

GERARD
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

GERARD

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Gerard
Golden Valley, MN

We have audited the accompanying consolidated statement of financial position of Gerard (an unconsolidated wholly owned subsidiary of Nexus) as of December 31, 2009 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Gerard management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, Gerard is a wholly owned subsidiary of Nexus. Accounting principles generally accepted in the United States of America require consolidation of Gerard with its parent company Nexus. Our opinion is the omitted consolidated information would significantly influence the user's conclusions about the financial position, changes in net assets and cash flows of Gerard. We have issued our report on the consolidated financial statements of Nexus dated March 24, 2010. These financial statements should be read in conjunction with that report.

In our opinion, except for the effect of not consolidating with its parent company as explained above, the Gerard consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gerard as of December 31, 2009, the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Messerli & Schadow, PLLP

MESSERLI & SCHADOW, PLLP
Certified Public Accountants

Minneapolis, Minnesota
March 24, 2010

GERARD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

ASSETS

CURRENT ASSETS	
Cash	\$ 1,144,604
Accounts receivable	1,434,092
Other receivables	10,170
Prepaid insurance	2,831
Current portion long term receivable	189,428
	<u>\$ 2,781,125</u>
NON CURRENT ASSETS	
Fixed assets	\$ 5,112,503
Idle assets - GPA	832,323
Accumulated depreciation/amortization	(1,609,065)
	<u>\$ 4,335,761</u>
Long term receivables	4,938,897
Program start-up costs, net	40,481
Bond reserve funds	442,022
Bond issuance costs, net	198,904
Goodwill	393,043
	<u>\$ 10,349,109</u>
TOTAL ASSETS	<u><u>\$ 13,130,234</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Current portion of bonds payable	\$ 190,000
Accounts payable	90,446
Accrued salaries	184,333
Accrued vacation	180,211
Accrued interest expense	113,315
Other accrued expenses	27,681
Due to affiliates	1,592,683
	<u>\$ 2,378,669</u>
NON CURRENT LIABILITIES	
Bonds payable	6,435,000
Less current portion	(190,000)
TOTAL LIABILITIES	<u>\$ 8,623,669</u>
NET ASSETS	
Unrestricted	\$ 4,506,565
Temporarily restricted	-
TOTAL NET ASSETS	<u>\$ 4,506,565</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 13,130,234</u></u>

The accompanying notes to consolidated financial statements
are an integral part of these statements.

GERARD
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE, GAINS AND OTHER SUPPORT			
Per diem revenue	\$ 6,100,847	\$ -	\$ 6,100,847
Other	183,406	-	183,406
School revenue	1,975,016	-	1,975,016
Grant revenue	85,098	-	85,098
School food revenue	107,805	-	107,805
Food service revenue	749	-	749
Interest income	85,582	-	85,582
Special events	6,909	-	6,909
Gain (Loss) on asset disposition	(1,977)	-	(1,977)
	<u>\$ 8,543,435</u>	<u>\$ -</u>	<u>\$ 8,543,435</u>
FUNCTIONAL EXPENSES			
Program	\$ 6,075,598	\$ -	\$ 6,075,598
General and administrative	1,678,329	-	1,678,329
	<u>\$ 7,753,927</u>	<u>\$ -</u>	<u>\$ 7,753,927</u>
CHANGE IN NET ASSETS	\$ 789,508	\$ -	\$ 789,508
NET ASSETS			
Beginning of year	<u>3,717,057</u>	<u>-</u>	<u>3,717,057</u>
End of year	<u>\$ 4,506,565</u>	<u>\$ -</u>	<u>\$ 4,506,565</u>

The accompanying notes to consolidated financial statements
are an integral part of these statements.

GERARD
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Salaries and wages	\$ 3,505,664	\$ 587,635	\$ 4,093,299
Administrative fees	-	488,158	488,158
Audit/Accounting	60,427	56,872	117,299
Auto and travel	33,550	21,522	55,072
Consulting	35,751	6,695	42,446
Contract labor	193,910	1,830	195,740
Depreciation	290,137	-	290,137
Employee benefits	781,408	181,214	962,622
Food	308,771	-	308,771
Insurance	74,861	51,564	126,426
Interest - Bonds	345,166	-	345,166
License/Dues/Fees	5,414	32,233	37,647
Maintenance	43,796	6,089	49,885
New hire expense	8,637	9,174	17,810
Office expense	24,448	44,468	68,916
Outreach education	9,024	18,220	27,244
Books & subscriptions	13,625	512	14,137
Recreational expense	40,448	-	40,448
Rent expense	72,292	35,708	108,000
School expenses	3,817	-	3,817
Staff development	17,237	8,811	26,047
Testing & evaluation	4,623	-	4,623
Utilities	149,896	52,595	202,491
Resident supplies	52,696	-	52,696
Donation Expense	-	60,545	60,545
Amortization expense	-	14,485	14,485
	<u>\$ 6,075,598</u>	<u>\$ 1,678,329</u>	<u>\$ 7,753,927</u>

