.
- Medicaid-eligible persons are enrolled into existing Medicaid managed care organizations. Nexus has contractual relationships with these entities to provide substance use disorder treatment services to its enrollees.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies is presented to assist in understanding the accompanying combined financial statements. The combined financial statements and notes are representations of Nexus' management, who is responsible for their integrity and objectivity.

Basis of Combination, Presentation Accounting – The combined financial statements include the accounts of the Organization and the Foundation (together, Nexus). All significant inter-organizational transactions and balances have been eliminated.

Nexus prepares its annual combined financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), consistently applied.

Use of Estimates – The preparation of combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates include useful lives of fixed assets, valuation of the reserve for uncollectible receivables, valuation of investments, and the functional allocation of expenses.

Cash and Cash Equivalents – Cash and cash equivalents include short-term investments with an original maturity of less than ninety days.

Investments – Investments in money market mutual funds through a brokerage account are valued at cost plus accrued interest. Investment income and unrealized gains or losses are reported as increases or decreases in unrestricted net assets unless the donor placed restrictions on the income's use. The change in fair value between years is reflected in the combined statement of activities and changes in net assets, in the year of the change, as investment income.

Fair Value of Financial Instruments – The carrying amount of cash, cash equivalents, pledge receivables, accounts receivable, accounts payable and accrued expenses approximate fair market value at August 31, 2023 and 2022, because of their relatively short maturity and market terms. The fair value of mutual funds is determined based on quoted market values while the fair value of time deposits is estimated based on the principal invested plus accrued interest earned.

Concentration of Credit Risk – Financial instruments which potentially subject Nexus to concentrations of credit risk consist principally of cash and cash equivalents, investments and receivables. Nexus, at times, may maintain deposits in financial institutions in excess of federally insured amounts; however, Nexus has not experienced losses on such accounts. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the combined statements of financial position. Receivables are regularly evaluated for collection risks.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Receivables and Revenue Recognition – Contributions are recognized as revenues and assets in the period received at their fair value at time of receipt. Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows using a risk-free interest rate. Revenues are reported as increases in without donor restricted net assets unless use of the related assets is limited by donor-imposed restrictions. Once the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, restricted revenues are reclassified from with donor restrictions to without donor restrictions. Service fee, grant and other contract revenues are recognized as revenues in the period the related services are provided.

Uncollectible Accounts – An allowance for uncollectible service fee billings was established in order to record accounts receivable at their estimated net realizable value. Nexus uses the reserve method to account for uncollectible service fees receivable. Management periodically reviews service fees receivable on a claim-by-claim basis, concentrating on claims more than 90 days old. Management considers Nexus’ past collection history with its payers and the age and value of the claims outstanding in evaluating the reserve requirement. Claims are written off when it appears collection efforts will not be successful. At August 31, 2023 and 2022, \$71,811 and \$72,437 is reserved for uncollectible service fees receivable.

Fixed Assets – Land, buildings, and equipment (including furniture, fixtures, and vehicles) are reported at cost, if purchased, or fair value at the date of donation. Provisions for depreciation are computed on a straight-line basis for financial reporting purposes. The useful lives used for depreciation are as follows:

Buildings	31.5 years
Building improvements	5 to 20 years
Equipment	3 to 10 years
Furniture and fixtures	2 to 10 years
Vehicles	5 years

Maintenance, repairs, and minor replacements are charged to expense while major replacements and betterments, with a unit value of \$1,000 or more, are capitalized. Nexus does not recognize depreciation on construction in progress until assets are placed in service.

Long-Lived Assets – Long-lived assets held and used by Nexus are periodically reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, Nexus compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made. No indicators of impairment existed at August 31, 2023 or 2022.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Asset Classifications – To ensure observance of limitations and restrictions placed on the use of resources available to Nexus, the accounts of Nexus are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources are classified for accounting purposes established according to purpose or time restrictions. Descriptions of the net asset types used by Nexus are as follows:

- *Without Donor Restrictions* – Net assets that are not subject to donor-imposed stipulations. These may be used for any purpose or designated for specific purposes by action of the Board of Directors.
- *With Donor Restrictions* –
 - Net assets which are subject to donor-imposed purpose restrictions or which expire by the passage of time.
 - Net assets subject to donor-imposed stipulations that the corpus be maintained permanently. These are often referred to as endowments. Nexus had none at August 31, 2023 or 2022.

