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CERTIFIED PUBLIC ACCOUNTANTS

NEXUS RECOVERY CENTER, INC.

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

August 31, 2024 and 2023

NEXUS RECOVERY CENTER, INC.
Combined Financial Statements and
August 31, 2024 and 2023

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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, 2024 and 2023 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, 2024 and 2023, 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



Farmers Branch, Texas
January 14, 2025

NEXUS RECOVERY CENTER, INC.
 Combined Statements of Financial Position
 August 31, 2024 and 2023

	2024	2023
ASSETS:		
Cash and cash equivalents	\$ 735,266	\$ 2,103,659
Restricted cash	7,213,317	-
Investments	29,292	1,457,139
Service fee receivables, net	1,090,975	823,639
Grant and other receivables	108,291	309,464
Pledges receivable, net	6,328,789	6,813,735
Prepaid and deferred expenses	162,869	130,061
Financing right-of-use assets, net	39,530	137,892
NRC Dallas Investment Fund, LLC note receivable	6,296,900	-
Fixed assets, net	6,132,539	4,228,055
TOTAL ASSETS	\$ 28,137,768	\$ 16,003,644
LIABILITIES:		
Accounts payable	\$ 266,781	\$ 176,935
Accrued liabilities	821,211	660,168
Financing right-of-use liabilities	39,368	144,991
Long-term debt, net	14,165,273	-
Total Liabilities	15,292,633	982,094
NET ASSETS:		
Without donor restrictions:		
Undesignated	3,669,852	4,927,753
Board-designated	2,574,847	2,574,847
Total without donor restrictions	6,244,699	7,502,600
With donor restrictions	6,600,436	7,518,950
Total Net Assets	12,845,135	15,021,550
TOTAL LIABILITIES AND NET ASSETS	\$ 28,137,768	\$ 16,003,644

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, 2024 and 2023

	<u>2024</u>			<u>2023</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:						
Contributions	\$ 1,387,653	\$ 892,267	\$ 2,279,920	\$ 1,533,828	\$ 3,646,500	\$ 5,180,328
United Way support	2,160	-	2,160	150,949	-	150,949
Volunteer services and donated items	538,955	185,189	724,144	585,321	185,189	770,510
	<u>1,928,768</u>	<u>1,077,456</u>	<u>3,006,224</u>	<u>2,270,098</u>	<u>3,831,689</u>	<u>6,101,787</u>
TREATMENT REVENUES:						
Managed care - behavioral health organizations	3,080,013	-	3,080,013	3,047,910	-	3,047,910
Texas Health and Human Services	3,544,508	-	3,544,508	2,855,553	-	2,855,553
Other state and local governmental contracts	226,148	-	226,148	163,512	-	163,512
Medicaid	877,632	-	877,632	1,272,267	-	1,272,267
Other funders, including self-pay	1,279,008	-	1,279,008	591,357	-	591,357
	<u>9,007,309</u>	<u>-</u>	<u>9,007,309</u>	<u>7,930,599</u>	<u>-</u>	<u>7,930,599</u>
OTHER REVENUES:						
Clinical Trials Network research fees	14,191	-	14,191	73,713	-	73,713
Lone Star Card/USDA Special Nutrition Programs	17,963	-	17,963	45,105	-	45,105
Daycare service fees	90,399	-	90,399	102,563	-	102,563
Special event (net of direct costs \$69,258)	(5,388)	-	(5,388)	289,761	-	289,761
Gain (loss) on sale of assets	2,000	-	2,000	(1,628)	-	(1,628)
Investment income	97,140	2,316	99,456	27,518	2,316	29,834
NTBHA infrastructure and workforce	297,030	-	297,030	-	-	-
American Rescue Plan funds	910,599	-	910,599	1,054,639	-	1,054,639
Employee retention credit	-	-	-	2,764,304	-	2,764,304
COVID relief funds	-	-	-	261,329	-	261,329
Miscellaneous	45,087	81,610	126,697	46,814	-	46,814
	<u>1,469,021</u>	<u>83,926</u>	<u>1,552,947</u>	<u>4,664,118</u>	<u>2,316</u>	<u>4,666,434</u>
TOTAL REVENUES BEFORE RELEASED	12,405,098	1,161,382	13,566,480	14,864,815	3,834,005	18,698,820
NET ASSETS RELEASED FROM RESTRICTIONS:						
Satisfaction of restrictions - purpose	3,298	(3,298)	-	318,587	(318,587)	-
Satisfaction of restrictions - capital expenditures	2,076,598	(2,076,598)	-	-	-	-
TOTAL REVENUES AFTER RELEASED	<u>14,484,994</u>	<u>(918,514)</u>	<u>13,566,480</u>	<u>15,183,402</u>	<u>3,515,418</u>	<u>18,698,820</u>
EXPENSES:						
Program services	12,880,971	-	12,880,971	11,597,159	-	11,597,159
General and administrative	1,986,886	-	1,986,886	1,396,717	-	1,396,717
Fundraising	875,038	-	875,038	750,934	-	750,934
TOTAL EXPENSES	<u>15,742,895</u>	<u>-</u>	<u>15,742,895</u>	<u>13,744,810</u>	<u>-</u>	<u>13,744,810</u>
CHANGE IN NET ASSETS	(1,257,901)	(918,514)	(2,176,415)	1,438,592	3,515,418	4,954,010
NET ASSETS AT BEGINNING OF YEAR	7,502,600	7,518,950	15,021,550	6,064,008	4,003,532	10,067,540
NET ASSETS AT END OF YEAR	<u>\$ 6,244,699</u>	<u>\$ 6,600,436</u>	<u>\$12,845,135</u>	<u>\$ 7,502,600</u>	<u>\$ 7,518,950</u>	<u>\$15,021,550</u>