The accompanying notes to consolidated financial statements
are an integral part of these statements.

GERARD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 789,508
Adjustments to reconcile change in net assets to net cash generated by operating activities:	
Depreciation	290,137
Amortization	14,485
(Gain) loss on asset disposition	1,977
Noncash contributions/grants	(43,764)
Noncash expenses	43,764
Increase (Decrease) in cash from change in:	
Accounts receivable	(420,414)
Other receivables	6,338
Prepaid insurance	(29)
Accounts payable	31,144
Accrued salaries	23,097
Accrued vacation	25,340
Accrued interest expense	(2,610)
Other accrued expenses	4,153
	<u>\$ 763,126</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	\$ (194,542)
Payments received on long term receivable	180,029
Cash loaned out on a note receivable	(136,165)
	<u>\$ (150,678)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments of bond principal	\$ (180,000)
Increase in bond reserve funds	1,155
Payments on loan from affiliates	(32,243)
	<u>\$ (211,089)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 401,360
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>743,244</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>\$ 1,144,604</u></u>

The accompanying notes to financial statements
are an integral part of these statements.

GERARD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Gerard (the organization) is a non-profit Minnesota corporation, other than a private foundation, organized pursuant to Chapter 317A of Minnesota statutes and is exempt from federal income taxes under code section 501(c)(3).

MISSION

The mission of Gerard is to change troubled lives through the cornerstone values of honesty, responsibility, courage, care and concern. Gerard provides treatment services to emotionally and behaviorally troubled children and adolescents through residential treatment centers in Minnesota.

RELATED ENTITIES NOT INCLUDED IN THESE FINANCIAL STATEMENTS

Gerard is a wholly owned subsidiary of Nexus, a similarly organized non-profit Minnesota corporation. Corporate officers of Nexus serve as the board of directors of Gerard. Nexus Diversified Community Services (Diversified) is a similarly organized non-profit Minnesota corporation. Nexus Diversified Properties, LLC, is wholly owned by Nexus Diversified Community Services, Inc. Nexus Diversified Properties, LLC has chosen to be disregarded as a separate entity for federal income tax purposes. Directors of Nexus also serve as Diversified's directors. The missions of Nexus and Diversified are substantially the same as that of Gerard.

The organizations noted above have not been consolidated with Gerard as required by accounting principles generally accepted in the United States of America. Significant inter-company transactions and balances have not been eliminated from the accompanying financial statements.

Consolidated audited financial statements of Nexus including all related entities, have been issued with an unqualified opinion dated March 24, 2010. The accompanying financial statements should be read in conjunction with that report.

CONSOLIDATED FINANCIAL STATEMENTS

The organization's financial statements have been consolidated with a related entity using the pooling of interests method:

Gerard Treatment Programs, LLC is wholly owned by Gerard. The operations of the residential treatment centers are contained within this entity. Gerard Treatment Programs, LLC has chosen to be disregarded as a separate entity for federal income tax purposes.

Gerard's and Gerard Treatment Programs, LLC's missions are substantially the same.

BASIS OF ACCOUNTING

The financial statements contained therein have been prepared on the accrual basis of accounting.

GERARD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

BASIS OF ACCOUNTING (continued)

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

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the consolidated statement of activities.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes.

At December 31, 2009, the organization has no temporarily or permanently restricted net assets.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to allowance for doubtful accounts based on its assessment of the current status of individual accounts. The organization uses the accrual basis of accounting for accounts receivable and does not place any receivables on nonaccrual status. The organization considers all trade receivables outstanding ninety days or more to be past due. As of December 31, 2009 the organization had \$250,955 in past due trade receivables. Balances which are still outstanding after management has used reasonable collection efforts are written off through a charge to expense or the allowance for doubtful accounts and a credit to the applicable accounts receivable. The allowance for doubtful accounts was \$12,203 as of December 31, 2009 and is netted from accounts receivable in the accompanying consolidated statement of financial position. Bad debt expense for the year ended December 31, 2009 was \$ -0-.

