

NEXUS
FINANCIAL STATEMENTS
DECEMBER 31, 2009

NEXUS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nexus
Golden Valley, MN

We have audited the accompanying statement of financial position of Nexus as of December 31, 2009 and the related 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 Nexus 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, Nexus has not consolidated the activities of its related entities. Accounting principles generally accepted in the United States of America require consolidation of Nexus with its related entities. 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 Nexus. 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 related entities as explained above, the Nexus financial statements referred to above present fairly, in all material respects, the financial position of Nexus 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

NEXUS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

ASSETS

CURRENT ASSETS	
Cash	\$ 1,480,899
Investments	671,951
Accounts receivable	6,350,749
Other receivables	170,461
Prepaid insurance	144,936
Prepaid expenses	29,984
	<u>\$ 8,848,980</u>
NON CURRENT ASSETS	
Fixed assets	\$ 4,181,278
Idle assets	20,565
Accumulated depreciation/amortization	(2,771,829)
	<u>\$ 1,430,014</u>
Due from affiliates	7,869,831
Investments - Gerard	4,506,565
	<u>\$ 13,806,410</u>
TOTAL ASSETS	<u>\$ 22,655,390</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 184,953
Accrued salaries	958,751
Accrued vacation	1,000,091
Contract advance payments	1,589,422
Other liabilities	455,528
Other accrued expenses	423,740
TOTAL CURRENT LIABILITIES	<u>\$ 4,612,485</u>
NON CURRENT LIABILITES	
Deferred compensation plan payable	93,287
TOTAL LIABILITIES	<u>\$ 4,705,772</u>
NET ASSETS	
Unrestricted	\$ 17,949,618
Temporarily restricted	-
TOTAL NET ASSETS	<u>\$ 17,949,618</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,655,390</u>

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

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

	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT			
Per diem revenue	\$ 27,611,264	\$ -	\$ 27,611,264
Other	323,712	-	323,712
School revenue	4,552,484	-	4,552,484
Grant revenue	55,435	-	55,435
School food revenue	381,167	-	381,167
Food service revenue	12,192	-	12,192
Donations	65,625	1,000	66,625
Interest income	5,137	-	5,137
Investment income	30,168	-	30,168
Special events	21,195	-	21,195
Gain (Loss) on asset disposition	(59,804)	-	(59,804)
Administration fees	602,000	-	602,000
Net assets released from restrictions	220,646	(220,646)	-
	<u>\$ 33,821,222</u>	<u>\$ (219,646)</u>	<u>\$ 33,601,576</u>
FUNCTIONAL EXPENSES			
Program	\$ 27,193,889	\$ -	\$ 27,193,889
General and administrative	5,698,205	-	5,698,205
	<u>\$ 32,892,094</u>	<u>\$ -</u>	<u>\$ 32,892,094</u>
OPERATING EXCESS	\$ 929,128	\$ (219,646)	\$ 709,482
OTHER INCOME			
Equity income from wholly owned subsidiary - Gerard	789,508	-	789,508
CHANGE IN NET ASSETS	\$ 1,718,636	\$ (219,646)	\$ 1,498,990
NET ASSETS			
Beginning of year	16,230,982	219,646	16,450,628
End of year	<u>\$ 17,949,618</u>	<u>\$ 0</u>	<u>\$ 17,949,618</u>

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

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

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Salaries and wages	\$ 16,300,515	\$ 3,099,631	\$ 19,400,146
Audit/Accounting	82,194	397,412	479,606
Auto and travel	308,253	150,940	459,193
Bad debts	-	246,167	246,167
Consulting	67,084	61,593	128,677
Contract labor	532,471	154,316	686,787
Depreciation	457,249	27,233	484,482
Employee benefits	4,273,173	591,354	4,864,527
Food	658,705	-	658,705
Insurance	384,359	53,591	437,950
Interest	39	-	39
License/Dues/Fees	27,076	117,432	144,508
Maintenance	210,809	2,112	212,921
New hire expense	89,908	90,229	180,137
Office expense	69,747	351,073	420,820
Outreach education	48,767	60,036	108,803
Books & Subscriptions	33,748	2,883	36,631
Recreational expense	165,418	-	165,418
Reentry facility	22,510	-	22,510
Rent expense	1,221,415	136,813	1,358,228
School expenses	133,467	-	133,467
Staff development	58,826	62,988	121,813
Testing & evaluation	61,473	-	61,473
Utilities	726,795	92,402	819,197
Resident supplies	509,888	-	509,888
Donation Expense	750,000	-	750,000
	<u>\$ 27,193,889</u>	<u>\$ 5,698,205</u>	<u>\$ 32,892,094</u>

