



Financial Statements
December 31, 2022 and 2021

Nexus Diversified Community Services

Nexus Diversified Community Services

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Independent Auditor's Report

The Board of Directors
Nexus Diversified Community Services
Plymouth, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nexus Diversified Community Services (NDCS), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NDCS as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NDCS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NDCS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NDCS's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Eide Sully LLP

Minneapolis, Minnesota
June 21, 2023

Nexus Diversified Community Services

Statements of Financial Position

December 31, 2022 and 2021

	2022	2021
Current Assets		
Cash and cash equivalents	\$ 974,881	\$ 130,015
Other receivables	501,569	-
Investments	37,411,774	41,715,909
Other current assets	12,533	24,700
Total current assets	38,900,757	41,870,624
Property and Equipment, Net	29,623,911	30,376,610
Total assets	\$ 68,524,668	\$ 72,247,234
Current Liabilities		
Current portion of bonds and notes payable	\$ 1,308,489	\$ 1,114,369
Accounts payable	7,000	9,286
Due to affiliates, net	8,978,865	9,121,315
Other accrued expenses	45,740	64,223
Total current liabilities	10,340,094	10,309,193
Noncurrent Liabilities		
Bonds and notes payable, net of current portion and debt issuance costs	13,604,862	13,934,838
Total liabilities	23,944,956	24,244,031
Net Assets		
Without donor restrictions	44,531,913	48,003,203
With donor restrictions	47,799	-
Total net assets	44,579,712	48,003,203
Total liabilities and net assets	\$ 68,524,668	\$ 72,247,234

Nexus Diversified Community Services

Statement of Activities

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains (Losses)			
Net investment loss	\$ (4,303,416)	\$ -	\$ (4,303,416)
Administrative fees	4,376,546	-	4,376,546
Lease revenue	2,576,669	-	2,576,669
Grant and contribution revenue	450,374	600,000	1,050,374
Loss on sale of fixed asset	(5,700)	-	(5,700)
Net assets released from restrictions	552,201	(552,201)	-
	<u>3,646,674</u>	<u>47,799</u>	<u>3,694,473</u>
Total revenue, support, and gains (losses)			
Expenses			
Program services expense	2,551,950	-	2,551,950
Supporting services expense			
Management and general	4,566,014	-	4,566,014
	<u>7,117,964</u>	<u>-</u>	<u>7,117,964</u>
Total expenses			
Change in Net Assets	(3,471,290)	47,799	(3,423,491)
Net Assets, Beginning of Year	48,003,203	-	48,003,203
Net Assets, End of Year	<u>\$ 44,531,913</u>	<u>\$ 47,799</u>	<u>\$ 44,579,712</u>

Nexus Diversified Community Services

Statement of Activities

Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, Support, and Gains (Losses)			
Net investment return	\$ 3,861,857	\$ -	\$ 3,861,857
Administrative fees	3,982,764	-	3,982,764
Lease revenue	2,467,947	-	2,467,947
Loss on sale of fixed asset	(22,346)	-	(22,346)
Total revenue, support, and gains (losses)	<u>10,290,222</u>	<u>-</u>	<u>10,290,222</u>
Expenses			
Program services expense	2,628,797	-	2,628,797
Supporting services expense			
Management and general	<u>4,119,846</u>	<u>-</u>	<u>4,119,846</u>
Total expenses	<u>6,748,643</u>	<u>-</u>	<u>6,748,643</u>
Change in Net Assets	3,541,579	-	3,541,579
Net Assets, Beginning of Year	<u>44,461,624</u>	<u>-</u>	<u>44,461,624</u>
Net Assets, End of Year	<u>\$ 48,003,203</u>	<u>\$ -</u>	<u>\$ 48,003,203</u>

