HOSPICE OF MONTEZUMA, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

HOSPICE OF MONTEZUMA, INC.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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Taylor, Roth and Company, PLLC
Certified Public Accountants
working exclusively with nonprofit organizations

October 4, 2018

INDEPENDENT AUDITORS' REPORT

Board of Directors
Hospice of Montezuma, Inc.
Cortez, Colorado

We have audited the accompanying statement of financial position of **Hospice of Montezuma, Inc.** (a Colorado nonprofit corporation) as of December 31, 2017 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with principles generally accepted in the United States of America. This includes 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.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospice of Montezuma, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited Hospice of Montezuma, Inc.'s financial statements for the year ended December 31, 2016, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Taylor, Roth and Company PLLC
TAYLOR, ROTH AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

HOSPICE OF MONTEZUMA, INC,

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016

	2017	2016
Assets		
Cash and cash equivalents - unrestricted	$ 578,389	$ 375,329
Cash and cash equivalents - temporarily restricted	1,000	-
Accounts receivable (Note 3)	84,025	204,972
Prepaid expenses	14,792	16,970
Investments (Note 4)	523,859	511,874
Property held for sale (Note 5)	150,000	-
Other assets	-	1,290
Inventory	34,976	34,974
Property and equipment, net (Note 6)	374,171	594,579
Beneficial interest in assets held by others (Note 7)	36,691	32,932
Total assets	$ 1,797,903	$ 1,772,920
Liabilities and net assets		
Liabilities		
Accounts payable	$ 41,746	$ 61,917
Accrued payroll expenses	38,049	50,393
Capital lease payable (Note 8)	16,726	-
Note payable (Note 9)	331,674	339,196
Total liabilities	428,195	451,506
Net assets		
Unrestricted		
Operating	1,192,937	1,066,031
Net investment in property and equipment	175,771	255,383
Temporarily restricted (Note 10)	1,000	-
Total net assets	1,369,708	1,321,414
Total liabilities and net assets	$ 1,797,903	$ 1,772,920

The accompanying notes are an integral part of these financial statements

HOSPICE OF MONTEZUMA, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and other support				
Program service fees	$ 1,225,662	$ -	$ 1,225,662	$ 1,161,798
Individual contributions	23,583	3,050	26,633	40,134
Special events, net (Note 11)	14,269	-	14,269	8,224
Investment income (Note 4)	12,488	-	12,488	7,448
Memorials	10,164	-	10,164	7,531
Change in beneficial interest in assets held by others (Note 7)	3,759	-	3,759	2,809
All other	3,498	1,750	5,248	4,643
In-kind contributions (Note 12)	15,177	-	15,177	17,280
Net assets released from restrictions (Note 13)	3,800	(3,800)	-	-
Total revenue and other support	1,312,400	1,000	1,313,400	1,249,867
Expenses and losses				
Program services	904,593	-	904,593	906,388
Supporting services				
Management and general	285,458	-	285,458	206,481
Fund-raising	4,234	-	4,234	38,402
Total expenses before losses	1,194,285	-	1,194,285	1,151,271
Impairment - property held for sale (Note 5)	70,821	-	70,821	-
Total expenses and losses	1,265,106	-	1,265,106	1,151,271
Change in net assets	47,294	1,000	48,294	98,596
Net assets, beginning of year	1,321,414	-	1,321,414	1,222,818
Net assets, end of year	$ 1,368,708	$ 1,000	$ 1,369,708	$ 1,321,414

The accompanying notes are an integral part of these financial statements

HOSPICE OF MONTEZUMA, INC

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016

	2017				2016
		Supporting Services			
	Program	Management and General	Fund-raising	Total	Total
Salaries	$ 424,418	$ 201,206	$ 3,155	$ 628,779	$ 634,547
Payroll taxes and benefits	46,587	22,086	346	69,019	61,369
Patient medical services	282,677	-	-	282,677	274,121
Computer supplies	24,113	11,432	179	35,724	34,897
Indigent and underinsured	24,314	-	-	24,314	12,435
Travel and mileage	24,093	-	-	24,093	31,539
Accounting services	-	14,530	-	14,530	4,801
Telephone	9,649	4,574	72	14,295	14,113
Interest expense	8,106	3,843	60	12,009	5,206
Utilities	7,902	3,746	59	11,707	8,117
Repairs and maintenance	5,734	2,718	43	8,495	13,062
Insurance	4,736	2,246	35	7,017	6,536
Equipment	4,381	2,077	33	6,491	2,882
Office expense	3,986	1,889	30	5,905	5,906
Education and conferences	3,370	1,598	25	4,993	3,405
Advertising and public relations	3,330	1,578	25	4,933	4,288
Licenses and permits	1,911	906	14	2,831	3,965
Postage	1,446	686	11	2,143	1,502
All other	8,506	3,074	33	11,613	11,235
	889,259	278,189	4,120	1,171,568	1,133,926
Depreciation and amortization	15,334	7,269	114	22,717	17,345
Total	$ 904,593	$ 285,458	$ 4,234	$ 1,194,285	$ 1,151,271

