

**NEXUS**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

NEXUS

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF ACTIVITIES AND  
CHANGES IN NET ASSETS

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Supplementary Information

SCHEDULE I – COMBINING STATEMENT OF ACTIVITIES

SCHEDULE II – COMBINING STATEMENT OF OPERATING  
COSTS AND EXPENSES

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Nexus  
Golden Valley, MN

We have audited the accompanying general purpose consolidated statement of financial position of Nexus (a nonprofit organization) as of December 31, 2010, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose consolidated 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.

In our opinion, the general purpose consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nexus as of December 31, 2010, and 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.

In accordance with Government Auditing Standards, we have also issued separate reports dated March 23, 2011 on the Schedule of Federal Awards and on our consideration of Nexus' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose consolidated financial statements of Nexus taken as a whole. The combining statements of activities and operating costs and expenses are presented for purposes of additional analysis and are not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Messerli & Schadow, PLLP*

MESSERLI & SCHADOW, PLLP  
Certified Public Accountants

Minneapolis, Minnesota  
March 23, 2011

NEXUS  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2010

ASSETS

<b>CURRENT ASSETS</b>	
Cash	\$ 5,689,584
Investments-other short term	852,813
Investments	21,540,130
Accounts receivable	8,896,218
Other receivables	123,157
Prepaid insurance	144,047
Prepaid expenses	23,661
Current portion long term receivables	182,318
	<u>\$ 37,451,928</u>
<b>NON CURRENT ASSETS</b>	
Fixed assets	\$ 31,726,371
Idle assets	852,888
Accumulated depreciation/amortization	(7,900,727)
	<u>\$ 24,678,532</u>
Long term receivables	4,903,334
Investments-other long term	936,046
Loan costs, net	144,666
Program start-up costs, net	37,720
Bond reserve funds	440,902
Bond issuance costs, net	188,875
Goodwill	393,043
	<u>\$ 31,723,119</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 69,175,046</u></u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>	
Current portion of bonds payable	\$ 195,000
Current portion of long term notes payable	68,632
Accounts payable	412,739
Contract advance payments	1,719,711
Other liabilities	455,528
Accrued salaries	1,271,354
Accrued vacation	1,251,565
Accrued interest expense	110,529
Other accrued expenses	527,553
	<u>\$ 6,012,610</u>
<b>NON CURRENT LIABILITIES</b>	
Bonds payable	6,245,000
Notes payable - long term	15,148,101
Less current portion	(263,632)
Deferred compensation plan payable	104,973
<b>TOTAL LIABILITIES</b>	<u>\$ 27,247,053</u>
<b>NET ASSETS</b>	
Unrestricted	\$ 41,797,517
Temporarily restricted	130,476
<b>TOTAL NET ASSETS</b>	<u>\$ 41,927,993</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 69,175,046</u></u>

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

**NEXUS**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUE, GAINS AND OTHER SUPPORT</b>			
Per diem revenue	\$ 34,859,519	\$ -	\$ 34,859,519
Other	1,070,326	-	1,070,326
School revenue	7,196,714	-	7,196,714
Grant revenue	316,142	-	316,142
School food revenue	512,328	-	512,328
Food service revenue	19,110	-	19,110
Donations	54,035	8,574	62,608
Interest income	187,798	1,196	188,994
Investment income	1,410,320	-	1,410,320
Special events	26,223	-	26,223
Gain (Loss) on asset disposition	(1,260)	-	(1,260)
Net assets released from restrictions	23,213	(23,213)	-
	<u>\$ 45,674,467</u>	<u>\$ (13,444)</u>	<u>\$ 45,661,023</u>
<b>FUNCTIONAL EXPENSES</b>			
Program	\$ 33,735,410	\$ -	\$ 33,735,410
General and administrative	7,275,446	-	7,275,446
	<u>\$ 41,010,855</u>	<u>\$ -</u>	<u>\$ 41,010,855</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 4,663,612</u>	<u>\$ (13,444)</u>	<u>\$ 4,650,168</u>
<b>NET ASSETS</b>			
Beginning of year	<u>37,133,906</u>	<u>143,919</u>	<u>37,277,826</u>
End of year	<u>\$ 41,797,518</u>	<u>\$ 130,476</u>	<u>\$ 41,927,994</u>