Nexus Diversified Community Services

Statement of Functional Expenses

Year Ended December 31, 2022

	Program Services	Management and General	Fundraising	Total
Administrative Fees	\$ -	\$ 4,566,014	\$ -	\$ 4,566,014
Amortization Expense	22,252	-	-	22,252
Accounting and Audit	17,999	-	-	17,999
Consulting	282,474	-	-	282,474
Contribution Expense	233	-	-	233
Depreciation	1,325,107	-	-	1,325,107
Insurance	108,448	-	-	108,448
Interest	547,508	-	-	547,508
Licensing, Dues, and Fees	10	-	-	10
Utilities	247,919	-	-	247,919
	<u>\$ 2,551,950</u>	<u>\$ 4,566,014</u>	<u>\$ -</u>	<u>\$ 7,117,964</u>
Total expense	<u>\$ 2,551,950</u>	<u>\$ 4,566,014</u>	<u>\$ -</u>	<u>\$ 7,117,964</u>

Nexus Diversified Community Services

Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services	Management and General	Fundraising	Total
Administrative Fees	\$ -	\$ 4,119,846	\$ -	\$ 4,119,846
Amortization Expense	50,869	-	-	50,869
Accounting and Audit	22,113	-	-	22,113
Consulting	244,830	-	-	244,830
Depreciation	1,393,259	-	-	1,393,259
Insurance	120,126	-	-	120,126
Interest	559,350	-	-	559,350
Licensing, Dues, and Fees	5,359	-	-	5,359
Office Expense	493	-	-	493
Utilities	232,398	-	-	232,398
	<u>\$ 2,628,797</u>	<u>\$ 4,119,846</u>	<u>\$ -</u>	<u>\$ 6,748,643</u>
Total expense	<u>\$ 2,628,797</u>	<u>\$ 4,119,846</u>	<u>\$ -</u>	<u>\$ 6,748,643</u>

Nexus Diversified Community Services

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ (3,423,491)	\$ 3,541,579
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	1,325,107	1,393,259
Interest expense attributable to amortization of debt issuance costs	22,052	35,073
Realized and unrealized (loss) gain	4,091,928	(4,072,705)
Grants and contributions restricted to building project	(600,000)	-
Loss on disposal of equipment	5,700	22,346
Changes in operating assets and liabilities		
Other current assets	12,167	(2,604)
Accounts payable	(2,286)	(104,590)
Other accrued expenses	(18,483)	(1,298)
	1,412,694	811,060
Net Cash from Operating Activities		
Cash Flows from (used for) Investing Activities		
Purchase of property and equipment	(637,408)	(1,563,209)
Proceeds from sale of property and equipment	59,300	400
Purchase of investments	(511)	(3,207,676)
Proceeds from sale of investments	212,718	3,418,961
	(365,901)	(1,351,524)
Net Cash used for Investing Activities		
Cash Flows from (used for) Financing Activities		
Cash from (to) affiliates	(142,450)	229,738
Collections of grants and contributions restricted to building project	98,431	-
Principal payments on bonds	(1,157,908)	(1,064,829)
Proceeds from debt issuance	1,000,000	1,288,000
	(201,927)	452,909
Net Cash from (used for) Financing Activities		
Net Change in Cash and Cash Equivalents	844,866	(87,555)
Cash and Cash Equivalents, Beginning of Year	130,015	217,570
Cash and Cash Equivalents, End of Year	\$ 974,881	\$ 130,015
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 547,644	\$ 558,747

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Nexus Diversified Community Services (NDCS) is a nonprofit 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).

The mission of NDCS is to support Nexus Family Healing (previously referred to as 'Nexus') and its affiliates (described below). With missions of strengthening lives, families, and communities through cornerstone values of honesty, responsibility, courage, care, and concern, and to provide families and communities with an array of quality services that promote the development of healthy family relationships and supportive living environments.

Related Party Activity

NDCS is part of an affiliated nonprofit group that shares common management through affiliation agreements and agreements for administrative services. Other members of this affiliated nonprofit group are: Nexus Family Healing, Nexus – PATH Family Healing, Nexus – Kindred Family Healing, Nexus – FACTS Family Healing, Nexus – Woodbourne Family Healing, Woodbourne Charitable Trust, and Nexus Foundation for Family Healing. Transactions entered into with these affiliates have been identified within these financial statements as related party transactions (Note 8). Based on the nature of the relationship with above noted entities, there are no requirements to consolidate these entities into NDCS's financial statements.

