

Nexus Recovery Center, Inc. and Affiliates

**Consolidated Financial Statements
with Supplementary Information
August 31, 2025**



Nexus Recover Center, Inc. and Affiliates

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Independent Auditors' Report

To the Board of Directors of
Nexus Recovery Center, Inc. and Affiliates

Opinion

We have audited the accompanying consolidated financial statements of Nexus Recovery Center, Inc. and Affiliates (nonprofit organizations) (collectively, the Organization), which comprise the consolidated statement of financial position as of August 31, 2025, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of August 31, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization 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.

Correction of Error

As discussed in Note 2 to the consolidated financial statements, certain errors resulting in an understatement of net assets with donor restrictions and an overstatement of net asset without donor restrictions previously recorded as of August 31, 2024 were discovered by management of the Organization during the current year. Accordingly, these accounts as of September 1, 2024 have been restated to correct the errors. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 consolidated 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 consolidated 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 the Organization'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities are presented for purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



A Limited Liability Partnership

Arlington, Texas
February 24, 2026

Nexus Recovery Center, Inc. and Affiliates
Consolidated Statement of Financial Position
August 31, 2025

Current assets:	
Cash and cash equivalents	\$ 386,476
Restricted cash and cash equivalents	1,603,936
Pledges receivable	353,905
Other receivables	55,893
Grants receivable	823,064
Service fee receivables, net	661,285
Prepaid expenses	196,776
Investments	30,570
Total current assets	4,111,905
Noncurrent assets:	
Pledges receivable, net	697,998
Note receivable - new markets tax credit	6,296,900
Property and equipment, net	6,163,272
Right-of-use asset - finance lease, net	165,748
Assets restricted for capital campaign:	
Pledges receivable, net	3,280,863
Construction in progress	7,296,074
Total noncurrent assets	23,900,855
Total assets	\$ 28,012,760
Liabilities and Net Assets	
Current liabilities:	
Accounts payable	\$ 268,061
Accrued wages	399,723
Accrued expenses and other liabilities	1,689,254
Notes payable	1,090,000
Right-of-use liability - finance lease	42,795
Total current liabilities	3,489,833
Noncurrent liabilities:	
Notes payable, net	9,761,007
Right-of-use liability - finance lease, net	126,440
Total noncurrent liabilities	9,887,447
Total liabilities	13,377,280
Net assets:	
Net assets without donor restrictions	3,055,596
Net assets with donor restrictions	11,579,884
Total net assets	14,635,480
Total liabilities and net assets	\$ 28,012,760

See notes to consolidated financial statements.

Nexus Recovery Center, Inc. and Affiliates
Consolidated Statement of Activities
Year Ended August 31, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support:			
Contributions of financial assets	\$ 2,233,439	\$ 4,484,548	\$ 6,717,987
Contributions of nonfinancial assets	772,770	-	772,770
Program revenue	5,250,833	-	5,250,833
Government grants	5,486,318	-	5,486,318
Interest income	62,969	-	62,969
Investment income, net	19,071	-	19,071
United Way	482,776	-	482,776
Special events (net of direct costs of \$102,572)	154,066	-	154,066
Other income	91,540	-	91,540
Total operating revenues and support	14,553,782	4,484,548	19,038,330
Operating expenses:			
Program services	13,665,263	-	13,665,263
Management and general	2,684,961	-	2,684,961
Fundraising	1,068,947	-	1,068,947
Total operating expenses	17,419,171	-	17,419,171
Excess (deficit) of operating revenue support over operating expenses	-	-	-
	(2,865,389)	4,484,548	1,619,159
Non-operating income:			
Other income	171,186	-	171,186
Total non-operating income	171,186	-	171,186
Change in net assets	(2,694,203)	4,484,548	1,790,345
Net assets at beginning of year, as restated	5,749,799	7,095,336	12,845,135
Net assets at end of year	\$ 3,055,596	\$ 11,579,884	\$ 14,635,480

See notes to consolidated financial statements.