The accompanying notes are an integral part of these financial statements

HOSPICE OF MONTEZUMA, INC,

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 48,294	$ 98,596
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debts - indigent and underinsured	24,314	12,435
(Gain)loss on investments	(5,100)	(3,493)
Change in beneficial interest in assets held by others	(3,759)	(2,809)
Depreciation and amortization	22,717	17,345
Impairment of asset held for sale	70,821	-
Changes in operating assets and liabilities		
(Increase)decrease in accounts receivable	96,633	(98,705)
(Increase)decrease in prepaid expenses	2,178	(11,144)
(Increase)decrease in other assets	1,290	(1,290)
(Increase)decrease in inventory	(2)	(12,181)
Increase(decrease) in accounts payable	(20,171)	(1,951)
Increase(decrease) in accrued payroll expenses	(12,344)	(19,303)
Net cash provided by operating activities	224,871	(22,500)
Cash flows from investing activities		
(Purchases) of investments	-	(48,566)
(Reinvestment) of investment earnings	(6,885)	(3,955)
(Purchases) of property and equipment	(3,654)	(11,724)
Net cash provided(used) by investing activities	(10,539)	(64,245)
Cash flows from financing activities		
(Repayments) of note payable and capital lease	(10,272)	(3,226)
Net increase in cash and cash equivalents	204,060	(89,971)
Cash and cash equivalents, beginning of year	375,329	465,300
Cash and cash equivalents, end of year	$ 579,389	$ 375,329
Supplemental disclosure of information:		
Cash paid during the period for interest	$ 12,009	$ 5,206
Noncash investing and financing transactions		
Property and equipment purchased with capital lease	$ 19,476	$ -
Property and equipment purchased with long-term debt	$ -	$ 342,422

The accompanying notes are an integral part of these financial statements

NOTE 1 - NATURE OF ACTIVITIES

Hospice of Montezuma, Inc. (the Organization) is a community non-profit organization of dedicated professionals and volunteers providing in-home assistance, end-of-life care, support, and guidance to all individuals and families regardless of their ability to pay. The Organization is primarily supported through program service fees, which include payments from Medicaid, Medicare, private insurance, and individual clients for hospice services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

1. Basis of Accounting

   The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

2. Basis of Presentation

   The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

3. Cash and Cash Equivalents

   The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

4. Restricted and Unrestricted Revenue

   Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

5. Donations

   The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

   The Organization reports gifts of land, buildings, and equipment as unrestricted support unless the explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

6. Accounts Receivable

   Accounts receivable are stated at the amount management expects to collect from outstanding balances. No allowance for doubtful accounts is deemed necessary by management at December 31, 2017.

7. Inventories

   Inventory consists of purchased and donated medical supplies and equipment. Supplies and equipment purchased by the Organization are valued at cost. Donated supplies and equipment are reflected at their estimated fair value at date of donation.

8. Capitalization and Depreciation

   The Organization follows a practice of capitalizing all expenditures for property and equipment in excess of $500. The fair value of donated assets is similarly capitalized. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives range from 5 to 40 years.

9. Estimates

   The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

10. Income Taxes

    The Organization has received an Internal Revenue Service exemption from federal income taxes under Section 501(c)(3). Accordingly, no provision or liability for income taxes has been provided in the accompanying financial statements.

11. Fair Value Measurements

    The Organization follows the provisions of the Fair Value Measurements and Disclosures Topic of FASB ASC, which require use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3).