Expenses – Expenses are recorded when incurred. Indirect support expenses are allocated to treatment programs or departments, based on an acceptable allocation method for the type of expenditure. Expense allocations are recomputed quarterly.

Functional Allocation of Expenses – Expenses have been summarized on a functional basis and allocated in the combined statement of activities and changes in net assets. Accordingly, the majority of costs among program services are activities that result in goods and services being distributed to clients that fulfill the purpose and mission of Nexus and are a result of direct conduct or direct supervision. The other costs among program services are allocated by number of employees in the program on a pro-rata basis. All remaining costs are for supporting activities and are allocated between fundraising and management and general based on management’s estimate or actual usage by department.

Volunteer Services and In-Kind Contributions – Nexus uses the services of medical and other personnel either without charge or at reduced rates. In addition, Nexus receives donations of goods and services from various organizations and individuals in the community.

Lone Star Card/National School Lunch/Child and Adult Care Food Program Income – Nexus assists eligible clients to apply for the Lone Star Card subsidized food benefit program administered by the Texas Health and Human Services Commission. Benefits received on behalf of the clients were used to offset the costs of providing the clients food while in residence at Nexus.

Reclassifications – Certain reclassifications to information as of and for the year ended August 31, 2022 have been made for consistency with August 31, 2023 presentation.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes - Nexus is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in Section 501(c)(3) of the IRC. Nexus has been classified as a public charity under sections 509(a)(1) and 170(b)(1)(A)(vi) of the IRC, and as such, contributions to Nexus qualify for deduction as charitable contributions. Nexus did not have any unrelated business income tax liability or expense for the years ended August 31, 2023 or 2022.

Nexus may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that the relevant taxing authority that has full knowledge of all relevant information will examine each uncertain tax position. Nexus has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. In addition, Nexus does not have any outstanding tax interest or penalties, and none have been recorded in the combined statement of activities and changes in net assets for the years ended August 31, 2023 or 2022. Generally, three years from the filing date remain open for examination.

Accounting Pronouncements - In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, **Leases (Topic 842)**. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, **Leases (Topic 842): Targeted Improvements**, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, i.e., the comparatives under ASC 840 option. Nexus adopted Topic 842 using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted, which was September 1, 2022.

In September 2020, the FASB issued ASU 2020-07, **Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets**. With this new ASU, organizations receiving contributions of nonfinancial assets are now required to present such contributions as a separate line item on the combined statement of activities and changes in net assets. Additionally, more detailed disclosures will be required, including both goods and services. During Nexus' fiscal year ended August 31, 2022, this ASU was implemented.

Capital Campaign – The Organization embarked on a multi-year and multi-phase capital campaign, Recovery Rising, to raise funds to revitalize the campus, support operations, and establish critically-needed operating and capital reserves. Phase 1 of the Recovery Rising campaign was officially launched during the year ended August 31, 2023 and applies to the Doswell Medical Building, which will house Admissions, Medicated Assisted Treatment, and Detoxification services, as well as operating support and a sustainability reserve fund. As of August 31, 2023, approximately \$7.8 million has been raised towards the Recovery Rising campaign and approximately \$508,000 has been spent on construction in progress for design services and pre-construction costs.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

3. PLEDGES RECEIVABLE

Net pledges receivable consisted of the following at August 31:

	2023		
	<1 Year	>1 <5 Years	Total
Pledges receivable	\$4,922,475	\$2,019,783	\$ 6,942,258
Allowance	(35,174)	(60,593)	(95,767)
Discount	-	(32,756)	(32,756)
Net pledges receivable	<u>\$4,887,301</u>	<u>\$1,926,434</u>	<u>\$ 6,813,735</u>
	2022		
	<1 Year	>1 <5 Years	Total
Pledges receivable	\$ 196,558	\$4,542,550	\$ 4,739,108
Allowance	(5,897)	(14,529)	(20,426)
Discount	-	(68,627)	(68,627)
Net pledges receivable	<u>\$ 190,661</u>	<u>\$4,459,394</u>	<u>\$ 4,650,055</u>

Pledges receivable due after one year were discounted to their estimated net present value based on a risk-free rate methodology wherein each year's pledges are discounted at the U.S. Treasury average interest rate for "Total Marketable" securities as of August 31. For 2023 and 2022, the assigned rate for new pledges was 2%.