Nexus Recovery Center, Inc. and Affiliates
Consolidated Statement of Functional Expenses
Year Ended August 31, 2025

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and benefits	\$ 9,935,628	\$ 1,332,076	\$ 829,587	\$ 12,097,291
Building, grounds and vehicles	516,490	86,400	92	602,982
Credit loss	458,029	-	45,735	503,764
Depreciation	38,541	260,211	66,227	364,979
Insurance	77,687	-	-	77,687
Miscellaneous	6,114	113,206	4,827	124,147
Organization dues	14,705	15,799	2,273	32,777
Other client costs	389,679	-	-	389,679
Postage and printing	2,847	8,576	32,585	44,008
Professional fees	757,965	538,267	6,211	1,302,443
Public relations	177	11,125	64,113	75,415
Special event expense	-	-	102,572	102,572
Supplies and food	1,187,005	267,509	9,805	1,464,319
Telephone, utilities and rent	253,416	13,907	-	267,323
Travel and meetings	26,980	37,885	7,492	72,357
Total expenses	13,665,263	2,684,961	1,171,519	17,521,743
Less expenses included with revenues on the consolidated statement of activities:				
Direct costs of special events	-	-	(102,572)	(102,572)
Total expenses included in the expense section on the consolidated statement of activities	\$ 13,665,263	\$ 2,684,961	\$ 1,068,947	\$ 17,419,171

See notes to consolidated financial statements.

Nexus Recovery Center, Inc. and Affiliates
Consolidated Statement of Cash Flows
Years Ended August 31, 2025

Cash flows from operating activities:	
Change in net assets	\$ 1,790,345
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	364,979
Allowance for credit losses, service fee receivables	(44,803)
Amortization of right-of-use asset, financing lease	52,685
Amortization of debt issuance costs	1,867
Allowance for doubtful pledges receivable	8,392
Allowance for doubtful pledges receivable, capital campaign	(69,536)
Discount on long-term pledges receivable	25,111
Discount on long-term pledge receivables, capital campaign	(6,108)
Contributions restricted for capital campaign	(4,002,035)
Changes in assets and liabilities:	
Pledges receivable	(1,251,480)
Other receivables	(26,040)
Grants receivable	(679,715)
Service fee receivables	409,257
Prepaid expenses	(33,907)
Accounts payable	1,280
Accrued wages	(73,720)
Accrued expenses and other liabilities	(125,273)
Net cash used by operating activities	(3,658,701)
Cash flows from investing activities:	
Purchases of investments	(1,278)
Purchases of property and equipment	(6,224,702)
Net cash used by investing activities	(6,225,980)
Cash flows from financing activities:	
Collections of contributions restricted for capital campaign	7,291,679
Payments on right-of-use liability - financing lease	(49,036)
Payments on notes payable	(3,316,133)
Net cash provided by financing activities	3,926,510
Net change in cash and cash equivalents	(5,958,171)
Cash and cash equivalents at beginning of year	7,948,583
Cash and cash equivalents at end of year	\$ 1,990,412
Reconciliation of cash and cash equivalents and restricted cash and cash equivalents reported within the consolidated statement of financial position to the consolidated statement of cash flows:	
Cash and cash equivalents	\$ 386,476
Restricted cash and cash equivalents	1,603,936
Total cash and cash equivalents and restricted cash and cash equivalents reported in the consolidated statement of cash flows	\$ 1,990,412
Supplemental disclosure of cash flows information:	
Right-of-use asset obtained in exchange for financing lease liability	\$ 178,903
Noncash investing activity:	
Construction in progress accrued in accrued expenses and other liabilities	\$ 1,466,758

See notes to consolidated financial statements.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

1. Organization

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." NRC's board of directors consists of representatives from the business and civic communities and professional fields.

The Nexus Recovery Center Foundation (Foundation) was formed as a separate nonprofit supporting organization effective October 27, 2022. The purpose of the Foundation is to support the operations of NRC.