Basis of Accounting

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

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for, nor restricted by, donors for long-term purposes, are considered to be cash and cash equivalents.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Property and Equipment

Property and equipment are stated at cost when purchased, or if donated, at fair value on the date of donation. NDCS follows the practice of capitalizing all expenditures for property, improvements, and equipment in excess of \$500; the fair value of donated property and equipment is similarly capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 39 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2022 and 2021.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. NDCS reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. A donation is released from restriction when it is spent for its specific purpose, or when a donor restriction expires, that is, when a stipulated time restriction ends, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of December 31, 2022 and 2021, NDCS net assets with donor-imposed restrictions were \$47,799 and \$0, respectively.

During the year ended December 31, 2022, \$552,201 net assets were released from restriction related to building project.

Lease Revenue

Commercial space is rented under a long-term operating lease agreement (Note 8). Lease revenue is recognized in the month in which it is earned rather than received, based on base rates determined in the lease arrangements. No variable lease payments are associated with these leases. All leases are held with related party affiliates. Under ASC 842, NDCS has elected not to separate lease contracts into lease and non-lease components, since the timing and pattern of revenue is not materially different, and the non-lease component is not the primary component of the lease. Accordingly, both lease and non-lease components are presented in lease revenue in the statements of activities.

Revenue and Revenue Recognition

Revenue is recognized from administrative services as the services are provided. Revenue is earned by NDCS on an annual basis based on 17% and 13% as of December 31, 2022 and 2021, respectively, of the gross payroll of each individual affiliate, plus additional amounts that may be charged to each affiliate in accordance with the administrative services agreements. All services are transferred from NDCS to the individual affiliates over a period of time (annually).

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method. The straight-line method is a reasonable estimate of the effective interest method. Debt issuance costs are included within long-term debt in the statements of financial position. Amortization of debt issuance costs is included in interest expense in the accompanying financial statements.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs may be allocated among the programs and supporting services benefited.

Income Taxes

NDCS is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vii), and has been determined not to be a private foundation under Section 509(a)(3). NDCS is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, NDCS is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. NDCS has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

NDCS believes it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. NDCS would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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, and those differences could be material.

Financial Instruments, Investments and Credit Risk

Deposit concentration risk is managed by placing cash and money market accounts with financial institutions believed by NDCS to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from affiliates of NDCS. Investments are made by diversified investment managers whose performance is monitored by NDCS. Although the fair values of investments are subject to fluctuation on a year-to-year basis, NDCS believes that the investment policies and guidelines are prudent for the long-term welfare of NDCS.

NDCS maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2022, and December 31, 2021, NDCS had approximately \$756,744 and \$0, respectively, in excess of FDIC-insured limits.

Note 2 - Adoption of Accounting Standards Codification Topic 842

Effective January 1, 2022, NDCS adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). NDCS elected to apply the guidance as of January 1, 2022, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The implementation required inclusion of the cash flows related to renewal options and the reassessment of renewals occurred during the implementation of 842. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months when acting as the lessee. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. NDCS does not act as the lessee under any current lease arrangements but does act as lessor on various leases. The adoption of this standard did not impact NDCS's statements of financial position, activities or cash flows. See Note 1 and Note 8 for further disclosure related to leases.

Note 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

	<u>2022</u>	<u>2021</u>
Cash and equivalents	\$ 974,881	\$ 130,015
Operating investments	<u>37,411,774</u>	<u>41,715,909</u>
Less amounts with donor restrictions	<u>(47,799)</u>	<u>-</u>
	<u><u>\$ 38,338,856</u></u>	<u><u>\$ 41,845,924</u></u>

NDCS regularly monitors liquidity required to meet its operating needs and the needs of its affiliates. NDCS has financial assets available to meet general expenditures over the next 12 months. Please see NDCS's statement of cash flows which identifies the sources and uses of NDCS's cash generated by operations for the years ended December 31, 2022 and 2021.