12. Functional Reporting of Expenses

    For the year ended December 31, 2017, the costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

13. Summarized Prior-Year Information

    The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (concluded)

14. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

15. Subsequent Events

Management has evaluated subsequent events through October 4, 2018, the date the financial statements were available to be issued.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of $ 84,025 in Medicare/Medicaid, private insurance, and individual client receivables for hospice services and are stated at the amount management expects to collect from outstanding balances. The current balance is considered collectible, and no allowance for uncollectible accounts was deemed necessary at December 31, 2017.

NOTE 4 - INVESTMENTS

At year-end, investments consisted of the following:

Description	Cost Basis	Fair Value	Unrealized Appreciation (Depreciation)
Cash, money funds, certificates of deposit	$ 445,831	$ 445,831	$ -
Mutual funds	75,803	78,028	2,225
Total	$ 521,634	$ 523,859	$ 2,225

A certificate of deposit in the amount of $355,104 is collateral for the note payable at December 31, 2017. See Note 9, Note Payable.

Investment returns are summarized as follows:

Description	Amount
Interest and dividends	$ 7,388
Unrealized gain(loss)	5,100
Total	$ 12,488

NOTE 5 - PROPERTY HELD FOR SALE AND IMPAIRMENT

The Organization purchased a new office building in 2016, and the building that was formerly used for operations was put up for sale. An impairment charge of $ 70,821 was recorded during the year ended December 31, 2017, to reduce the value of the asset to the estimated fair market value, less costs to sell.

NOTE 6 - PROPERTY AND EQUIPMENT

At year-end, property and equipment consisted of the following:

Description	Amount
Land	$ 90,000
Building and improvements	267,800
Furniture and fixtures	12,273
Machinery and equipment	61,317
Total	431,390
Less: accumulated depreciation	(57,219)
Net property and equipment	$ 374,171

Depreciation expense for the year was $ 22,717.

NOTE 7 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In 2013, the Organization established an endowment fund (the Fund) at a local community foundation, Onward! A Legacy Foundation (Onward), and named itself as the beneficiary. Consistent with Onward's endowment policies, the Organization granted variance power to Onward which allows the modification of any condition or restriction on its distributions for any specified charitable purpose or to any specified organization, if, in the sole judgment of Onward's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by Onward for the benefit of the Organization. The Fund is subject to the Foundation's investment and spending polices, although the Organization may elect to receive all or part of each distribution.

The Fund is reported at fair value in the Organization's statement of financial position, with distributions and changes in fair value recognized in the Organization's statement of activities. As of December 31, 2017, the Organization has elected to not receive any disbursements from the Fund.

Changes in the beneficial interest in assets held by others for the year ended December 31, 2017, were as follows:

Description	Amount
Balance, beginning of year	$ 32,932
Gifts and contributions	-
Share of appreciation	3,759
Distributions	-
Balance, end of year	$ 36,691

NOTE 8 - CAPITAL LEASE PAYABLE

In the current year, the Organization signed a non-cancelable lease agreement with an unrelated third party for computer equipment. The lease qualifies as a capital lease because ownership of the equipment transfers to the Organization at the conclusion of the 36-month lease term. The monthly lease payments are $774, and the imputed interest rate of the agreement is 24.93%.

Future minimum lease payments are as follows:

Year	Amount
2018	$ 9,283
2019	9,283
2020	3,868
Total payments	22,434
Amount representing interest	(5,708)
Capital lease payable (present value of minimum lease payments)	$ 16,726

Interest expense for the capital lease for the year ended December 31, 2017, was $ 2,665.

NOTE 9 - NOTE PAYABLE

At year-end, the note payable consisted of the following:

Description	
Local bank: Original amount $342,422, dated July 8, 2016; maturity date June 24, 2021; 58 monthly principal and interest payments of $1,405 and a final payment estimated at $305,690; interest rate is fixed at 2.78% per annum until paid in full; secured by a certificate of deposit, current value of $355,104 (see Note 4)	$ 331,674

The future scheduled maturities for the years ending December 31st are:

Year	Amount
2018	$ 7,715
2019	7,933
2020	8,132
2021	307,894
Total	$ 331,674

Interest expense for the note for the year ended December 31, 2017, was $ 9,344.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

At year-end, temporarily restricted net assets included a grant for $1,000 which was donor-restricted for caregiver support. These net assets will be released when the purpose restriction is met.