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

Consolidated financial statements are presented, as NRC has controlling interests in the Foundation and Holdings through board of directors member appointment. The consolidated financial statements include the accounts of NRC, the Foundation and Holdings (collectively, the Organization). The Organization is supported primarily through contracts, patient fees, public grants and contributions from individuals, corporations, other nonprofit organizations and where qualified, government contracts and grants.

New Markets Tax Credit (NMTC)

Holdings is a Qualified Active Low-Income Community Business (QALICB) in accordance with the terms under the New Market Tax Credits (NMTC) program, pursuant to Section 45D of the Internal Revenue Code (IRC). The Organization 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 the NMTC investor. Under the NMTC program, Holdings obtained NMTC incentivized financing from DDF Xray, LLC (DDF) and TCDE 119, LLC (TCDE) to construct the Doswell Medical Building located at 8733 La Prada Drive, Dallas, Texas (Doswell Project). DDF and TCDE are wholly or majority owned by NRC Dallas Investment Fund, LLC (NRC Dallas).

The Foundation executed a note receivable with NRC Dallas on March 13, 2024 in conjunction with the NMTC transaction and the Doswell Project (Note 7).

Holdings executed loans payable with DDF and TCDE on March 13, 2024 in conjunction with the NMTC transaction and the Doswell Project (Note 10).

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

2. Restatement of Previously Audited Consolidated Financial Statements

During 2025, the Organization became aware of an accounting error in its 2024 financial statements that was determined to be material and related to net assets with donor restrictions. The Organization's net assets as of September 1, 2024 were restated to account for time restricted net assets, resulting in an increase to net assets with donor restrictions and a decrease to net assets without donor restrictions of \$494,900 as of August 31, 2024.

3. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Consolidated Financial Statements

In accordance with the provisions of FASB ASC 958-810 *Not-for-Profit Entities/Consolidations*, the financial statements of NRC, the Foundation and Holdings have been consolidated and all inter-organization transactions and accounts have been eliminated.

Consolidated Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net assets with donor restrictions - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a board of directors approved spending policy. As of August 31, 2025, no such net asset restrictions existed.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed), are reported as reclassifications between the applicable classes of net assets. Contributions with donor-imposed restrictions that are met in the same year as the contributions were received are reported as net assets without donor restrictions. In the absence of donor restrictions to the contrary, restrictions on contributions of property and equipment or on assets restricted to acquiring property and equipment expire when the property or equipment is placed in service.

Financial Instruments and Credit and Market Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit and market risk consist principally of cash and cash equivalents, investments, grants receivable, pledges receivable and service fee receivables. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At August 31, 2025, the Organization's uninsured balances totaled \$1,459,089. The Organization has not experienced any losses on such assets.

For the year ended August 31, 2025, approximately 49% of contributions of financial assets for the Foundation was received from 3 donors.

As of August 31, 2025, approximately 78% of pledges receivable was due from four donors.

Grants Receivable

Grants receivable are unsecured and represent amounts due from government agencies and private grantors. The Organization continually evaluates the collectability of grants receivable and maintains allowances as necessary. No provision has been made for uncollectible grants receivable at August 31, 2025, given that none have been identified.

Pledges Receivable

Pledges receivable are recorded at the estimate fair value when made, are unsecured and are due from various donors. The Organization continually evaluates the collectability of pledges receivable and maintains an allowance for doubtful pledges receivable, if considered necessary. As of August 31, 2025, the allowance for doubtful pledges receivable totaled \$137,867.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

Service Fee Receivables and Other Receivables

Service fee receivables and other receivables are unsecured and consists of patient service fees and miscellaneous items. The collectability of the Organization's receivables is reviewed on an ongoing basis, using an assessment of the current status of individual accounts and current economic conditions. An allowance for credit losses is an estimate based upon historical account write-off trends, facts about the current financial condition of the debtor, forecasts of future operating results based upon current trends and macroeconomic factors. Credit quality is monitored through the timing of payments compared to payment terms and known facts regarding the financial condition of debtors. Service fee receivable and other receivables balances are charged off against the allowance for credit losses after recovery efforts have ceased. As of August 31, 2025, the allowance for credit loss totaled \$70,930.