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

**NEXUS**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Amortization expense	\$ -	\$ 45,052	\$ 45,052
Audit/Accounting	177,262	571,944	749,206
Auto and travel	336,425	155,300	491,724
Bad debts	-	80,470	80,470
Books & subscriptions	30,440	7,261	37,700
Community services	69,856	55,158	125,014
Consulting	41,157	78,666	119,823
Contract labor	568,274	75,520	643,794
Depreciation	1,655,992	45,336	1,701,328
Development	-	172,672	172,672
Employee benefits	5,340,579	886,048	6,226,628
Food	968,366	-	968,366
Insurance	578,712	79,887	658,599
Interest	653,547	-	653,547
Interest - Bonds	337,772	-	337,772
License/Dues/Fees	27,669	182,336	210,004
Maintenance	281,606	9,942	291,548
New hire expense	67,925	79,615	147,540
Office expense	111,710	363,009	474,718
Recreational expense	185,622	-	185,622
Reentry facility	22,998	-	22,998
Rent expense	444,540	236,149	680,689
Resident supplies	532,783	-	532,783
Salaries and wages	19,987,236	3,876,561	23,863,797
School expenses	139,427	-	139,427
Staff development	118,708	127,907	246,615
Testing & evaluation	54,314	-	54,314
Utilities	979,276	146,613	1,125,889
Youth without resources	23,213	-	23,213
	<u>\$ 33,735,410</u>	<u>\$ 7,275,446</u>	<u>\$ 41,010,855</u>

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

NEXUS  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Change in net assets	\$ 4,650,168
Adjustments to reconcile change in net assets to net cash generated by operating activities:	
Depreciation	1,701,328
Amortization	45,052
(Gain) loss on disposition of assets	1,260
(Gain) loss on investments	(1,092,532)
Noncash grants and contributions	(90,955)
Noncash expenses	90,955
Bad debts	80,470
Increase (Decrease) in cash from change in:	
Accounts receivable	(1,191,846)
Other receivables	73,147
Prepaid insurance	3,719
Prepaid expenses	6,323
Accounts payable	79,782
Contract advance payments	130,290
Accrued salaries	128,269
Accrued vacation	71,263
Accrued interest expense	(2,787)
Other accrued expenses	(885,829)
Deferred compensation plan payable	11,686
	<u>\$ 3,809,765</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of fixed assets	\$ (1,069,244)
Proceeds from sale of fixed assets	1,400
Cash loaned out on note receivable	(146,755)
Purchase of investments	(20,483,753)
Proceeds from sale of investments	15,592,348
Payments received on long term receivable	189,428
	<u>\$ (5,916,576)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Principal payments on bonds	\$ (190,000)
Change in bond reserve funds	1,120
Principal payments on long term notes	(64,519)
	<u>\$ (253,399)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (2,360,211)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>8,049,795</b>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b><u>\$ 5,689,584</u></b>

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

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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.

CONSOLIDATED FINANCIAL STATEMENTS

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

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. This entity contains the construction of the new Mille Lacs Academy facility and its related financing. Nexus Diversified Properties, LLC has chosen to be disregarded as a separate entity for federal income tax purposes.

Gerard, which is a wholly owned subsidiary of Nexus, is also organized as a 501(c)(3) organization. Gerard's directors are officers of Nexus.

Gerard Treatment Programs, LLC is wholly owned by Gerard. The operations of its residential treatment center is contained within this entity. 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.

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.

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.

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

BASIS OF ACCOUNTING (Continued)

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.

Temporarily restricted net assets at December 31, 2010 are comprised of the following:

Youth Without Resources	\$ 130,476
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Currently, the organization has no permanently restricted net assets

CASH AND INVESTMENTS - OTHER

The Organization considers all liquid cash accounts and certificates of deposit with maturities of ninety days or less to be cash and cash equivalents. Certificates of deposit with maturities over ninety days but less than one year are included in Investments-other short term. Certificates of deposit with maturities over one year are presented as Investments-other long term.