4. LIQUIDITY

Nexus' financial assets available within one year of the fiscal year end date for general expenditures for the years ended August 31 are as follows:

	2023	2022
Cash and cash equivalents	\$ 2,103,659	\$ 752,230
Service fee receivables, net	785,217	846,007
Grant and other receivables	347,886	301,394
Pledges receivable-current, net	4,887,301	190,661
Investments	1,457,139	482,866
Financial assets available at year end	9,581,202	2,573,158
Less those unavailable for general expenditures within one year, due to:		
Time or purpose restrictions	(7,400,332)	(253,532)
Board designations	(333,110)	(481,435)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,847,760</u>	<u>\$ 1,838,191</u>

As part of Nexus' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

5. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments are considered Level 1 when their values are determined using quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1, such as quoted prices for similar assets in active or inactive markets, inputs other than quoted prices that are observable for the asset, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

At August 31, 2023, all investments at brokerages consist of \$1,457,139 in money market mutual funds and are considered Level 1. At August 31, 2022, all investments at brokerages consist of \$482,866 in money market mutual funds and are considered Level 1.

6. FIXED ASSETS

Fixed assets consisted of the following at August 31:

	2023	2022
Land	\$ 212,751	\$ 212,751
Buildings	5,278,109	5,278,109
Building improvements	1,104,907	1,104,907
Furniture, fixtures and equipment	1,102,657	1,031,114
Vehicles	242,231	204,754
Construction in progress	137,600	-
	<u>8,087,256</u>	<u>7,840,635</u>
Less: accumulated depreciation	<u>(3,859,201)</u>	<u>(3,718,153)</u>
	<u>\$ 4,228,055</u>	<u>\$ 4,122,482</u>

Depreciation expense for the years ended August 31, 2023 and 2022 was \$337,222 and \$333,043, respectively.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

7. FINANCING RIGHT-OF-USE ASSETS AND LIABILITIES

Nexus leases office equipment and building space, which are classified as financing right-of-use (ROU) assets. The office equipment and building space are being amortized on a straight-line basis over the lives of the leases. ROU assets related to finance lease agreements are recorded at present value of the lease payments, for all leases with original terms longer than 12 months, utilizing a discount rate of either 3.75 or 7.75% at lease inception. The weighted average lease term outstanding is 0.50 years with a weighted average discount rate of 6.38%.

For the year ended August 31, 2023, Nexus reported amortization expense of \$110,530 related to these ROU assets. For the year ended August 31, 2022, the Organization reported interest expense of \$11,421 related to these ROU liabilities. The ROU assets related to the financing leases are as follows at August 31:

	2023
Asset costs	\$ 374,654
Accumulated amortization	(236,762)
Net unamortized asset costs	\$ 137,892

The ROU liabilities at August 31, 2023 are payable in monthly principal and interest installments aggregating approximately \$9,900 and maturing through April 2026. Maturities for the ROU liability are as follows:

For the years ending August 31,	
2024	\$ 113,665
2025	30,232
2026	8,296
	152,193
Less interest	(7,202)
Total	\$144,991

8. LINE OF CREDIT

Nexus established a revolving demand line of credit with a bank, for working capital purposes, that is secured by substantially all property at 8733 La Prada Drive, Dallas, Texas. The line of credit consists of two master demand notes, with no expiration dates, which are subject to periodic and annual credit reviews. The line of credit outstanding was \$0 and \$475,000 as of August 31, 2023 and 2022, respectively. Accrued interest is payable monthly based on the prime rate (8.5% at August 31, 2023) plus 0.75 percent.

Note No.	Date Established	Expiration Date	Interest Rate	Principal Available	2023 Amount Funded	2022 Amount Funded
1.	1/26/98	NA	Prime + 0.75%	\$ -	\$ -	\$ 250,000
2.	8/13/99	NA	Prime + 0.75%	-	-	225,000
				\$ -	\$ -	\$ 475,000

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

9. CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets recognized within the combined statement of activities and changes in net assets were as follows for the years ended August 31:

	<u>2023</u>	<u>2022</u>
Food, clothing, diapers	\$ 177,682	\$ 249,678
Medical and dental services	268,834	190,373
Client care interns	122,430	90,413
Professional services	197,389	-
Other services	4,175	5,098
Total	<u>\$ 770,510</u>	<u>\$ 535,562</u>

Contributed nonfinancial assets did not have donor-imposed restrictions.

In valuing food donations, Nexus estimates the fair value on the basis of cost per pound provided by the North Texas Food Bank. Volunteer hours are valued based on the national hourly rate as determined by www.independentsector.org. Professional services are valued based on contracted rate with the service provider. It is Nexus' policy to sell any contributed securities immediately upon receipt of the asset unless it is restricted for use by the donor.