Investments

At August 31, 2025, the Organization's investments in marketable securities consist of money market funds and are stated at fair value in the consolidated statement of financial position. Interest, dividends and realized and unrealized gains and losses are reported in the consolidated statement of activities as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with a maturity of three months or less when purchased. The Organization classifies cash and money market accounts held by external investment managers as investments as these funds are not readily available for operations.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represents cash held in separate accounts to be used for debt service, an operating reserve and payment of certain other expenses as required by the NMTC agreements.

Note Receivable – New Market Tax Credit

Management assesses the credit quality of the NMTC note based on indicators such as collateralization and collection experience. As of August 31, 2025, no allowance has been established.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

Assets Restricted for Capital Campaign

The Organization has a multi-year and multi-phase capital campaign, Recovery Rising, to raise fund to revitalize the campus, support operations and establish critically needed operating and capital reserves. As of August 31, 2025, the Organization has \$10,576,937 in assets restricted for the capital campaign.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at estimated fair market value at the date of the gift. Interest expense on debt issued for construction projects is capitalized until the project is placed in service. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of the assets. The useful lives used for depreciation are as follows:

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

Construction in progress is stated at cost, which relates to property and equipment not yet placed in service. Costs include professional fees and other predevelopment expenditures directly related to the construction of the Doswell Medical Building. No depreciation is recorded on construction in progress until such time the assets are completed and put into use.

Impairment of Long-Lived Assets

Management of the Organization periodically reviews the carrying value of its long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized to the extent fair value of a long-lived asset is less than the carrying amount. Fair value is determined based on the estimated future cash inflows attributable to the asset less estimated future cash outflows. No such loss was recognized during the year ended August 31, 2025.

Debt Issuance Costs

Debt issuance costs of \$5,602 are capitalized and expensed over the term of the related debt agreement. Accumulated amortization totaled \$2,742 at August 31, 2025. Related amortization expense for the year ended August 31, 2025 totaled \$1,867. Debt issuance costs are shown as a reduction of the carrying amount of the debt.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

Revenue Recognition

Program revenue consists of patient service fee revenue which is recognized as the Organization satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. The Organization determines the transaction price based on standard charges for goods and services provided, reduced by the contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with a sliding fee scale and implicit price concessions provided to uninsured patients.

A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position.

The Organization recognizes contributions when cash, securities or other assets or a pledge is received. Pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Special event revenue is recognized at the time of the event.

Donated goods are reflected as contributions at their estimated fair values at the time of receipt. Donated services meeting certain requirements (as defined by GAAP) are reported as contributions at the time of service is performed at the estimated fair value of the service.

Grants and Contracts

The Organization receives grants and contracts from federal and state agencies, as well as private organizations, to be used for specific programs. For government grants and contracts, the excess of reimbursable expenditures over cash receipts is included in grants receivable.

Advertising Costs

The Organization uses advertising to inform the public of its available services and programs. Advertising costs are expensed as incurred. Advertising costs for the year ended August 31, 2025 totaled \$28,440.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

Estimates and Assumptions

The preparation of consolidated financial statements in conformity with GAAP requires the Organization's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Allocation of Functional Expenses

The costs of providing the Organization's various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated between program services and supporting services based on managements' judgement considering space used, time spent on direct relation to the program or supporting service benefitted.

Federal Income Taxes

NRC, the Foundation and Holdings are recognized by the Internal Revenue Service as exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC). The Organization 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 the Organization qualify for deduction as charitable contributions. The Organization did not have any unrelated business income tax liability or expense for the year ended Augst 31, 2025. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax returns and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of August 31, 2025, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

4. Pledges Receivable

Pledges receivable consist of the following at August 31, 2025:

Due in one year or less	\$ 2,243,964
Due from one to five years	<u>2,351,598</u>
	4,595,562
Less: Discount to net present value	(124,929)
Allowance for doubtful pledges receivable	<u>(137,867)</u>
Pledges receivable, net	<u>\$ 4,332,766</u>

At August 31, 2025 the discount rate utilized in computing the discount was 3.35%.

