

Accounts Receivable and Revenue Recognition Analysis

Confidential Document - Nexus Intelligent Systems, Inc.

1. OVERVIEW AND PURPOSE

1 This Accounts Receivable and Revenue Recognition Analysis ("Document") provides a comprehensive review of the financial accounting practices, revenue recognition methodologies, and accounts receivable management protocols for Nexus Intelligent Systems, Inc. (the "Company"), prepared in contemplation of potential strategic transaction evaluation.

2 The document represents a detailed assessment of the Company's financial recognition practices, designed to provide potential investors, acquirers, or financial partners with a transparent and comprehensive understanding of the Company's revenue generation and collection mechanisms.

2. REVENUE RECOGNITION METHODOLOGY

1 Contract Types

The Company recognizes revenue across three primary contract structures:

- a) Fixed-price enterprise AI implementation contracts
- b) Time and materials consulting engagements
- c) Recurring software-as-a-service (SaaS) subscription agreements

2 Revenue Recognition Principles

The Company adheres to ASC 606 revenue recognition standards, implementing the following key principles:

- Performance obligations are distinctly identified at contract inception
- Transaction prices are explicitly defined and allocated
- Revenue is recognized when (or as) performance obligations are satisfied
- Variable consideration is estimated using the expected value method

3 Contract Performance Obligations

Typical performance obligations include:

- Initial platform configuration and deployment
- Custom machine learning model development
- Ongoing software maintenance and support

- Professional consulting services

3. ACCOUNTS RECEIVABLE ANALYSIS

1 Receivables Composition

As of December 31, 2023, the Company's accounts receivable portfolio demonstrated the following characteristics:

- Total outstanding receivables: \$2,347,500
- Average collection period: 42 days
- Concentration: No single client represents more than 15% of total receivables

2 Aging Schedule

Receivables aging breakdown:

- Current (0-30 days): 68%
- 31-60 days: 22%
- 61-90 days: 7%
- 90+ days: 3%

3 Allowance for Doubtful Accounts

The Company maintains a structured allowance methodology:

- Historical bad debt rate: 0.8% of total receivables
- Specific reserve for accounts over 90 days: 100% provision
- Quarterly review and adjustment of allowance calculations

4. REVENUE QUALITY AND RISK ASSESSMENT

1 Revenue Concentration

Revenue distribution by sector:

- Manufacturing: 42%
- Energy Infrastructure: 28%
- Transportation: 18%
- Other Enterprise Services: 12%

2 Contract Risk Factors

Potential revenue recognition risks include:

- Complex multi-year enterprise implementation contracts
- Performance-based contract components
- Significant customization requirements
- Potential contract modification scenarios

5. FINANCIAL CONTROLS AND AUDIT

1 Internal Control Environment

The Company maintains:

- Quarterly external financial reviews
- Segregation of revenue recognition responsibilities
- Automated revenue recognition tracking systems
- Monthly management financial reconciliation processes

2 Audit History

- Most recent external audit: December 2023
- Audit firm: Ernst & Young LLP
- No material weaknesses identified in revenue recognition processes

6. LIMITATIONS AND DISCLAIMERS

1 This document is provided for informational purposes and does not constitute a definitive financial representation. Potential recipients are advised to conduct independent verification.

2 All financial data represents management-prepared information and is subject to final audit confirmation.

7. EXECUTION

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[Authorized Signature Block]

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