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, 2010 the organization had \$3,882,635 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, 2010 and is netted from accounts receivable in the accompanying financial statements. Bad debt expense related to accounts receivable for the year ended December 31, 2010 was \$ 80,470.

GOODWILL

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.

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

GOODWILL (continued)

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, 2010. 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.

FAIR VALUE OF INVESTMENTS

The Organization's investments are reported at fair value in the accompanying consolidated statement of financial position. FASB ASC 820-10 "Fair Value Measurements" establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. Fair value accounting standards define fair value as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties.

Assets recorded at fair value are categorized using defined hierarchical levels directly related to the amount of subjectivity associated with the inputs to valuation of an asset: 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 available at the measurement date, other than quoted prices included in Level 1, and Level 3 consists of unobservable inputs that cannot be corroborated by observable market data. Assets measured at fair value on a recurring basis are categorized based upon the lowest level of significant input to the valuations.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Contributed investments are reported at fair value at the date of contribution. 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 at December 31, 2010  
Using Inputs Considered as

	Total	Level 1	Level 2	Level 3
Fair value measurements				
Stocks & Mutual funds	\$ 9,372,483	\$ 9,372,483	\$ --	\$ --
Money Market funds	12,167,647	12,167,647	--	--
Total	\$ 21,540,130	\$ 21,540,130	\$ --	\$ --

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

FAIR VALUE OF INVESTMENTS (continued)

The Organization recognizes transfers into and out of levels at the end of the reporting period. There were no transfers between levels in the year ended December 31, 2010.

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.

Gains and losses (realized and unrealized) are reported as a component of investment income.

Net Gain – Level 1	\$	1,092,532
Interest and dividend income		<u>317,788</u>
		<u>\$ 1,410,320</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 and mutual funds. The amount of accounting loss should these financial instruments experience a significant market value decline is not determinable at this time.

LOAN COSTS

To secure the construction financing identified in Note 3, the organization incurred costs of \$209,516. Loan costs are being amortized on a straight-line basis as stated below:

<u>Costs</u>	<u>Accum. Amort.</u>	<u>Amort. Expense</u>	<u>Life</u>
\$209,516	\$64,850	\$29,932	7 yrs

PROGRAM START-UP COSTS & ORGANIZATION COSTS

The organization incurred costs to establish and begin operations at the Gerard and Nexus Diversified Properties locations. These costs have been capitalized and are being amortized on a straight-line basis as stated below:

	<u>Costs</u>	<u>Accum. Amort.</u>	<u>Expense</u>	<u>Life</u>
Gerard	\$88,730	\$ 52,705	\$4,457	20 yrs
Nexus Diversified Properties	3,179	1,484	636	5 yrs
	<u>\$91,909</u>	<u>\$ 54,189</u>	<u>\$5,093</u>	

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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

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>
Land & improvements	\$ 2,176,873	N/A
Building & improvements	22,304,151	20-39 years
Leasehold improvements	2,242,313	Lease term
Equipment	3,845,831	3-15 years
Vehicles	<u>1,157,203</u>	3-5 years
Total fixed assets	<u>\$31,726,371</u>	

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:

Building & improvements	\$712,127
Leasehold improvements	15,959
Equipment	<u>124,802</u>
Total idle assets	<u>\$852,888</u>
Accumulated depreciation related to idle assets	<u>\$116,260</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 could 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 23, 2011, which is the date the financial statements were available to be issued.

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 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 met this requirement for 2010.

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, 2011	\$ 195,000
December 31, 2012	205,000
December 31, 2013	215,000
December 31, 2014	225,000
December 31, 2015	235,000
Thereafter	<u>5,170,000</u>
	<u>\$6,245,000</u>

The bonds carry interest at an increasing rate over their 22 year term beginning at 4.25% annually on October 30, 2008 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 \$43,882, 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. 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.

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 2. BONDS PAYABLE (Continued)

December 31, 2010 balances in these funds are as follows:

Bond fund	\$ 175,529
Bond reserve fund	<u>265,373</u>
	<u>\$ 440,902</u>

These funds are classified as Bond reserve funds under Non Current Assets in the accompanying financial statements.