NEW ACCOUNTING STANDARDS

Effective January 1, 2009, the Organization adopted the FASB ASC Standard 820-10 "Fair Value Measurements". The statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements.

Effective January 1, 2009, the Organization has adopted FASB ASC Standard 740-10 "Accounting for Uncertainty in Income Taxes". The Organization's management evaluates all tax positions and makes a determination regarding their likelihood of being upheld under review.

GERARD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

NEW ACCOUNTING STANDARDS (continued)

As of December 31, 2009, the Organization did not have any uncertain tax positions for which it recorded a tax liability. The Organization recognizes potential accrued interest and penalties pertaining to income tax related issues, if any, as income tax expense. During 2009 no penalties and interest were recorded. The Organization believes it is no longer subject to federal or state income tax examinations for the years prior to 2006.

Effective January 1, 2009, the Organization adopted the FASB ASC Standard 350-20, "Goodwill and Other Intangible Assets". Goodwill related to the Gerard acquisition was amortized on a straight line basis with a 20 year life through December 31, 2008. The net carrying amount of goodwill as of December 31, 2008 was \$393,043. Subsequent to the adoption of ASC Standard 350-20, goodwill is no longer amortized. Existing goodwill undergoes an annual impairment test. If the impairment test indicates a fair value that is lower than the carrying amount, goodwill is reduced to its fair value and an impairment loss is recognized. Any impairment loss of goodwill is presented under other operating expenses. Goodwill was tested for impairment as of December 31, 2009. The fair value of the reporting unit, Gerard, was analyzed using the present value of cash flows, stated interest rates and projection of income at the current level. The calculated fair value of Gerard exceeded the carrying amount; therefore, the recorded goodwill was not impaired. This value is considered a Level 3 fair value as it is measured with significant unobservable inputs.

FIXED ASSETS

Fixed assets are stated at cost when purchased and fair market value when donated. The organization follows the practice of capitalizing all expenditures for property, improvements, and equipment in excess of \$500; the fair value of donated fixed assets are similarly capitalized. Depreciation has been reported in the accompanying financial statements on a straight-line basis as follows:

	<u>Value</u>	<u>Useful Life</u>
Land & improvements	\$ 370,723	N/A
Building & improvements	3,295,501	20-39 years
Leasehold improvements	601,478	Lease term
Equipment	623,888	3-15 years
Vehicles	220,913	3-5 years
Total fixed assets	<u>\$ 5,112,503</u>	

IDLE ASSETS

In 2002, Nexus, a related entity to Gerard, discontinued services at its' Great Plains Academy location. Gerard owned and leased a portion of the property and equipment at this location to Nexus. The property and equipment is still owned by the organization although lease income and depreciation expense has ceased. The organization has chosen to continue ownership of the property until a plan is adopted for alternative use or for its disposal.

GERARD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

IDLE ASSETS (continued)

These assets are classified as Idle Assets in the accompanying financial statements as follows:

Building & improvements	\$712,127
Equipment	<u>120,196</u>
Total Idle Assets	<u>\$832,323</u>
Accumulated depreciation related to Idle Assets	<u>\$114,761</u>

PROGRAM START-UP COSTS

The organization incurred costs to establish and begin operations. These costs have been capitalized and are being amortized on a straight line basis as stated below:

<u>Operation</u>	<u>Costs</u>	<u>Accum. Amort.</u>	<u>Amort. Expense</u>	<u>Life</u>
Gerard Facilities	<u>\$88,730</u>	<u>\$48,249</u>	<u>\$4,457</u>	20 years

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

FUNCTIONAL ALLOCATION OF EXPENSES

Certain expenses are common to program and administrative functions. These items are allocated based upon estimated usage.

SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 24, 2010.

NOTE 2. BONDS PAYABLE

On October 30, 2007, Gerard with Gerard Treatment Programs, LLC as a guarantor, participated in a municipal bond offering in cooperation with the City of Austin, Minnesota. Revenue bonds in the amount of \$6,765,000 were issued by the City of Austin. The primary use of these funds was to consolidate and permanently finance the purchase of the Gerard Austin facility and its related improvements. Collateral for the bonds are buildings, building contents and land located in Austin, Minnesota. Additionally, the bond documents require all rents derived from the property be subordinated to the bond liability.