See accompanying notes and independent auditor's report.

NEXUS RECOVERY CENTER, INC.
 Combined Statements of Functional Expense
 Years Ended August 31, 2024 and 2023

	Year Ended August 31, 2024				Year Ended August 31, 2023			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 6,644,688	\$ 1,015,080	\$ 700,968	\$ 8,360,736	\$ 5,730,635	\$ 761,955	\$ 425,664	\$ 6,918,254
Benefits	1,961,815	325,653	63,220	2,350,688	1,667,186	253,482	57,577	1,978,245
Professional fees	732,441	376,871	19,067	1,128,379	1,405,558	153,165	136,981	1,695,704
Supplies and food	1,377,368	82,515	6,372	1,466,255	995,521	66,007	2,158	1,063,686
Building, grounds, vehicles	497,451	10	-	497,461	394,361	12,846	252	407,459
Depreciation and amortization	425,791	24,285	4,333	454,409	502,677	51,092	15,934	569,703
Uncollectible accounts	517,741	-	-	517,741	282,071	-	39,392	321,463
Other client costs	387,944	905	644	389,493	320,056	-	175	320,231
Telephone/utilities/rent	237,565	16,322	204	254,091	251,165	15,328	501	266,994
Miscellaneous	68,960	96,335	56,017	221,312	1,223	28,666	37,188	67,077
Interest	3,563	1,887	641	6,091	23,256	12,685	6,342	42,283
Postage/printing/publications	(11,788)	6,927	19,759	14,898	9,748	18,342	23,307	51,397
Travel/training/meetings	37,432	40,096	3,813	81,341	13,702	23,149	5,463	42,314
TOTAL EXPENSES	<u>\$ 12,880,971</u>	<u>\$ 1,986,886</u>	<u>\$ 875,038</u>	<u>\$ 15,742,895</u>	<u>\$ 11,597,159</u>	<u>\$ 1,396,717</u>	<u>\$ 750,934</u>	<u>\$ 13,744,810</u>

See accompanying notes and independent auditor's report.