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	\$221,044	\$32,169	\$10,029	22 yrs

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

<u>Year Ending</u>	
December 31, 2011	\$ 45,054
December 31, 2012	45,054
December 31, 2013	44,841
December 31, 2014	44,418
December 31, 2015	<u>39,424</u>
	<u>\$218,791</u>

NOTE 3. NOTES PAYABLE – LONG TERM

Note payable to U.S. Bank, monthly installments of \$10,217 including principal and interest at 6.14% per annum beginning July, 2005 until October, 2020 at which point all remaining principal and accrued interest is due. This loan is secured by all contents of a brokerage account held by the organization.

\$ 898,101

Mille Lacs facility financing

The organization has completed construction of a new facility for its Mille Lacs Academy location. The new facility was occupied August 29, 2009. To finance the construction of this facility, the organization entered into a series of financing agreements, coordinated by the Midwest Minnesota Community Development Corporation, (MMCDC) and US Bank.

As part of the agreements noted above, the organization executed three notes payable (below) to MMCDC New Markets Fund XVI, LLC. The loans are for a period of 7 years and require interest only payments on a monthly basis until December 1, 2015 at a rate of 4.121 percent per annum. As of December 1, 2015 principal payments are scheduled to begin, however, the organization expects to refinance these obligations on or before that time to secure permanent financing for this project.

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 3. NOTES PAYABLE – LONG TERM (Continued)

The loans are secured by the constructed property as well as various other assets of the organization and have various compliance covenants. These notes payable have been classified in Notes payable – long term in the accompanying financial statements.

Promissory Note 1	\$ 6,000,000
Promissory Note 2	4,594,000
Promissory Note 3	<u>3,656,000</u>
	<u>\$14,250,000</u>

Five year maturities of Notes payable – long term are as follows:

<u>Year Ending</u>	
December 31, 2011	\$ 68,632
December 31, 2012	72,902
December 31, 2013	77,720
December 31, 2014	82,698
December 31, 2015	87,995
Thereafter	<u>14,758,154</u>
	<u>\$15,148,101</u>

Five year combined aggregate maturities of all long term debt of the organization, including bond payable, are as follows:

<u>Year Ending</u>	
December 31, 2011	\$ 263,632
December 31, 2012	277,902
December 31, 2013	292,720
December 31, 2014	307,698
December 31, 2015	322,995
Thereafter	<u>19,928,154</u>
	<u>\$21,393,101</u>

NOTE 4. CREDIT LINE

The organization maintains a line of credit with its bank. The credit line agreement expires April 12, 2011. The credit limit is \$1,000,000 with interest charged at the bank's prime rate plus .25 percent 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, 2010.

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 5. LONG TERM RECEIVABLES

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 balance of this note is \$182,318 as of December 31, 2010 and is reflected in current portion of long term receivables under current assets in the consolidated statement of financial position.

Notes receivable related to construction financing

As part of the construction financing agreement (Note 3), the organization 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 \$46,578 was recognized on this note for the year ended December 31, 2010. 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 (Note 3) 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, 2010, \$309,334 had been advanced on this note and is classified 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 on this note is 7.41 percent per annum which is payable quarterly. Interest income of \$17,569 was recognized on this note for the year ended December 31, 2010. The organization has a security interest in various assets of the Mille Lacs Investment Fund, LLC to collateralize this note.

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

<u>Year Ending</u>	
December 31, 2011	\$ 157,165
December 31, 2012	168,186
December 31, 2013	182,528
December 31, 2014	196,658
December 31, 2015	<u>168,834</u>
	\$ <u>873,371</u>

NOTE 6. CASH FLOW INFORMATION

The Organization considers all liquid cash accounts and certificates of deposit with maturities of ninety days or less to be cash and cash equivalents. Cash paid for interest and income taxes for the year ended December 31, 2010 were as follows:

Interest	\$ <u>988,533</u>
Income taxes	\$ <u>-0-</u>

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**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. The organization contributed \$480,747 to the plan for the year ended December 31, 2010 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 \$104,973 at December 31, 2010.