According to the terms of the bond offering, the organization is subject to various positive and negative covenants. One of the covenants requires Gerard, independent of Nexus and Nexus Diversified, to maintain "Net revenues available for debt service" of at least 110% of the principal and interest payments required for such fiscal year.

GERARD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2. BONDS PAYABLE (Continued)

The bonds are payable in single installments over a 22 year period beginning on September 1, 2008 and continuing until September 1, 2029. The installment amounts begin at \$150,000 in 2008 graduating to \$1,210,000 in 2029. Five-year maturities of this liability are as follows:

<u>Year ending</u>	<u>Amount</u>
December 31, 2010	\$ 190,000
December 31, 2011	195,000
December 31, 2012	205,000
December 31, 2013	215,000
December 31, 2014	225,000
Thereafter	<u>5,405,000</u>
	<u>\$6,435,000</u>

The bonds carry interest at an increasing rate over their 22 year term beginning at 4.25% annually on October 30, 2007 and gradually increasing to 5.75% annually at September 2, 2027 for the remaining term. Accrued interest is payable semi-annually each March 1 and September 1.

Gerard utilizes a servicing agent to pay the principal and interest payments to the bondholders on the scheduled dates. As part of this arrangement and to meet provisions of the bond agreement, certain reserve funds were established.

Bond Fund

This fund accumulates monthly payments by Gerard currently in the amount of \$44,162 which will satisfy the principal and interest payments when they come due as required by the bond agreement. Any interest earned in this fund shall remain in the fund to offset future cash requirements.

Bond Reserve Fund

This fund was established at the closing of the bonds in the amount of \$265,373. This fund would be utilized should Gerard not be financially able to make one of the payments as required by the bond agreement. Interest earned in this fund shall remain in this fund.

At December 31, 2009 balances in these funds are as follows:

Bond Fund	\$ 176,649
Bond Reserve Fund	<u>265,373</u>
	<u>\$ 442,022</u>

These funds are classified as Bond Reserve Funds under Non Current Assets in the accompanying consolidated statement of financial position.

GERARD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2. BONDS PAYABLE (Continued)

Costs associated with placing these bonds have been capitalized and are being amortized on a straight line basis over the term of the bonds as follows:

<u>Bond Issuance Costs</u>	<u>Costs</u>	<u>Accum Amort</u>	<u>Amort Expense</u>	<u>Life</u>
2007 issue	<u>\$221,044</u>	<u>\$22,140</u>	<u>\$10,029</u>	22 yrs

The estimated aggregate amortization expense for bond issuance costs and program start-up costs for each of the five succeeding years is as follows:

<u>Year Ending</u>	
December 31, 2010	\$ 14,485
December 31, 2011	14,485
December 31, 2012	14,485
December 31, 2013	14,485
December 31, 2014	14,485
	<u>\$ 72,425</u>

NOTE 3. NOTES RECEIVABLE

Sale of Programming

The organization sold substantially all assets and the related programming at its Mason City, Iowa facility. As a result of that transaction the organization recorded a note receivable due from the purchaser. The note began November 30, 2006 and continues for sixty months with an interest rate of 5.1 percent per annum. The organization is to receive payments of \$17,000 per month including interest until November 1, 2011. The current portion of this note is \$189,428 as of December 31, 2009 and is reflected in current assets in the consolidated statement of financial position. The noncurrent portion of this note is \$182,318 as of December 31, 2009 and is reflected in Long term receivables in the consolidated statement of financial position.

Notes receivable related to construction financing

As part of a construction financing agreement with Nexus Diversified Properties, LLC, Gerard is required to loan funds to Mille Lacs Investment Fund, LLC (an unrelated company). The initial loan amount was \$4,594,000 on November 4, 2008 and is reflected in Long term receivables in the accompanying financial statements. The note requires interest only payments on a quarterly basis until November 5, 2015, at which point the principal balance and all remaining accrued interest is due. The interest rate is 1 percent per annum. Interest income of \$47,040 was recognized on this note for the year ended December 31, 2009. The organization has a security interest in various assets of the Mille Lacs Investment Fund, LLC to collateralize this note.