NEXUS RECOVERY CENTER, INC.
 Combined Statements of Cash Flows
 Years Ended August 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,176,415)	\$ 4,954,010
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	466,490	447,752
Proceeds from capital contributions restricted for long-term fixed asset purchases	-	(750,000)
Non-cash interest and dividends reinvested	60,149	(24,255)
Gain on investments	(123,393)	(5,756)
(Gain) loss on sale of fixed assets	(2,000)	1,628
Changes in assets and liabilities:		
Service fees receivable	(267,336)	22,368
Grant fees receivable	201,173	(8,070)
Pledges receivable	484,946	(2,163,680)
Prepaid and deferred expenses	(32,808)	(14,978)
Accounts payable and accrued liabilities	256,004	104,924
Net cash (used in) provided by operating activities	(1,133,190)	2,563,943
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(2,271,738)	(450,921)
Proceeds from sale of investments	1,491,091	165,791
Purchase of investments	-	(1,100,000)
Net cash used in investing activities	(780,647)	(1,385,130)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from capital contributions restricted for long-term fixed asset purchases	-	750,000
Borrowings on long-term debt	14,170,000	(475,000)
Loan costs incurred	(5,602)	-
Loan to NRC Dallas Investment Fund, LLC	(6,296,900)	-
Payments on financing right-of-use liabilities	(108,737)	(102,384)
Net cash provided by financing activities	7,758,761	172,616
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,844,924	1,351,429
CASH, CASH EQUIVALENTS AND RESTRICTED AT BEGINNING OF YEAR	2,103,659	752,230
CASH, CASH EQUIVALENTS, RESTRICTED AT END OF YEAR	\$ 7,948,583	\$ 2,103,659
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	\$ 258,129	\$ 42,283

See accompanying notes and independent auditor's report.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements
Years Ended August 31, 2024 and 2023

1. BUSINESS OVERVIEW

Organization and Combination

Nexus Recovery Center, Inc. (NRC), organized in 1971, is a Texas nonprofit corporation with residential and outpatient facilities located in Dallas, Texas. NRC's 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 Board of Directors consists of representatives from the business and civic communities and professional fields.

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 NRC. As of August 31, 2023, all assets and liabilities related to the Recovery Rising Capital Campaign (Note 2) and construction of the Doswell Medical Building have been transferred from NRC to the Foundation.

Nexus Recovery Real Estate Holdings (Holdings) was formed as a separate 501c3 supporting organization effective November 29, 2023. The purpose of Holdings is to support the operations of NRC.

Combined financial statements are presented, as NRC has controlling interests in the Foundation and Holdings through board member appointment. The combined financial statements include the accounts of NRC, the Foundation and Holdings (together, Nexus). All significant inter-organizational transactions and balances have been eliminated.

New Markets Tax Credit (NMTC)

Holdings is a Qualified Active Low-Income Community Business (QALICB) in accordance with the terms under the New Markets Tax Credit (NMTC) program, pursuant to Section 45D of the Internal Revenue Code (IRC). Nexus is required to comply with the various rules and regulations of the NMTC program and failure to comply with these or other requirements could result in the recapture of NMTCs already taken by Truist Community Capital, LLC. Under the NMTC program, Holdings obtained NMTC incentivized financing from DDF Xray, LLC and TCDE 119, LLC to construct the Doswell Medical Building located at 8733 La Prada Drive, Dallas, Texas (the Doswell Project).

Foundation executed a note receivable with NRC Dallas Investment Fund, LLC on March 13, 2024 in conjunction with the NMTC and the Doswell Project (Note 4).

Holdings executed loans payable with DDF Xray, LLC (DDF) and TCDE 119, LLC (TCDE) on March 13, 2024 in conjunction with the NMTC and the Doswell Project (Note 9).

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2024 and 2023

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 Accounting – 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 credit losses, 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.

Restricted Cash – Cash and cash equivalents held by Holdings for use with the NMTC project.

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, restricted cash, pledge receivables, accounts receivable, accounts payable and accrued expenses approximate fair market value at August 31, 2024 and 2023, 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, restricted cash, 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, 2024 and 2023

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.

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) contracts 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 contracts 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.