Note 4 - Fair Value Measurement

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk, or liquidity profile of the asset.

A significant portion of investment assets are classified within Level 1 because they are comprised of common stocks and open-end mutual funds with readily determinable fair values based on daily redemption values. Mutual funds are invested and traded in the financial markets. U.S. Government obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions and are classified within Level 1. Corporate bonds are valued using pricing models maximizing the use of the observable inputs for similar securities; this includes basing value on yields currently available on comparable securities of issue with similar credit ratings and are classified within Level 2.

Nexus Diversified Community Services

Notes to Financial Statements

December 31, 2022 and 2021

The following table presents assets measured at fair value on a recurring basis at December 31, 2022:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 1,893,525	\$ 1,893,525	\$ -	\$ -
Corporate bonds	11,428,073	-	11,428,073	-
U.S. Government securities	3,267,621	3,267,621	-	-
Common stocks	20,822,555	20,822,555	-	-
Total investments	\$ 37,411,774	\$ 25,983,701	\$ 11,428,073	\$ -

The following table presents assets measured at fair value on a recurring basis at December 31, 2021:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 2,365,950	\$ 2,365,950	\$ -	\$ -
Corporate bonds	11,603,639	-	11,603,639	-
U.S. Government securities	3,876,600	3,876,600	-	-
Common stocks	23,869,720	23,869,720	-	-
Total investments	\$ 41,715,909	\$ 30,112,270	\$ 11,603,639	\$ -

A portion of NDCS's long term investment portfolio was pledged as collateral for a line of credit issued to Nexus Family Healing.

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31, 2022 and 2021:

	2022	2021
Land and improvements	\$ 3,101,053	\$ 3,166,053
Buildings and improvements	42,928,491	43,237,722
Equipment	1,216,099	1,215,041
Fixed assets in process	581,370	-
Total property and equipment	47,827,013	47,618,816
Less accumulated depreciation	(18,203,102)	(17,242,206)
Total property and equipment, net	\$ 29,623,911	\$ 30,376,610

The construction in process as of December 31, 2022, is related to a building project on the Gerard Academy Campus and began in late 2022.

Note 6 - Major Customers

A major portion of the NDCS’s revenue is dependent upon the related entities: Nexus Family Healing, Nexus – PATH Family Healing, Nexus – Kindred Family Healing, Nexus – FACTS Family Healing, Nexus Foundation for Family Healing, and Nexus – Woodbourne Family Healing. The loss of revenue from these related entities could have a material adverse effect on NDCS. During the year ended December 31, 2022 and 2021, these entities accounted for 94% and 100% of revenue exclusive of investment income, respectively. See Note 9 for amounts due to/from the related entities as of December 31, 2022 and 2021.

Note 7 - Bonds and Notes Payable

Indian Oaks Academy Campus

On September 6, 2013, Nexus Diversified Community Services, with Nexus Family Healing as a guarantor, participated in a municipal bond offering in cooperation with the Village of Manteno in Illinois. Capital Improvement Revenue Bonds in the amount of \$10,000,000 were issued by the Village of Manteno. The primary use of these funds was to purchase and construct a new campus at Nexus Family Healing’s Indian Oaks location. Primary collateral for the bonds are buildings, building contents, and land located in the Village of Manteno. Additionally, the bond documents identify a security interest in all operating bank accounts of NDCS and Nexus Family Healing as they pertain to the Indian Oaks Academy operation and accounts receivable of Nexus Family Healing that are related to its Indian Oaks Academy operation.

The bonds are payable in monthly installments over a 20-year period beginning October 1, 2013, and continuing until September 1, 2033, at which point all remaining principal and interest is due. The monthly installment amounts are \$53,194 which includes principal and interest at 4.08% per annum. The effective interest rate for 2022 and 2021 is 4.16%.