5. Allowance for Credit Losses

An allowance for credit losses is an estimate based upon historical account write-off trends, facts about the current financial condition of the debtor, forecasts of future operating results based upon current trends and macroeconomic factors. Credit quality is monitored through the timing of payments compared to payment terms and known facts regarding the financial condition of debtors. Account receivable balances are charged off against the allowance for credit losses after recovery efforts have ceased. The Organization had the following activity for its allowance for credit losses for service fee receivables for the year ended August 31, 2025:

Beginning balance	\$ 115,733
Provision for expected credit losses	<u>(44,803)</u>
Ending balance	<u>\$ 70,930</u>

6. New Market Tax Credit Transaction

To partially fund the construction of a building, the Organization entered into a NMTC financing agreement. The NMTC program is designed to spur new or increased investments into operating businesses and real estate projects located in low-income communities by offering investors a federal tax credit in exchange for the investments. To earn the tax credit, the NTMC investor must remain invested for a seven-year period, which will end in 2031 for the Organization's project.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

7. Note Receivable - NMTC

The Foundation executed a \$6,296,900 note receivable with NRC Dallas on March 13, 2024 in conjunction with the NMTC transaction and the Doswell 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. The note receivable is collateralized by a security interest in the membership interests of DDF and TCDE. The balance due to the Organization at August 31, 2025 totaled \$6,296,900.

Interest income on the note receivable – NMTC totaled \$62,969 for the year ended August 31, 2025.

8. Investments

Under the Fair Value Measurements and Disclosures topic of the Codification, ASC 820, disclosures are required about how fair value is determined for assets and liabilities and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. |
| Level 2 | Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies. |
| Level 3 | Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates or assumptions related to the pricing of the asset or liability including assumptions regarding risk. |

A financial instrument's level within the fair value hierarchy is based on the lowest of any input that is significant to the fair value measurement.

Money Market Funds

These funds are valued using \$1 for the net asset value which is classified within level 1 of the fair value hierarchy. The Organization's investments consists 100% of funds held in the Dreyfus Treasury Obligations Cash Management Fund totaling \$30,570 at August 31, 2025.

Investment income consists of interest and dividends totaling \$19,071.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

9. Property and Equipment

Property and equipment consist of the following at August 31, 2025:

Land	\$ 221,751
Building and improvements	6,042,034
Equipment	1,796,043
Construction in progress	<u>9,973,451</u>
	18,033,279
Less accumulated depreciation	<u>(4,573,933)</u>
Property and equipment, net	<u>\$ 13,459,346</u>

Depreciation expense totaled \$364,979 for the year ended August 31, 2025.

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, 2025, approximately \$9.9 million has been spent on construction in progress for design services and pre-construction costs. The construction was completed and the asset was placed in service in September 2025.

10. Long-Term Debt

New Market Tax Financing

The Organization 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 transaction and the Doswell 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.

The Organization 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 transaction and the Doswell Project (Note 1). The loans are secured by collateral as defined in the credit

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

agreement. 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.

The Organization entered into a construction loan with a bank for \$5,310,000 on March 3, 2024. Interest at the one-month SOFR (4.34% at August 31, 2025) plus 2.15% is due and payable monthly. Principal is due in full at maturity on March 12, 2027. At August 31, 2025 the balance outstanding on the loan totaled \$1,993,867.

The NMTCs were allocated in this transaction pursuant to Section 45D of the IRC. After the 7-year NMTC compliance period expires, it is anticipated that the NMTC investor will exercise its put option to sell its ownership interest in NRC Dallas to the Organization for \$1,000. If the NMTC investor does not exercise that put option, then the put and call agreement allows the Organization to exercise a call option to purchase the interest in NRC Dallas at an appraised fair value. Immediately after the exit transactions are completed, the Organization will be the holder of NRC Dallas' note payable and, as such the loan will be eliminated in the consolidated financial statements. It is anticipated that the loans will be discharged.