**NOTE 8. MAJOR CUSTOMERS**

A major portion of the organization's operations 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, 2010, this customer accounted for approximately 40% of per diem revenue. Additionally, this customer accounted for \$1,643,634 or 18% of accounts receivable as of December 31, 2010. As of December 31, 2010, Nexus had received contract advance payments of \$1,719,711 on these balances.

**NOTE 9. CASH AND CREDIT CONCENTRATIONS AND RESTRICTIONS**

As a result of the proceeds from the construction financing (Note 3), the organization has cash whose use is restricted to payments for the construction of the Mille Lacs facility per the loan agreement. The amount of the restricted cash is \$553,350 and is classified in cash in the accompanying financial statements.

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.

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 9. CASH AND CREDIT CONCENTRATIONS AND RESTRICTIONS (continued)

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 10. LEASES

The organization has lease commitments that extend beyond one year from December 31, 2010 as follows:

<u>Operating leases</u>				
<u>Description</u>	<u>Term</u>	<u>Annual Payments</u>	<u>2010 Expense</u>	<u>Account</u>
Corp. Offices	02/01/02-04/30/11	194,809	194,809	Rent
Corp. Offices	05/01/11-04/30/16	107,132	-0-	Rent
Onarga Site	10/08/98-10/07/13	354,000	354,000	Rent
Onarga School	1/01/05-10/07/13	126,000	126,000	Rent
Various Office Equipment	through-12/31/12	80,932	48,579	Office Exp.

Five year maturities of lease payments for leases listed above at December 31, 2010 are as follows:

<u>Year Ending</u>	<u>Operating</u>
December 31, 2011	\$ 691,447
December 31, 2012	637,565
December 31, 2013	602,245
December 31, 2014	602,721
December 31, 2015	442,440
	<u>\$ 2,976,418</u>

NOTE 11. 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, 2010. This amount is classified in other liabilities in the accompanying financial statements. There was no current income affect for the year ended December 31, 2010. 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.

NEXUS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 12. INCOME TAXES

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. As of December 31, 2010, 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 2010 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 2007.

NOTE 13. SUBSEQUENT EVENT

On March 3, 2011, Nexus entered into an agreement with an unrelated 501(c)(3) voluntary health and welfare organization whereby members of Nexus' management replaced certain board members of the other organization. After this change, Nexus has majority control of the other organization's board of directors. For financial reporting purposes, this organization will be consolidated with Nexus for the year ending December 31, 2011.

**NEXUS**  
**SCHEDULE I**  
**COMBINING STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	Onarga	Indian Oaks	Mille Lacs	Gerard	Corporate	Diversified	Eliminations	Total
<b>REVENUE, GAINS AND OTHER SUPPORT</b>								
Per diem revenue	\$ 8,898,022	\$ 12,004,326	\$ 7,670,842	\$ 6,286,328	\$ -	\$ -	\$ -	\$ 34,859,519
Other	95,905	53,997	562,513	1,041,326	-	1,424,948	(2,108,364)	1,070,326
School revenue	2,137,277	2,740,859	137,484	2,181,094	-	-	-	7,196,714
Grant revenue	12,676	29,278	17,928	256,260	-	-	-	316,142
School food revenue	110,783	155,051	130,723	115,771	-	-	-	512,328
Food service revenue	9,796	5,505	2,607	1,202	-	-	-	19,110
Donations	6,340	5,323	41,747	625	-	8,574	-	62,608
Interest	1,629	3,278	1,741	78,759	-	103,586	-	188,994
Investment income	-	-	-	6,642	11,686	1,391,993	-	1,410,320
Special events	10,648	6,038	4,478	5,059	-	-	-	26,223
Gain (Loss) on asset disposition	491	(552)	43	(1,245)	-	3	-	(1,260)
Administration fee	-	-	-	-	3,088,841	555,506	(3,644,347)	-
	\$ 11,283,565	\$ 15,003,104	\$ 8,570,105	\$ 9,971,823	\$ 3,100,527	\$ 3,484,610	\$ (5,752,711)	\$ 45,661,023
<b>OPERATING COSTS AND EXPENSES</b>								
per attached schedule	10,623,852	13,791,348	7,919,244	8,782,572	3,100,527	2,546,024	(5,752,711)	41,010,855
<b>OPERATING EXCESS (DEFICIT)</b>	\$ 659,713	\$ 1,211,756	\$ 650,862	\$ 1,189,251	\$ -	\$ 938,586	\$ -	\$ 4,650,168
<b>OTHER INCOME (EXPENSE)</b>								
Contributions (to)/from affiliates	-	111,455	-	(111,455)	-	-	-	-
<b>CHANGE IN NET ASSETS</b>	\$ 659,713	\$ 1,323,211	\$ 650,862	\$ 1,077,796	\$ -	\$ 938,586	\$ -	\$ 4,650,168
<b>NET ASSETS</b>								
Beginning of year	5,513,932	10,549,138	5,891,071	4,506,565	(8,511,088)	19,328,208	-	37,277,826
End of year	\$ 6,173,645	\$ 11,872,349	\$ 6,541,933	\$ 5,584,361	\$ (8,511,088)	\$ 20,266,794	\$ -	\$ 41,927,994