	<u>2022</u>	<u>2021</u>
Bonds payable	\$ 7,549,213	\$ 7,868,084
Less unamortized debt issuance cost	<u>(180,231)</u>	<u>(197,128)</u>
Bonds payable, net	<u>\$ 7,368,982</u>	<u>\$ 7,670,956</u>

Mille Lacs Academy Campus

On November 6, 2015, Nexus Diversified Community Services, with Nexus Family Healing as a guarantor, participated in a municipal bond offering in cooperation with the City of Onamia in Minnesota. Healthcare Facilities Revenue Bonds in the amount of \$5,000,000 were issued by the City of Onamia. The primary use of these funds was to pay off the original financing and provide current financing for Nexus Family Healing’s property at its Mille Lacs Academy Campus. Primary collateral for the bonds are buildings, building contents, and land located in the City of Onamia at Nexus Family Healing’s Mille Lacs Academy Campus location.

The bonds are payable in monthly installments over a 13-year period beginning December 6, 2015, and continuing until November 6, 2028, at which point all remaining principal and interest is due. Interest is calculated at 2.86% per annum until November 6, 2022, at which point the rate was adjusted as defined in the bond documents. Interest was adjusted to 4.6% per annum in November 2022. The monthly installment amounts are \$40,820, which includes principal and interest. The effective interest rate as of December 31, 2022 and 2021, was approximately 3%.

	<u>2022</u>	<u>2021</u>
Bonds payable	\$ 2,608,325	\$ 2,987,357
Less unamortized debt issuance cost	-	(15,077)
	<u>\$ 2,608,325</u>	<u>\$ 2,972,280</u>

Gerard Academy Campus

On December 1, 2015, Nexus Diversified Community Services, with Nexus Family Healing as a guarantor, participated in a municipal bond offering in cooperation with the City of Onamia in Minnesota. Healthcare Facilities Revenue Bonds in the amount of \$5,000,000 were issued by the City of Onamia. The primary use of these funds was to pay off the existing bonds and obtain a lower interest rate for Nexus Family Healing’s Gerard Academy Campus. Primary collateral for the bonds are buildings, building contents, and land located in the City of Austin at Nexus Family Healing’s Gerard Academy Campus location.

The bonds are payable in monthly installments over a 14-year period beginning January 1, 2016, and continuing until December 1, 2029, at which point all remaining principal and interest is due. Interest is calculated at 3.00% per annum until December 1, 2022, at which point the rate is adjusted as defined in the bond documents. On December 1, 2022, the interest rate on the bond was adjusted to a rate per annum equal to 70% times the seven-year LIBOR Swap rate but shall not exceed 4.75%. Interest as of December 31, 2022, was at 4.3%. The monthly installment amounts are \$38,357, which includes principal and interest. The effective interest rate for 2022 and 2021 was approximately 3%.

Nexus Diversified Community Services

Notes to Financial Statements

December 31, 2022 and 2021

	2022	2021
Bonds payable	\$ 2,808,162	\$ 3,200,000
Less unamortized debt issuance cost	-	(13,945)
Bonds payable, net	\$ 2,808,162	\$ 3,186,055

According to the terms of the bond agreements, NDCS is subject to various financial covenants that are calculated from the consolidated financial statements of Nexus Family Healing. The bond documents establish minimum levels for cash on hand and net assets. In addition, NDCS is required to meet a minimum debt service coverage ratio of 1.2. NDCS is in compliance with all bond covenants.

Steps of Success – Andover

On January 4, 2021 Nexus Diversified Community Services obtained a mortgage loan from Bremer Bank in the amount of \$408,000 for Andover location. The promissory note is payable in monthly installments of \$3,994, which includes principal and interest, over a ten-year period beginning February 1, 2021, and continuing until January 4, 2031. Primary collateral for the loan is the capital asset. Interest is calculated at 3.25% per annum. The effective interest rate for 2022 and 2021 is 3.30%.