10. IMPACT OF COVID-19

During the spring of 2020 and continuing into 2022, a worldwide pandemic related to COVID-19 virtually shut down the U.S. economy for several months. Nexus was able to continue operations, though logistics and client service delivery were modified as needed for safety.

Nexus has been the recipient of two rounds of Provider Relief Funds ("PRF") as part of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The amount for fiscal year ending August 31, 2020 was approximately \$156,000 and is included in the Statement of Expenditures of Federal Awards ("SEFA") for fiscal year ending August 31, 2022 per reporting requirements. The second round of PRF of approximately \$578,000 was received in fiscal year ending August 31, 2022, and these funds will also be reported on the SEFA in fiscal year ending August 31, 2023.

11. NET ASSETS WITHOUT DONOR RESTRICTIONS-BOARD-DESIGNATED

The Board of Directors has designated certain surplus funds for potential non-current future needs. The operating reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss of funding or uninsured losses. The capital asset reserve is intended to serve as a source of funds for the acquisition or repair of property and equipment. Without donor restrictions-board designated net assets for Nexus are as follows at August 31:

	<u>2023</u>	<u>2022</u>
Operating reserve	\$1,908,761	\$ 5,000
Capital asset reserve	666,086	300,000
	<u>\$2,574,847</u>	<u>\$305,000</u>

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with temporary restrictions consisted of the following:

	August 31,	
	2023	2022
Recovery Rising capital campaign	\$ 7,396,500	\$ 4,000,000
Children’s center windows	1,915	1,915
Clients’ garden	1,383	1,617
Other	534	-
	\$ 7,400,332	\$ 4,003,532

13. RISK MANAGEMENT

Nexus management reviews a risk management program to promote the safety of its employees and minimize loss exposure to its financial assets. Annually, a review of risks and insurable assets is performed and loss prevention is established through the purchase of a fully insured program with a well-rated insurance company. Purchased coverage meets or exceeds all contractual requirements of funders.

14. CONTINGENCIES

Nexus is involved from time to time in certain legal actions arising from normal business activities. For the years ended, August 31, 2023 and 2022, there are no such legal actions.

Nexus receives federal, state, local government, and private agency awards for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the awards. In the opinion of management, disallowed costs, if any, will not materially affect the financial position or results of operations of Nexus.

15. EMPLOYEE THRIFT PLAN

Nexus has a 403b thrift plan that is available to all staff that have at least nine months of employment. Once in the plan, an employee continues to participate in the plan for each service hour worked. Under the plan, Nexus matches amounts contributed by each participant (a maximum of 3% of each participant’s annual compensation). Participants must be employed at Nexus for three years before employer contributions vest. Under this plan, Nexus incurred expenses of \$73,888 and \$69,498, respectively, for the years ended August 31, 2023 and 2022 which are included in benefits expense in the combined statements of functional expenses.

16. RELATED PARTY TRANSACTIONS

During the years ended August 31, 2023 and 2022, board members contributed approximately \$536,000 and \$317,000, respectively.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2023 and 2022

17. CONCENTRATIONS

Nexus derives revenue primarily from the HHSC and NTBHA (see Note 1).

	As of and for Year Ended August 31,	
	2023	2022
HHSC receivable	13%	52%
NTBHA receivable	45%	17%
HHSC revenue	15%	20%
NTBHA revenue	13%	16%

Continued funding from these sources, at current levels, is dependent upon various factors. Such factors include, but are not limited to, economic conditions, compliance with grant or contract provisions, continued government approval, new legislation, donor satisfaction, and public perception of mission effectiveness and relative importance. The increase from 2022 to 2023 in NTBHA receivable is due to a lump sum payment relating to year ending August 31, 2023 that was subsequently received.

18. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 12, 2024, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

NEXUS RECOVERY CENTER, INC.
Combining Statement of Financial Position
August 31, 2023