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.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Uncollectible Accounts – An allowance for credit losses related to service fee receivables was established in order to record the receivables at their estimated net realizable value. Nexus uses the reserve method to account for the allowance for credit losses related to service fee receivables. 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, 2024 and 2023, \$115,733 and \$71,811 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, 2024 or 2023.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2024 and 2023

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, 2024 or 2023.

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.

Income Taxes – NRC, Foundation and Holdings are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as organizations described in Section 501(c)(3) of the IRC. NRC, Foundation and Holdings file separate annual Form 990's.

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, 2024 or 2023.

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 statements of activities and changes in net assets for the years ended August 31, 2024 or 2023. Generally, three years from the filing date remain open for examination.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 and for the year ended August 31, 2023.

On June 16, 2016, the FASB issued ASU 2016-13, **Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments**, which replaces the incurred loss impairment methodology with an expected loss methodology referred to as the “current expected credit losses” (CECL) model. This model requires organizations to estimate credit losses immediately upon exposure and applies to financial assets measured at amortized cost including loans and trade receivables. On November 15, 2019, the FASB issued ASU 2019-10, deferring the effective date for ASU 2016-13 to annual periods beginning after December 15, 2022. Nexus adopted this ASU during the year ended August 31, 2024 with no additional credit loss estimated.

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, 2024, approximately \$8.9 million has been raised towards the Recovery Rising campaign and approximately \$2 million 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, 2024 and 2023

3. PLEDGES RECEIVABLE

Net pledges receivable consisted of the following at August 31:

	2024		
	<1 Year	>1 <5 Years	Total
Pledges receivable	\$5,632,026	\$1,001,700	\$ 6,633,726
Allowance	(168,960)	(30,051)	(199,011)
Discount	-	(105,926)	(105,926)
Net pledges receivable	\$5,463,066	\$ 865,723	\$ 6,328,789
	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	\$4,887,301	\$1,926,434	\$ 6,813,735

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 2024 and 2023, the assigned rate for new pledges was 2%.

4. NRC DALLAS INVESTMENT FUND, LLC NOTE RECEIVABLE

Foundation executed a \$6,296,900 note receivable with NRC Dallas Investment Fund, LLC on March 13, 2024 in conjunction with the NMTC and the Project. Interest is at 1% and maturity is December 1, 2054. Interest only payments in arrears are due annually beginning December 15, 2024 through December 15, 2031. Thereafter, principal and interest payments are due annually through December 15, 2054.

5. LIQUIDITY

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

	2024	2023
Cash and cash equivalents	\$ 7,948,583	\$ 2,103,659
Service fee receivables, net	1,090,975	785,217
Grant and other receivables	108,291	347,886
Pledges receivable-current, net	5,463,066	4,887,301
Investments	29,292	1,457,139
Financial assets available at year end	14,640,207	9,581,202
Less those unavailable for general expenditures within one year, due to:		
Time or purpose restrictions	(6,600,436)	(7,518,950)
Board designation-operating	(2,241,761)	(2,241,761)
Board designation-capital	(333,086)	(333,086)
Financial assets available to meet cash needs for general expenditures within one year	\$ 5,464,924	\$ (512,595)

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, 2024 and 2023

6. 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, 2024, the investments at SAMCO consist of \$29,292 in money market mutual funds and are considered Level 1. At August 31, 2023, all investments at brokerages (Fidelity and SAMCO) consist of \$1,457,139 in money market mutual funds and are considered Level 1.

7. FIXED ASSETS

Fixed assets consisted of the following at August 31:

	<u>2024</u>	<u>2023</u>
Land	\$ 221,751	\$ 221,751
Buildings	5,251,671	5,278,109
Building improvements	1,119,989	1,104,907
Furniture, fixtures and equipment	1,241,686	1,102,657
Vehicles	224,731	242,231
Construction in progress	2,281,667	137,600
	<u>10,341,495</u>	<u>8,087,256</u>
Less: accumulated depreciation	<u>(4,208,956)</u>	<u>(3,859,201)</u>
	<u>\$ 6,132,539</u>	<u>\$ 4,228,055</u>

Depreciation expense for the years ended August 31, 2024 and 2023 was \$367,253 and \$337,222, respectively.