	2022	2021
Notes payable	\$ 339,834	\$ 375,924

Luther Hall

On April 9, 2021, Nexus Diversified Community Services obtained a mortgage loan from Bremer Bank in the amount of \$880,000 for Luther Hall in North Dakota. The promissory note is payable in monthly installments of \$5,008, which includes principal and interest over a ten-year period beginning April 1, 2021, and continuing until April 1, 2031. Primary collateral for the loan is the capital asset. Interest is calculated at 3.25% per annum. The effective interest rate for 2022 and 2021 is 3.30%.

	2022	2021
Notes payable	\$ 827,925	\$ 859,120
Less unamortized debt issuance cost	-	(15,129)
Notes payable, net	\$ 827,925	\$ 843,991

Gerard Expansion

On September 2, 2022, Nexus Diversified Community Services obtained a loan from Bremer Bank in the amount of \$1,000,000 for the Gerard Expansion. The promissory note is payable in monthly installments of \$18,613, which includes principal and interest over a five-year period beginning October 1, 2022, and continuing until September 1, 2027. Primary collateral for the loan is the capital asset. Interest is calculated at 4.37% per annum. The effective interest rate for 2022 and 2021 is 4.46%.

Nexus Diversified Community Services

Notes to Financial Statements

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Notes payable	\$ 998,919	\$ -
Less unamortized debt issuance cost	<u>(38,796)</u>	<u>-</u>
Notes payable, net	<u>\$ 960,123</u>	<u>\$ -</u>

Future maturities of bonds payable are as follows:

<u>Years Ending December 31,</u>	<u>Bonds and Notes Payable</u>
2023	\$ 1,308,489
2024	1,364,617
2025	1,696,486
2026	1,501,478
20207	1,511,506
Thereafter	<u>7,749,802</u>
	15,132,378
Less unamortized debt issuance costs	<u>(219,027)</u>
	<u>\$ 14,913,351</u>

Note 8 - Leases

NDCS leases various real estate and personal property all to related entities (see Note 1) expiring at various dates through 2032. There are no variable lease payments associated with these lease arrangements. Substantially all of the property owned by NDCS was leased to related entities as of December 31, 2022 and 2021.

NDCS had lease income for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Mille Lacs facility	\$ 769,068	\$ 763,514
Indian Oaks various buildings	659,400	659,400
Gerard Academy facility	993,821	930,332
Onarga foster homes	21,000	18,000
Luther Hall	<u>133,380</u>	<u>96,701</u>
Total lease income	<u>\$ 2,576,669</u>	<u>\$ 2,467,947</u>

Future five year minimum lease income for leases listed above at December 31, 2022, is as follows:

<u>Years Ending December 31,</u>	<u>Minimum Lease Income</u>
2023	\$ 2,746,136
2024	2,746,136
2025	2,746,136
2026	2,746,136
2027	2,746,136
	<u>\$ 13,730,680</u>

Note 9 - Related Party Transactions

NDCS had the following transactions with its affiliated companies (see Note 1) for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Due to affiliates as of January 1	\$ 9,121,315	\$ 8,891,577
Advances/payments from affiliates	5,809,296	4,835,078
Lease revenue from affiliates	(2,576,669)	(2,467,947)
Loan to affiliate	(3,100,000)	(2,350,000)
Charges for operations	85,456	75,525
Contributions from affiliates	(550,000)	-
Management fee revenue	(4,376,546)	(3,982,764)
Management fee expense	4,566,013	4,119,846
	<u>\$ 8,978,865</u>	<u>\$ 9,121,315</u>

Amounts due to/from affiliates do not accrue interest income or expense.

Note 10 - Subsequent Events

In May 2023, NDCS signed an asset purchase agreement related to a property in Anoka County, Minnesota with a purchase price of \$16,500,000. Closing on this property is expected in August 2023 and the Organization anticipates to finance this purchase through debt issuance.

NDCS has evaluated subsequent events through June 21, 2023, the date the financial statements were available to be issued.