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

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

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 1,498,990
Adjustments to reconcile change in net assets to net cash generated by operating activities:	
Depreciation	484,482
(Gain) loss on disposition of assets	59,804
(Gain) loss on investments	(19,244)
Equity income from Gerard	(789,508)
Noncash contributions	42,535
Noncash expenses	(42,535)
Bad debts	246,167
Increase (Decrease) in cash from change in:	
Accounts receivable	(391,255)
Grants receivable	49,113
Other receivables	(148,868)
Prepaid insurance	21,924
Prepaid expenses	8,510
Deposits	17,406
Accounts payable	(52,869)
Contract advance payments	69,357
Other liabilities	455,528
Accrued salaries	129,110
Accrued vacation	125,884
Other accrued expenses	126,942
Deferred compensation plan liability	19,243
	<u>\$ 1,910,716</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	\$ (739,789)
Proceeds from sale of fixed assets	4,720
Purchase of investments	(12,544)
Amounts loaned to affiliates - net	(242,040)
	<u>\$ (989,653)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 921,063
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>559,836</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 1,480,899</u>

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

NEXUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

MISSION

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

RELATED ENTITIES NOT INCLUDED IN THESE FINANCIAL STATEMENTS

Nexus Diversified Community Services (Diversified) is a similarly organized 501(c)(3) organization. Diversified's directors also serve as directors of Nexus.

Nexus Diversified Properties, LLC, is wholly owned by Nexus Diversified Community Services. Nexus Diversified Properties, LLC has chosen to be disregarded as a separate entity for federal income tax purposes.

Gerard is a wholly owned subsidiary of Nexus and is organized as a 501(c)(3) organization. Corporate officers of Nexus serve as the Board of Directors for Gerard.

Gerard Treatment Programs, LLC, is wholly owned by Gerard. Gerard Treatment Programs, LLC has chosen to be disregarded as a separate entity for federal income tax purposes.

The missions of Diversified and Gerard are substantially the same as that of Nexus.

The organizations noted above have not been consolidated with Nexus 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.

BASIS OF ACCOUNTING

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

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.

NEXUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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

BASIS OF ACCOUNTING (continued)

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 in the statement of activities and changes in net assets as net assets released from restrictions.

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 receivables 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 \$1,627,042 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 \$-0- as of December 31, 2009. Bad debt expense for the year ended December 31, 2009 was \$26,649, and an additional \$219,518 which represents a prior year grant that was canceled.

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 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. 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.

NEXUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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

CURRENT INVESTMENTS

Investments in all debt and equity securities with readily determinable fair values are reported at their fair value. Other investments are reported at historical cost, if purchased, or, if contributed, at fair value at the date of contribution.

The organization's investment objective is conservative by nature with a goal to increase the rate of return without increasing the risk of loss of principal. Unrealized gains and losses are included in the change in net assets. Investment income and gains on investments are reported as increases in unrestricted net assets unless there are donor restrictions in which case it would be classified as temporarily or permanently restricted until the restrictions are met either by passage of time or by use.

Current investments are composed of the following:

	December 31, 2009 Market Value
Certificate of Deposit	\$578,664
Stock Mutual Funds	93,287
	\$671,951

The Organization's investments are reported at fair value in the accompanying statement of financial position. FASB ASC 820-10 "Fair Value Measurements" establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

	Fair Value Measurements at Report Date Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2009</u>				
Certificates of Deposit	\$ 578,664	\$ 578,664	\$ --	\$ --
Mutual funds	93,287	93,287	--	--
Total	\$ 671,951	\$ 671,951	\$ --	\$ --

NEXUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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

CURRENT INVESTMENTS (continued)

Investment income consists of the following:

Interest and dividend income	\$ 10,924
Net gain – Level 1	<u>19,244</u>
	<u>\$ 30,168</u>

CONCENTRATIONS OF INVESTMENT RISK

Financial instruments that potentially subject the Organization to a concentration of risk of loss resulting from fluctuation in investment market values consists of publicly traded stocks, corporate bonds and mutual funds. The amount of accounting loss should these financial instruments experience a significant market value decline is not determinable at this time.