NEXUS  
SCHEDULE II  
COMBINING STATEMENT OF OPERATING COSTS AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Onarga	Indian Oaks	Mille Lacs	Gerard	Corporate	Diversified	Eliminations	Total
Administrative fees	\$ 849,740	\$ 1,125,265	\$ 521,396	\$ 555,506	\$ -	\$ 592,440	\$ (3,644,347)	\$ -
Amortization expense	-	-	-	14,485	-	30,567	-	45,052
Audit/Accounting	121,504	178,793	74,089	114,716	108,286	151,819	-	749,206
Auto and travel	111,710	134,611	107,771	62,793	63,506	11,333	-	491,724
Bad debts	11,712	1,091	45,414	22,253	-	-	-	80,470
Books & subscriptions	13,544	6,524	4,166	6,967	6,499	-	-	37,700
Community Services	8,670	3,916	30,920	19,929	61,580	-	-	125,014
Consulting	19,390	9,200	3,308	7,272	59,203	21,450	-	119,823
Contract labor	143,407	153,724	89,209	240,965	16,426	64	-	643,794
Depreciation	138,522	231,518	93,621	314,205	42,329	881,134	-	1,701,328
Development	-	-	-	-	172,672	-	-	172,672
Employee benefits	1,683,692	2,249,693	1,001,174	1,006,563	285,505	-	-	6,226,628
Food	189,905	249,152	211,873	317,436	-	-	-	968,366
Insurance	143,160	153,658	96,798	123,972	38,225	102,786	-	658,599
Interest	-	-	60	-	-	653,487	-	653,547
Interest - Bonds	-	-	-	337,772	-	-	-	337,772
License/Dues/Fees	40,969	58,035	37,866	53,330	19,539	265	-	210,004
Maintenance	64,055	118,795	52,484	55,153	1,060	-	-	291,548
New hire expense	4,596	19,897	62,190	21,793	39,063	-	-	147,540
Office expense	114,171	149,407	84,221	68,325	58,558	36	-	474,718
Recreational expense	32,171	55,261	56,302	41,888	-	-	-	185,622
Reentry facility	6,887	3,821	12,290	-	-	-	-	22,998
Rent expense	484,800	293,088	1,023,636	792,720	194,809	-	(2,108,364)	680,689
Resident supplies	146,035	195,801	140,323	50,625	-	-	-	532,783
Salaries and wages	6,026,989	7,969,175	3,725,618	4,284,921	1,857,095	-	-	23,863,797
School expenses	10,179	3,209	120,881	5,158	-	-	-	139,427
Staff development	49,544	60,354	44,440	48,941	43,336	-	-	246,615
Testing & evaluation	7,401	5,153	34,465	7,295	-	-	-	54,314
Utilities	201,100	362,206	244,727	207,589	32,836	77,431	-	1,125,889
Youth without resources	-	-	-	-	-	23,213	-	23,213
	\$ 10,623,852	\$ 13,791,348	\$ 7,919,244	\$ 8,782,572	\$ 3,100,527	\$ 2,546,024	\$ (5,752,711)	\$ 41,010,855