An additional requirement of the financing agreement is to loan \$1,182,705 to Mille Lacs Investment Fund, LLC. The agreement requires a series of payments to the Mille Lacs Investment Fund, LLC beginning November 5, 2008. As of December 31, 2009, \$162,579 had been advanced on this note and is classified in Long term receivables in the accompanying financial statements. The interest rate on this note is 7.41 percent per annum which is payable quarterly. Interest income of \$7,078 was recognized on this note for the year ended December 31, 2009. The organization has a security interest in various assets of the Mille Lacs Investment Fund, LLC to collateralize this note.

GERARD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 3. NOTE RECEIVABLE (continued)

Future payments due to be advanced under this note are as follows:

<u>Year Ending</u>	
December 31, 2010	\$ 145,824
December 31, 2011	157,165
December 31, 2012	168,186
December 31, 2013	182,528
December 31, 2014	196,658
December 31, 2015	169,765
	<u>\$1,020,126</u>

NOTE 4. TRANSACTIONS WITH RELATED ENTITIES

Gerard had the following transactions with its parent company Nexus and Nexus' affiliated nonprofit corporation, Nexus Diversified Community Services, during the year ended December 31, 2009:

Beginning balance due to affiliates	\$ 1,624,926
Charges for various operational expenses	338,844
Charges for management services provided by Nexus Diversified Community Services	486,051
Payments	<u>(857,138)</u>
Due to Affiliates	\$ <u>1,592,683</u>

In addition to the transactions above, Gerard paid rent to Nexus Diversified Community Services in the amount of \$108,000 and donated \$60,545 to Nexus during the year ended December 31, 2009.

The members of the Board of Directors of Nexus Diversified Community Services also sit on the Board of Directors of Nexus, the parent company of Gerard as explained in Note 1.

NOTE 5. MAJOR CUSTOMERS

A major portion of the organization's business is dependent upon one large customer. The loss of this customer would have a material adverse effect on the organization. During the year ended December 31, 2009, this customer accounted for approximately 12% of per diem revenue. Additionally, this customer accounted for \$134,311 or 9% of accounts receivable as of December 31, 2009.

GERARD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 6. CASH AND CREDIT CONCENTRATIONS

The organization has the majority of its accounts receivable with various municipalities. The amount of loss the organization would incur should this group of municipal entities default is not determinable. The organization requires contracts be executed with its primary municipal funders to minimize the risk of this credit concentration. The organization does not require collateral for the extension of credit.

The organization maintains cash balances at various financial institutions. A portion of these balances exceed the financial institution's \$250,000 of FDIC insurance coverage.

NOTE 7. RETIREMENT PLANS

For employees that meet minimum required service hours and length of service requirements, the organization maintains a qualified retirement plan with a deferred arrangement under Section 401(k) of the Internal Revenue Code. The organization provides a matching contribution of 100% of the employees' elective deferral for the first 1% of wages. For the employees' elective contribution of the next 2% through 6% of wages, the organization provides a matching contribution of 50%. For employee's elective contributions above 6%, no match is provided. All participants become 100% vested in their account balances after 2 full years of continuous service. This schedule applies to all existing match contributions as well. The organization contributed \$86,563 to the plan for the year ended December 31, 2009 which is included in employee benefits in the accompanying financial statements.

In addition to the qualified plan identified above, the organization maintains a nonqualified deferred compensation plan under Section 457 of the Internal Revenue Code. This plan has been frozen as of December 31, 2007. This plan had been available to all employees of the organization who had contributed in excess of allowable amounts to the 401(k) plan identified above as determined by year end discrimination testing. After discrimination testing was completed by the administrator, amounts were transferred to the nonqualified plan sufficient to bring the 401(k) plan into compliance. The amounts are maintained in individual accounts by employee as are the earnings. The organization does not contribute to this plan. Benefits vest on a graduated schedule based upon completed years of service with the organization. Participants are fully vested after 5 years of completed service. Vested benefits are payable upon termination of employment or upon reaching age 62. The plan is considered unfunded and all amounts in the plan are subject to the claims of general creditors of the organization. Amounts payable under this plan are \$2,071 at December 31, 2009. This balance is included in Due to Affiliates on the accompanying consolidated financial statements as the liability is recorded on the accounts of Nexus, an affiliated organization.