INVESTMENT- GERARD

As explained in Note 1, Nexus owns 100% of the outstanding voting stock of Gerard. This investment is carried on the equity basis which approximates the organization's equity in Gerard's underlying book value. The fair market value of Gerard is not readily determinable.

Investment – Gerard	
Balance beginning of year	\$3,717,057
Equity income from wholly owned subsidiary – Gerard	<u>789,508</u>
Balance end of year	<u>\$4,506,565</u>

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 and amortization have been reported under the caption depreciation in the accompanying financial statements on a straight-line basis with the following useful lives:

	<u>Value</u>	<u>Useful Life</u>
Building & improvements	\$ 35,787	20–25 years
Leasehold improvements	1,083,490	Lease term
Equipment	2,163,815	3-15 years
Vehicles	<u>898,186</u>	3-5 years
Total fixed assets	<u>\$4,181,278</u>	

NEXUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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

IDLE ASSETS

In 2002, the organization discontinued services at its Great Plains Academy location. The property and equipment at this location is still owned by the organization although depreciation has ceased. The organization has chosen to continue ownership of the property until a plan is adopted for alternative use or for its disposal. These assets are classified as Idle assets in the accompanying financial statements as follows:

Leasehold improvements	\$15,959
Equipment	<u>4,606</u>
Total idle assets	<u>\$20,565</u>
Accumulated depreciation related to idle assets	<u>\$ 1,499</u>

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. CREDIT LINE

The organization maintains a line of credit with its bank. The credit line agreement expires April 10, 2010. The credit limit is \$1,000,000 with interest charged at the bank's prime rate but cannot be less than 4.5%. The credit line is secured by substantially all assets of the organization. There were no advances outstanding under this agreement as of December 31, 2009.

NEXUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 3. 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 4. 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>
Corp. Offices	02/01/02-01/31/11	189,333	190,188	Rent
Onarga Site	10/08/98-10/07/13	354,000	354,000	Rent
Onarga School	01/01/05-10/07/13	126,000	126,000	Rent
Various Office Equipment	Through-08/24/12	10,152	3,618	Office Exp.

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

<u>Year ending</u>	
December 31, 2010	680,943
December 31, 2011	506,051
December 31, 2012	487,614
December 31, 2013	400,000
	<u>\$2,074,608</u>

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 49% of per diem revenue. Additionally, this customer accounted for \$1,610,667 or 25% of accounts receivable as of December 31, 2009. As of December 31, 2009, Nexus had received contract advance payments of \$1,589,422 on this balance.

NEXUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 6. 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 \$350,408 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 \$93,287 at December 31, 2009.

NOTE 7. 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 were as follows:

Interest	\$ <u>39</u>
Income taxes	\$ <u>-0-</u>

NEXUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 8. TRANSACTIONS WITH RELATED ENTITIES

Nexus had the following transactions with Gerard, its wholly owned subsidiary and Nexus Diversified Community Services, a related nonprofit corporation.

Due from affiliates beginning balance	\$ 7,627,791
Purchase of fixed assets for affiliates	96,488
Charges to affiliates for various operational expenses	394,104
Charge to affiliates for management services provided by Nexus	602,000
Net contributions to affiliates	(451,194)
Net repayments from affiliates	<u>(399,358)</u>
Due from affiliates ending balance	\$ <u>7,869,831</u>

In addition to the transactions above, the organization had the following cash transactions with its related entities.

Lease paid to affiliate	\$ <u>318,828</u>
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The members of the Board of Directors of Nexus also sit on the Board of Directors of Nexus Diversified Community Services and Corporate officers of Nexus serve as the Board of Directors of Gerard as explained in Note 1.

NOTE 9. OTHER LIABILITIES

Each year, the organization enters into contracts with various government agencies setting forth the amount of reimbursement to be received per client per day. Some of the contracts provide that the grantor agency can retroactively adjust these rates if actual cost per client per day for the period is less than anticipated in the original agreement.

The adjusted cumulative liability due under the above Contracts has been estimated at \$455,528 as of December 31, 2009. This amount is classified in Other liabilities in the accompanying financial statements. The current income effect of \$455,528 decreased income for the year ended December 31, 2009 and has been classified with per diem revenue in the accompanying financial statements. Due to the complexity of this estimate, it is reasonably possible that the amount noted above could change significantly when actually calculated by the grantor agency, which is done annually. The amount of the change is not determinable at this time.