NOTE 11 - SPECIAL EVENTS

For the year, special events consisting of:

Description	Amount
Special events revenue	$ 16,882
Less: direct expenses	(2,613)
Net special events revenue	$ 14,269

Direct special events expense consisted of items that are of direct benefit to the attendees.

NOTE 12 - IN-KIND CONTRIBUTIONS

Donated goods are reflected in the accompanying financial statements at the estimated value at date of receipt. The value of donated goods included in the financial statements and the corresponding expenses for the year are as follows:

Description	Amount
Medical supplies and equipment	$ 15,177

Donated services which require recognition are those that create or enhance non-financial assets or that specifically require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization received approximately 453 donated hours during the year from individuals providing direct patient care and event assistance valued at approximately $11,184. These services were not recognized in the financial statements because they did not meet criteria for recognition.

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS

During the year, net assets were released from donor restriction by satisfying restricted program purposes:

Description	Amount
Building/moving fund	$ 3,050
Caregiver support	750
Total	$ 3,800

NOTE 14 - FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Organization reports certain assets 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 are available in active markets for identical investments as of the reporting date. The Organization has *investments* in this category.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Fair value is determined through the use of models or other valuation methodologies. The Organization does not have any investments in this category.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The Organization has *beneficial interests in assets held by others* and *property held for sale* in this category.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table presents assets measured at fair value at December 31, 2017:

Description	Total	Level 1	Level 2	Level 3
Investments	$ 523,859	$ 523,859	$ -	$ -
Property held for sale	150,000	-	-	150,000
Beneficial interest in assets held by others	36,691	-	-	36,691
Total	$ 710,550	$ 523,859	$ -	$ 186,691

Note 7 includes a reconciliation of the beginning and ending balance of the beneficial interest in assets held by others for the year ended December 31, 2017, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The fair value of the beneficial interest in assets held by others is based on the fair value of fund investments as reported by the community foundation.

NOTE 15 - COMMITMENTS – EQUIPMENT LEASE

The Organization is a party to a non-cancellable operating lease for a copy machine. The rental terms included monthly payments of $467 through June 2018. The lease agreement was renewed in July 2018, with terms that include a monthly payment of $294. The agreement expires in June 2020. Future minimum rental payments under this agreement included:

Year	Amount
2018	$ 4,391
2019	3,527
2020	1,470
Total payments	$ 9,388

Equipment rental expense for the year ended December 31, 2017, was $ 6,491.

NOTE 16 - MARGIN LOAN

The Organization has a margin loan agreement with the investment custodian. The investments serve as collateral for the margin loan credit line. The total credit available to the Organization is 50% of the market value of investments held by the brokerage, and the interest rate is the greater of prime rate or 4%, plus up to 2%, depending on the overall balance of the investments.

The brokerage requires the Organization to maintain an equity level (investment market value less margin loan balance) of at least 35% of securities' market value. As of December 31, 2017, the interest rate was 6.50%, and there was no outstanding balance on the margin loan.

NOTE 17 - RETIREMENT PLAN

The Organization has a SIMPLE IRA retirement plan (the Plan) covering all eligible employees meeting certain age and service requirements. The Organization matches the employee's contribution up to 3% of the employee's qualifying compensation. Total plan expense for the year was $9,554.

NOTE 18 - CONTINGENCIES

Grants and contracts require the fulfillment of certain conditions set forth in the instrument of the agreement. Failure to fulfill the conditions could result in disallowed claims or questioned costs and may constitute a liability of the Organization.

NOTE 19 - CONCENTRATIONS OF RISK

Funding Source

The Organization relies heavily on reimbursements from Medicare and Medicaid for its major sources of revenue. Management of the Organization expects this funding to continue into the foreseeable future. However, if a significant portion of these funds are reduced or not continued, the Organization's ability to continue all programs would be diminished. For the year ended December 31, 2017, the Organization received 94% of total revenues from Medicare and Medicaid reimbursements. At December 31, 2017, 100% of accounts receivable were from Medicare and Medicaid reimbursements.

NOTE 19 - CONCENTRATIONS OF RISK, concluded

Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents. The Organization's cash and cash equivalents are in demand deposit accounts placed with federally insured financial institutions and selected brokerage accounts. Such deposit accounts at times may exceed federally insured limits. The Organization has not experienced any losses on such accounts.

Market Risk

The Organization has investments in stocks, bonds, and mutual funds which are subject to the risk of market value fluctuation.