The Doswell Project is under construction as of August 31, 2024. Of the projected total cost of approximately \$9.3 million, approximately \$6.3 million commitment remains at August 31, 2024. The construction is expected to be completed in April 2025.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2024 and 2023

8. 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 1 year with a weighted average discount rate of 5.81%.

For the years ended August 31, 2024 and 2023, Nexus reported amortization expense of \$98,362 and \$110,530 related to these ROU assets, respectively. For the years ended August 31, 2024 and 2023, the Organization reported interest expense of \$6,090 and \$11,421 related to these ROU liabilities, respectively. The ROU assets related to the financing leases are as follows at August 31:

	2024	2023
Asset costs	\$ 374,654	\$ 374,654
Accumulated amortization	(335,124)	(236,762)
Net unamortized asset costs	\$ 39,530	\$ 137,892

The ROU liabilities at August 31, 2024 are payable in monthly principal and interest installments maturing through April 2026. Maturities for the ROU liability are as follows:

For the years ending August 31,		
2025		\$ 30,232
2026		10,030
		40,262
Less interest		(894)
Total		\$39,368

As part of the NMTC program, certain intercompany leases were implemented related to property and equipment. Financing right-of-use assets and liabilities aggregating \$369,700 were the result of these intercompany leases. This is eliminated upon combination.

9. LONG-TERM DEBT

Holdings executed two loans payable with DDF on March 13, 2024, in the amounts of \$4,928,700 (DDF Note A) and \$1,931,300 (DDF Note B) in conjunction with the NMTC and the Project (Note 1). The loans are secured by collateral as defined in the credit agreement. Commencing December 1, 2024, annual payments of interest-only are due through and including December 1, 2031 on DDF Note A and on DDF Note B. An additional payment of interest shall be due on March 13, 2031 on DDF Note A and DDF Note B. Commencing December 1, 2032, annual payments of principal and interest shall be due on DDF Note A and DDF Note B until maturity on December 1, 2058, at which time all outstanding principal and accrued interest shall be due.

Holdings executed two loans payable with TCDE on March 13, 2024, in the amounts of \$1,368,200 (TCDE Note A) and \$631,800 (TCDE Note B) in conjunction with the NMTC and the Project (Note 1). The loans are secured by collateral as defined in the credit agreement.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2024 and 2023

9. LONG-TERM DEBT - CONTINUED

Commencing December 1, 2024, annual payments of interest-only are due through and including December 1, 2031 on TCDE Note A and on TCDE Note B. An additional payment of interest shall be due on March 13, 2031 on TCDE Note A and TCDE Note B. Commencing December 1, 2032, annual payments of principal and interest shall be due on TCDE Note A and TCDE Note B until maturity on December 1, 2058, at which time all outstanding principal and accrued interest shall be due. Holdings shall also pay the lender an annual asset management fee of \$2,500, payable annually.

Foundation entered into a construction loan with Frost Bank for \$5,310,000 on March 3, 2024. Interest at the one-month SOFR (5.35% at August 31, 2024) plus 2.15% is due and payable monthly. Principal is due in full at maturity on March 12, 2027.

Debt consists of the following at August 31:

	2024
DDF Note A	\$ 4,928,700
DDF Note B	1,931,300
TCDE Note A	1,368,200
TCDE Note B	631,800
Frost Loan	5,310,000
	14,170,000
Unamortized loan costs	(4,727)
	\$14,165,273

10. 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:

	2024	2023
Food, clothing, diapers	\$ 380,600	\$ 177,682
Medical and dental services	235,450	268,834
Client care interns	59,685	122,430
Professional services	-	197,389
Other services	48,409	4,175
Total	\$ 724,144	\$ 770,510

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.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2024 and 2023

11. 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.

During the year ended August 31, 2024, Nexus received \$910,599 from the American Rescue Plan funds. Nexus received certain related federal government funding during the year ended August 31, 2023. These included \$2,764,304 from the employee retention credit, \$1,054,639 from the American Rescue Plan, and \$261,329 from COVID relief funds.