Future minimum principal payments on long-term debt are as follows for the years ending August 31:

2026		\$ 1,090,000
2027		903,867
2028		-
2029		-
2030		-
Thereafter		<u>8,860,000</u>
		<u>\$ 10,853,867</u>

During the year ended August 31, 2025, total capitalized interest expense totaled \$589,898, of which \$337,860 was capitalized in the current year, and is included in construction in progress on the consolidated statement of financial position.

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11. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at August 31, 2025:

Subject to the passage of time:	
Pledges receivable, net	\$ 977,413
Subject to the passage of time and specified purpose:	
Recovery Rising capital campaign	3,450,475
Subject to expenditure for specified purpose:	
Recovery Rising capital campaign	7,126,462
Housing	25,000
Other	534
	<u>\$ 11,579,884</u>

12. Contributions of Nonfinancial Assets

The Organization received the following contributions of nonfinancial assets during the year ended August 31, 2025:

Goods	\$ 385,017
Services	387,753
	<u>\$ 772,770</u>

Goods

Donated goods were valued at their estimated fair values based on the fair market rates for similar goods.

Services

Donated services were valued at their estimated fair values based on the fair market rates for similar services.

There were no donor restrictions on the contributions of nonfinancial assets during the year ended August 31, 2025. All contributions of nonfinancial assets were used towards program services for the year ended August 31, 2025.

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Notes to the Consolidated Financial Statements

13. Leases

In evaluating its contracts, the Organization separately identifies lease and nonlease components, such as common area and other maintenance costs, in calculating the right-of-use (ROU) asset and lease liability for its office space. The Organization has elected the practical expedient to not separate lease and nonlease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the nonlease component.

Leases result in the recognition of ROU assets and lease liabilities on the consolidated statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization uses the implicit rate when readily determinable. As the lease does not provide an implicit rate, the Organization uses the risk-free rate based on the information available at the commencement date to determine the present value of lease payments. Risk-free rates used to determine the present value of lease payments was derived by reference to the interest paid on short-term government debt.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term. The Organization has elected not to record leases with an initial term of 12 months or less on the consolidated statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Related Party Leases

The Organization has entered into lease arrangements with Holdings for premises used in operations that expire at various dates through 2031. These leases generally contain renewal options and require the Organization to pay all executory costs (property taxes, maintenance and insurance). All transactions related to this operating lease were fully eliminated in consolidation for the year ended August 31, 2025.

Nexus Recovery Center, Inc. and Affiliates
Notes to the Consolidated Financial Statements

Future minimum lease payments on related party lease that eliminates in consolidation are as follows for the years ending August 31:

2026	\$	54,000
2027		72,000
2028		72,000
2029		72,000
2030		72,000
Thereafter		152,000
Total future undiscounted lease payments		494,000
Less present value discount		(144,060)
Lease liability	\$	349,940

The following includes lease cost and other required information on the related party lease that eliminates in consolidation for the year ended August 31, 2025:

Total lease cost	\$	39,611
Other information:		
Cash paid for amounts included in the measurement of lease liability:		
Operating cash flows from lease	\$	(52,814)
Weighted-average remaining lease term		6.25 years
Weighted-average discount rate		7.48%

Nature of Financing Lease

The Organization has entered into a lease arrangement for equipment use that dates through 2030. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

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Notes to the Consolidated Financial Statements

Future minimum lease payments and reconciliations to the consolidated statement of the financial position for the years ended August 31 are as follows:

2026	\$	49,041
2027		39,780
2028		39,780
2029		39,780
2030		<u>16,575</u>
Total future undiscounted lease payments		184,956
Less present value discount		<u>(15,721)</u>
Lease liability	\$	<u><u>169,235</u></u>

The following represents lease cost and required information for the year ended August 31, 2025:

Total lease cost	\$	<u><u>36,435</u></u>
Other information:		
Cash paid for amounts included in the measurement of lease liability:		
Financing cash flows from lease	\$	<u><u>(49,036)</u></u>
Right-of-use asset obtained in exchange for new lease liability	\$	<u><u>178,903</u></u>
Weighted-average remaining lease term		<u><u>4.21 years</u></u>
Weighted-average discount rate		<u><u>4.22%</u></u>

14. Employee Thrift Plan

The Organization 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, the Organization matches amounts contributed by each participant (a maximum of 3% of each participant's annual compensation). Participants must be employed at the Organization for three years before employer contributions vest. Under this plan, the Organization incurred expenses of \$150,578 for the year ended August 31, 2025 which are included in benefits expense in the consolidated statement of functional expenses.

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Notes to the Consolidated Financial Statements

15. Contingencies

The Organization is involved from time to time in certain legal actions arising from normal business activities. For the year ended August 31, 2025, there are no such legal actions that require disclosure.

The Organization 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.

16. Related Party Transactions

The Organization has \$126,111 due from board members and employees reported in pledges receivable in the accompanying consolidated financial statements.

17. Liquidity and Availability of Resources

The following table reflects the Organization's financial assets as of August 31, 2025 that are available to meet general expenditures within one year of the consolidated statement of financial position date:

Cash and cash equivalents	\$ 386,476
Pledges receivable	353,905
Other receivables	55,893
Grants receivable	823,064
Service fee receivable	661,285
Investments	<u>30,570</u>
Total financial assets	2,311,193
Less amounts not available for general expenditures within one year due to:	
Donor-imposed purpose and time restrictions	<u>(25,534)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,285,659</u>

The Organization strives to maintain liquid financial assets sufficient to cover general expenditures for a reasonable period of time. Donor restrictions for purposes related to the Organization's ongoing and central programs are considered available for general expenditure.

Nexus Recovery Center, Inc. and Affiliates

Notes to the Consolidated Financial Statements

18. Subsequent Events

Construction on Phase I of the Recovery Rising campaign was completed on September 1, 2025 and the Doswell Medical Building was placed in service.

Public fee for service contracts, which are federal block grants passed through the State of Texas and regional health authority that fund indigent treatment, were changed for the FY26 - FY30 grant period. The contract changes could result in decreased indigent funding of up to \$1.5 million annually. Management will make both budgeting and programming changes to mitigate any deficits in indigent public funding.

Management has evaluated subsequent events through February 24, 2026, the date which the consolidated financial statements were available to be issued, and concluded that no additional disclosures are required.

Supplementary Information

Nexus Recovery Center, Inc. and Affiliates
Consolidating Statement of Financial Position
August 31, 2025