	<u>Organization</u>	<u>Foundation</u>	<u>Eliminating Entries</u>	<u>Nexus Combined</u>
ASSETS:				
Cash and cash equivalents	\$ 1,400,767	\$ 702,892	\$ -	\$ 2,103,659
Investments	1,457,139	-	-	1,457,139
Service fee receivables, net	823,639	-	-	823,639
Grant and other receivables	687,684	-	(378,220)	309,464
Pledges receivable, net	930,092	5,883,643	-	6,813,735
Prepaid and deferred expenses	130,061	-	-	130,061
Financing right-of-use assets, net	137,892	-	-	137,892
Fixed assets, net	4,090,455	137,600	-	4,228,055
TOTAL ASSETS	<u>\$ 9,657,729</u>	<u>\$ 6,724,135</u>	<u>\$ (378,220)</u>	<u>\$ 16,003,644</u>
LIABILITIES:				
Accounts payable	\$ 157,016	\$ 19,919	\$ -	\$ 176,935
Accrued liabilities	660,168	378,220	(378,220)	660,168
Financing right-of-use liabilities	144,991	-	-	144,991
Line of credit	-	-	-	-
Total Liabilities	<u>962,175</u>	<u>398,139</u>	<u>(378,220)</u>	<u>982,094</u>
NET ASSETS:				
Without donor restrictions:				
Undesignated	6,116,875	(1,070,504)	-	5,046,371
Board-designated	2,574,847	-	-	2,574,847
Total without donor restrictions	8,691,722	(1,070,504)	-	7,621,218
With donor restrictions	3,832	7,396,500	-	7,400,332
Total Net Assets	<u>8,695,554</u>	<u>6,325,996</u>	<u>-</u>	<u>15,021,550</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,657,729</u>	<u>\$ 6,724,135</u>	<u>\$ (378,220)</u>	<u>\$ 16,003,644</u>

NEXUS RECOVERY CENTER, INC.
 Combined Statement of Activities and Changes in Net Assets
 Year Ended August 31, 2023

	<u>Organization</u>	<u>Foundation</u>	<u>Eliminating Entries</u>	<u>Nexus Combined</u>
GENERAL REVENUES AND OTHER SUPPORT:				
General contributions	\$ 1,424,759	\$ 571,500	\$ (875,000)	\$ 1,121,259
Foundation contributions	984,069	3,075,000	-	4,059,069
United Way support	150,949	-	-	150,949
Volunteer services and donated items	585,321	185,189	-	770,510
	<u>3,145,098</u>	<u>3,831,689</u>	<u>(875,000)</u>	<u>6,101,787</u>
TREATMENT REVENUES:				
Managed care - behavioral health organizations	3,047,910	-	-	3,047,910
Texas Health and Human Services	2,855,553	-	-	2,855,553
Other state and local governmental contracts	163,512	-	-	163,512
Medicaid	1,272,267	-	-	1,272,267
Other funders, including self-pay	591,357	-	-	591,357
	<u>7,930,599</u>	<u>-</u>	<u>-</u>	<u>7,930,599</u>
OTHER REVENUES:				
Clinical Trials Network research fees	73,713	-	-	73,713
Lone Star Card/USDA Special Nutrition Programs	45,105	-	-	45,105
Daycare service fees	102,563	-	-	102,563
Special event (net of direct costs \$69,258)	289,761	-	-	289,761
Loss on sale of assets	(1,628)	-	-	(1,628)
Investment income	27,518	2,316	-	29,834
Employee retention credit	2,764,304	-	-	2,764,304
American Rescue Plan funds	1,054,639	-	-	1,054,639
COVID relief funds	261,329	-	-	261,329
Miscellaneous	46,814	-	-	46,814
	<u>4,664,118</u>	<u>2,316</u>	<u>-</u>	<u>4,666,434</u>
	15,739,815	3,834,005	(875,000)	18,698,820
NET ASSETS RELEASED FROM RESTRICTIONS:				
Satisfaction of restrictions - unrestricted	87,700	349,505	-	437,205
Satisfaction of restrictions - restricted	(87,700)	(349,505)	-	(437,205)
	<u>15,739,815</u>	<u>3,834,005</u>	<u>(875,000)</u>	<u>18,698,820</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>15,739,815</u>	<u>3,834,005</u>	<u>(875,000)</u>	<u>18,698,820</u>
EXPENSES:				
Program services	11,288,986	308,173	-	11,597,159
General and administrative	1,167,719	228,998	-	1,396,717
Fundraising	456,341	1,169,593	(875,000)	750,934
TOTAL EXPENSES	<u>12,913,046</u>	<u>1,706,764</u>	<u>(875,000)</u>	<u>13,744,810</u>
CHANGES IN NET ASSETS	2,826,769	2,127,241	-	4,954,010
NET ASSETS AT BEGINNING OF YEAR	5,868,786	4,198,753	-	10,067,539
NET ASSETS AT END OF YEAR	<u>\$ 8,695,555</u>	<u>\$ 6,325,994</u>	<u>\$ -</u>	<u>\$ 15,021,549</u>