12. 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:

	2024	2023
Operating reserve	\$2,241,761	\$2,241,761
Capital asset reserve	333,086	333,086
	\$2,574,847	\$2,574,847

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with temporary restrictions consisted of the following:

	August 31,	
	2024	2023
Recovery Rising capital campaign	\$ 6,574,902	\$ 7,515,118
Housing	25,000	-
Children’s center windows	-	1,915
Clients’ garden	-	1,383
Other	534	534
	\$ 6,600,436	\$ 7,518,950

14. 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.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2024 and 2023

15. CONTINGENCIES

Nexus is involved from time to time in certain legal actions arising from normal business activities. For the years ended, August 31, 2024 and 2023, 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.

16. 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 \$101,227 and \$73,888, respectively, for the years ended August 31, 2024 and 2023 which are included in benefits expense in the combined statements of functional expenses.

17. RELATED PARTY TRANSACTIONS

During the years ended August 31, 2024 and 2023, board members contributed approximately \$660,000 and \$536,000, respectively.

18. CONCENTRATIONS

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

	As of and for Year Ended August 31,	
	2024	2023
HHSC receivable	27%	13%
NTBHA receivable	13%	45%
HHSC revenue	26%	15%
NTBHA revenue	21%	13%

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.

NEXUS RECOVERY CENTER, INC.
Notes to Combined Financial Statements - Continued
Years Ended August 31, 2024 and 2023

19. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 14, 2025, which is the date the financial statements were available to be issued. Management has raised an additional \$2.15 million towards the Recovery Rising campaign. Additionally, Nexus was awarded approximately \$2 million from Texas Health and Human Services through SB26 Supporting Mental Health and Resiliency in Texas (SMART) Innovation Grant program. The grant covers costs associated with the Nexus Child Development Center, children's clinical services, children's specialty therapies, and pregnant and parenting women with children (PPWC) program, for the period September 1, 2024, through August 31, 2025.

SUPPLEMENTAL INFORMATION

NEXUS RECOVERY CENTER, INC.
Combining Statement of Financial Position
August 31, 2024

	<u>Nexus</u>	<u>Foundation</u>	<u>Holdings</u>	<u>Eliminating Entries</u>	<u>Combined</u>
ASSETS:					
Cash and cash equivalents	\$ 634,602	\$ 100,701	\$ (37)	\$ -	\$ 735,266
Restricted cash	-	-	7,213,317	-	7,213,317
Investments	29,292	-	-	-	29,292
Service fee receivables, net	1,090,975	-	-	-	1,090,975
Grant and other receivables	782,125	29,386	-	(703,220)	108,291
Pledges receivable, net	805,684	5,523,105	-	-	6,328,789
Prepaid and deferred expenses	162,869	-	-	-	162,869
Interfund	4,519,515	-	-	(4,519,515)	-
Financing right-of-use assets, net	409,230	-	-	(369,700)	39,530
Net investment in lease	-	-	369,700	(369,700)	-
NRC Dallas Investment Fund note receivable	-	6,296,900	-	-	6,296,900
Fixed assets, net	323,682	3,690,000	2,118,857	-	6,132,539
TOTAL ASSETS	<u>\$ 8,757,974</u>	<u>\$ 15,640,092</u>	<u>\$ 9,701,837</u>	<u>\$ (5,962,135)</u>	<u>\$ 28,137,768</u>
LIABILITIES:					
Accounts payable	\$ 266,781	\$ -	\$ -	\$ -	\$ 266,781
Accrued liabilities	545,312	711,837	267,282	(703,220)	821,211
Interfund	-	4,314,446	205,069	(4,519,515)	-
Financing right-of-use liabilities	409,068	-	-	(369,700)	39,368
Long-term debt, net	-	5,305,273	8,860,000	-	14,165,273
Total Liabilities	<u>1,221,161</u>	<u>10,331,556</u>	<u>9,332,351</u>	<u>(5,592,435)</u>	<u>15,292,633</u>
NET ASSETS:					
Without donor restrictions:					
Undesignated	4,936,432	(1,266,366)	369,486	(369,700)	3,669,852
Board-designated	2,574,847	-	-	-	2,574,847
Total without donor restrictions	7,511,279	(1,266,366)	369,486	(369,700)	6,244,699
With donor restrictions	25,534	6,574,902	-	-	6,600,436
Total Net Assets	<u>7,536,813</u>	<u>5,308,536</u>	<u>369,486</u>	<u>(369,700)</u>	<u>12,845,135</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,757,974</u>	<u>\$ 15,640,092</u>	<u>\$ 9,701,837</u>	<u>\$ (5,962,135)</u>	<u>\$ 28,137,768</u>