NOTE 8. CASH FLOW INFORMATION

The organization considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash paid for interest and income taxes for the year ended December 31, 2009 were as follows:

Interest	<u>\$347,776</u>
Income taxes	<u>\$ -0-</u>

GERARD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 9. LEASES

The organization has lease commitments that extend beyond one year from December 31, 2009 as follows:

<u>Operating leases</u> <u>Description</u>	<u>Term</u>	<u>Annual</u> <u>Payments</u>	<u>2009</u> <u>Expense</u>	<u>Account</u>
Various Office Equipment	through-12/31/12	\$7,204	\$ -0-	Off Exp

Five year maturities of lease payments for leases listed above at December 31, 2009 are as follows:

<u>Year Ending</u>	<u>Operating</u>
December 31, 2010	\$ 7,204
December 31, 2011	7,204
December 31, 2012	7,204
	<u>\$21,612</u>

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INDEPENDENT AUDITOR'S REPORT ON
ON SUPPLEMENTARY CONSOLIDATED STATEMENT OF
NET REVENUES AVAILABLE FOR DEBT SERVICE

To the Board of Directors
Gerard
Golden Valley, MN

Our audit report on the consolidated statement of financial position, statement of activities and changes in net assets, statement of functional expenses and statement of cash flows of Gerard (an unconsolidated subsidiary of Nexus) as of December 31, 2009, and for the year then ended, dated March 24, 2010, expressed a qualified opinion. The opinion was qualified because Gerard was not consolidated with its parent company, Nexus and related organization, Nexus Diversified Community Services, Inc. Gerard is a wholly owned subsidiary of Nexus. Gerard is related to Nexus Diversified Community Services, Inc. through common control. Generally accepted accounting principles require consolidation of Gerard with both of these entities.

The consolidated supplementary statement of net revenues available for debt service is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the audit procedures applied in the audits of the financial statements.

In our opinion, except for the effect of not consolidating with its related entities, the accompanying consolidated supplementary statement of net revenues available for debt service presents fairly, in all material respects, in relation to the financial statements as a whole, the net revenues available for debt service in accordance with accounting principles generally accepted in the United States of America.

Messerli & Schadow, PLLP

MESSERLI & SCHADOW, PLLP
Certified Public Accountants

Minneapolis, Minnesota
March 24, 2010

GERARD
CONSOLIDATED SUPPLEMENTARY STATEMENT OF
NET REVENUES AVAILABLE FOR DEBT SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2009

Gross Revenues	8,543,435
Total Operating Expenses	(7,753,927)
Adjusted for:	
Extraordinary items	-
Extinguishment of indebtedness	-
Unrealized losses on investments	-
Depreciation	290,137
Amortization	14,485
Interest expense	<u>345,166</u>
Net Revenues Available for Debt Service	<u>\$ 1,439,297</u>
Actual Principal and Interest requirements	\$ 527,776
110% of Principal and Interest requirements	\$ 580,554
Actual Debt Service Coverage Ratio	<u>272.71%</u>

See independent auditor's report on supplementary information.

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Andrea R. Kulig, CPA
Cora E. Leland, CPA
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INDEPENDENT AUDITOR'S REPORT ON
ON LOAN AGREEMENT COMPLIANCE

To the Board of Directors
Gerard
Golden Valley, MN

Our audit report on the consolidated statement of financial position, statement of activities and changes in net assets, statement of functional expenses and statement of cash flows of Gerard (an unconsolidated subsidiary of Nexus) as of December 31, 2009, and for the year then ended, dated March 24, 2010, expressed a qualified opinion. The opinion was qualified because Gerard was not consolidated with its parent company, Nexus and related organization, Nexus Diversified Community Services, Inc. Gerard is a wholly owned subsidiary of Nexus. Gerard is related to Nexus Diversified Community Services, Inc. through common control. Generally accepted accounting principles require consolidation of Gerard with both of these entities.

Based on the knowledge obtained during the audit of the consolidated financial statements of Gerard, we did not become aware of any default by the organization in the fulfillment of any of the terms, covenants, provisions or conditions of the municipal bond offering agreement that Gerard participated in with the City of Austin, Minnesota dated October 30, 2007. While our audit provides a reasonable basis for our opinion on the consolidated financial statements, it does not provide a legal determination on compliance with the provisions of the bond offering.

Messerli & Schadow, PLLP

MESSERLI & SCHADOW, PLLP
Certified Public Accountants

Minneapolis, Minnesota
March 24, 2010