	Recovery Center	Foundation	Holdings	Eliminations	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 259,106	\$ 125,458	\$ 1,912	\$ -	\$ 386,476
Restricted cash and cash equivalents	-	-	1,603,936	-	1,603,936
Pledges receivable	353,905	-	-	-	353,905
Other receivables	1,494,648	47,227	-	(1,485,982)	55,893
Grants receivable	531,460	291,604	-	-	823,064
Service fee receivables, net	661,285	-	-	-	661,285
Prepaid expenses	196,776	-	-	-	196,776
Investments	30,570	-	-	-	30,570
Total current assets	3,527,750	464,289	1,605,848	(1,485,982)	4,111,905
Noncurrent assets:					
Pledges receivable, net	697,998	-	-	-	697,998
Notes receivable - new markets tax credit	-	6,296,900	-	-	6,296,900
Property and equipment, net	212,009	3,963,205	1,988,058	-	6,163,272
Net investment in lease	-	-	369,700	(369,700)	-
Right-of-use asset - operating lease, net	330,089	-	-	(330,089)	-
Right-of-use asset - finance lease, net	165,748	-	-	-	165,748
Assets restricted for capital campaign:					
Pledge receivables, net	-	3,280,863	-	-	3,280,863
Construction in progress	-	-	7,296,074	-	7,296,074
Total noncurrent assets	1,405,844	13,540,968	9,653,832	(699,789)	23,900,855
Total assets	\$ 4,933,594	\$ 14,005,257	\$ 11,259,680	\$ (2,185,771)	\$ 28,012,760
Liabilities and Net Assets (Deficit)					
Current liabilities:					
Accounts payable	\$ 268,061	\$ -	\$ -	\$ -	\$ 268,061
Accrued wages	388,691	11,032	-	-	399,723
Accrued expenses and other liabilities	89,088	1,485,982	1,600,166	(1,485,982)	1,689,254
Notes payable	-	1,090,000	-	-	1,090,000
Right-of-use liability - finance lease	42,795	-	-	-	42,795
Intercompany payables (receivables)	(2,910,603)	2,463,624	446,979	-	-
Total current liabilities	(2,121,968)	5,050,638	2,047,145	(1,485,982)	3,489,833
Noncurrent liabilities:					
Notes payable, net	-	901,007	8,860,000	-	9,761,007
Right-of-use liability - operating lease, net	349,940	-	-	(349,940)	-
Right-of-use liability - finance leases, net	126,440	-	-	-	126,440
Total noncurrent liabilities	476,380	901,007	8,860,000	(349,940)	9,887,447
Total liabilities	(1,645,588)	5,951,645	10,907,145	(1,835,922)	13,377,280
Net assets (deficit):					
Net assets without donor restrictions	5,576,235	(2,523,325)	352,535	(349,849)	3,055,596
Net assets with donor restrictions	1,002,947	10,576,937	-	-	11,579,884
Total net assets (deficit)	6,579,182	8,053,612	352,535	(349,849)	14,635,480
Total liabilities and net assets (deficit)	\$ 4,933,594	\$ 14,005,257	\$ 11,259,680	\$ (2,185,771)	\$ 28,012,760

See independent auditors' report.

Nexus Recovery Center, Inc. and Affiliates
Consolidating Statement of Activities
Year Ended August 31, 2025

	Recovery Center	Foundation	Holdings	Eliminations	Consolidated Total
Operating revenue and support:					
Contributions of financial assets	\$ 3,157,794	\$ 1,075,645	\$ -	\$ (2,000,000)	\$ 2,233,439
Contributions of nonfinancial assets	772,770	-	-	-	772,770
Program revenue	5,250,833	-	-	-	5,250,833
Government grants	5,486,318	-	-	-	5,486,318
Interest income	-	62,969	-	-	62,969
Investment income	15,922	3,149	-	-	19,071
United Way	482,776	-	-	-	482,776
Special events (net of direct costs of \$102,572)	189,240	(35,174)	-	-	154,066
Other income	91,540	-	-	-	91,540
Total operating revenues and support	15,447,193	1,106,589	-	(2,000,000)	14,553,782
Operating expenses:					
Program services	13,665,263	-	-	-	13,665,263
Management and general	2,384,918	2,302,943	16,951	(2,019,851)	2,684,961
Fundraising	508,342	560,605	-	-	1,068,947
Total operating expenses	16,558,523	2,863,548	16,951	(2,019,851)	17,419,171
Deficit of operating activity	(1,111,330)	(1,756,959)	(16,951)	19,851	(2,865,389)
Non-operating income:					
Other income	171,186	-	-	-	171,186
Total non-operating income	171,186	-	-	-	171,186
Increase (decrease) in net assets without donor restrictions	(940,144)	(1,756,959)	(16,951)	19,851	(2,694,203)
Changes in net assets with donor restrictions					
Contributions	482,513	4,002,035	-	-	4,484,548
Increase in net assets with donor restrictions	482,513	4,002,035	-	-	4,484,548
Change in net assets	(457,631)	2,245,076	(16,951)	19,851	1,790,345
Net assets (deficit) at beginning of year, as restated	7,036,813	5,808,536	369,486	(369,700)	12,845,135
Net assets (deficit) at end of year	\$ 6,579,182	\$ 8,053,612	\$ 352,535	\$ (349,849)	\$ 14,635,480

See independent auditors' report.