NEXUS RECOVERY CENTER, INC.
 Combined Statement of Activities and Changes in Net Assets
 Year Ended August 31, 2024

	<u>Nexus</u>	<u>Foundation</u>	<u>Holdings</u>	<u>Eliminating Entries</u>	<u>Combined</u>
GENERAL REVENUES AND OTHER SUPPORT:					
Contributions	\$ 884,112	\$ 2,270,808	\$ -	\$ (875,000)	\$ 2,279,920
United Way support	2,160	-	-	-	2,160
Volunteer services and donated items	538,955	185,189	-	-	724,144
	<u>1,425,227</u>	<u>2,455,997</u>	<u>-</u>	<u>(875,000)</u>	<u>3,006,224</u>
TREATMENT REVENUES:					
Managed care - behavioral health organizations	3,080,013	-	-	-	3,080,013
Texas Health and Human Services	3,544,508	-	-	-	3,544,508
Other state and local governmental contracts	226,148	-	-	-	226,148
Medicaid	877,632	-	-	-	877,632
Other funders, including self-pay	1,279,008	-	-	-	1,279,008
	<u>9,007,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,007,309</u>
OTHER REVENUES:					
Clinical Trials Network research fees	14,191	-	-	-	14,191
Lone Star Card/USDA Special Nutrition Programs	17,963	-	-	-	17,963
Daycare service fees	90,399	-	-	-	90,399
Special event (net of direct costs \$69,258)	(5,388)	-	-	-	(5,388)
Gain on sale of assets	2,000	-	-	-	2,000
Investment income	67,308	32,148	369,700	(369,700)	99,456
NTBHA infrastructure and workforce	297,030	-	-	-	297,030
American Rescue Plan funds	910,599	-	-	-	910,599
Miscellaneous	45,228	81,469	-	-	126,697
	<u>1,439,330</u>	<u>113,617</u>	<u>369,700</u>	<u>(369,700)</u>	<u>1,552,947</u>
TOTAL REVENUES BEFORE RELEASED	11,871,866	2,569,614	369,700	(1,244,700)	13,566,480
NET ASSETS RELEASED FROM RESTRICTIONS:					
Satisfaction of restrictions - purpose	3,298	(3,298)	-	-	-
Satisfaction of restrictions - capital expenditures	2,076,598	(2,076,598)	-	-	-
TOTAL REVENUES AFTER RELEASED	<u>13,951,762</u>	<u>489,718</u>	<u>369,700</u>	<u>(1,244,700)</u>	<u>13,566,480</u>
EXPENSES:					
Program services	12,779,981	100,990	-	-	12,880,971
General and administrative	1,943,346	918,326	214	(875,000)	1,986,886
Fundraising	387,176	487,862	-	-	875,038
TOTAL EXPENSES	<u>15,110,503</u>	<u>1,507,178</u>	<u>214</u>	<u>(875,000)</u>	<u>15,742,895</u>
CHANGE IN NET ASSETS	(1,158,741)	(1,017,460)	369,486	(369,700)	(2,176,415)
NET ASSETS AT BEGINNING OF YEAR	8,695,554	6,325,996	-	-	15,021,550
NET ASSETS AT END OF YEAR	<u>\$ 7,536,813</u>	<u>\$ 5,308,536</u>	<u>\$ 369,486</u>	<u>\$ (369,700)</u>	<u>\$ 12,845,135</u>