Kit Carson County Health Service District

Basic Financial Statements and Independent Auditors' Report

December 31, 2025 and 2024

ACCOUNTANTS | ADVISORS

Kit Carson County Health Service District
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ACCOUNTANTS | ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Kit Carson County Health Service District
Burlington, Colorado

Opinion

We have audited the accompanying financial statements of Kit Carson County Health Service District (the District) as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2025 and 2024, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, 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 GAAP, 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 the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' 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 the District'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 the District'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.

Required Supplementary Information

Management has not presented the management's discussion and analysis that GAAP requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Auditing Standards Board in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of budget and actual revenues and expenses is presented for purposes of additional analysis and is not a required part of the 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 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 GAAS. In our opinion, the schedule of budget and actual revenues and expenses is fairly stated in all material respects, in relation to the financial statements as a whole.

DZA PLLC

Spokane Valley, Washington
April 6, 2026

Kit Carson County Health Service District
Statements of Net Position
December 31, 2025 and 2024

ASSETS	2025	2024
Current assets		
Cash and cash equivalents	**$ 8,298,473**	$ 6,548,170
Investments	**11,209,698**	11,528,342
Receivables:		
Patient accounts	**2,697,935**	2,563,270
Property taxes	**783,467**	669,663
Estimated third-party payor settlements	**260,000**	100,000
Cash and cash equivalents held by trustee for debt service	**779,921**	767,270
Inventories	**667,361**	632,564
Prepaid expenses	**314,609**	265,136
Total current assets	**25,011,464**	23,074,415
Noncurrent assets		
Cash and cash equivalents restricted by bond indenture for capital projects	**2,645,000**	2,645,000
Depreciable capital assets, net	**4,013,980**	4,454,538
Nondepreciable capital assets	**612,746**	194,084
Total noncurrent assets	**7,271,726**	7,293,622
Total assets	**$ 32,283,190**	$ 30,368,037

See accompanying notes to financial statements.

Kit Carson County Health Service District
Statements of Net Position (Continued)
December 31, 2025 and 2024

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2025	2024
Current liabilities		
Accounts payable	**$ 595,262**	$ 1,173,748
Accrued compensation and related liabilities	**1,196,854**	1,199,040
Current maturities of long-term debt	**580,000**	555,000
Current maturities of lease liabilities	**168,325**	161,766
Estimated third-party payor settlements	**1,677,000**	147,000
Interest payable	**199,916**	212,265
Total current liabilities	**4,417,357**	3,448,819
Noncurrent liabilities		
Long-term debt, net of current maturities	**8,405,000**	8,985,000
Lease liabilities, net of current maturities	**250,439**	414,565
Total noncurrent liabilities	**8,655,439**	9,399,565
Total liabilities	**13,072,796**	12,848,384
Deferred inflows of resources, property tax levy	**783,467**	654,283
Total liabilities and deferred inflows of resources	**13,856,263**	13,502,667
Net position		
Net investment in capital assets	**(2,132,038)**	(2,822,709)
Unrestricted	**19,779,044**	18,920,809
Restricted for debt service	**779,921**	767,270
Total net position	**18,426,927**	16,865,370
Total liabilities, deferred inflows of resources, and net position	**$ 32,283,190**	$ 30,368,037

See accompanying notes to financial statements.

Kit Carson County Health Service District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2025 and 2024

	2025	2024
Operating revenues		
Net patient service revenue	**$ 24,715,707**	$ 24,694,380
Contracted 340B pharmacy	**1,460,371**	1,204,332
Other	**175,114**	239,641
Total operating revenues	**26,351,192**	26,138,353
Operating expenses		
Salaries and wages	**8,632,044**	7,932,506
Employee benefits	**2,490,703**	2,010,331
Professional fees and other purchased services	**9,040,653**	8,599,971
Supplies	**2,791,357**	2,677,062
Depreciation and amortization	**804,043**	806,522
Insurance	**190,732**	247,591
Utilities	**304,141**	294,192
Provider fees	**761,273**	689,915
Other	**771,556**	1,274,186
Total operating expenses	**25,786,502**	24,532,276
Operating income	**564,690**	1,606,077
Nonoperating revenues (expenses)		
Taxation for operations	**691,255**	769,419
Contributions	**4,520**	42,116
Interest income	**616,858**	634,326
Grants	**117,091**	278,600
Interest expense	**(432,857)**	(466,169)
Total nonoperating revenues, net	**996,867**	1,258,292
Capital grants and contributions	**-**	284,640
Change in net position	**1,561,557**	3,149,009
Net position, beginning of year	**16,865,370**	13,716,361
Net position, end of year	**$ 18,426,927**	$ 16,865,370

See accompanying notes to financial statements.

Kit Carson County Health Service District
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
Change in Cash and Cash Equivalents		
Cash flows from operating activities		
Cash received from and on behalf of patients	**$ 25,951,042**	$ 22,326,632
Cash received from other revenue	**1,635,485**	1,443,973
Payments to and on behalf of employees	**(11,124,933)**	(9,734,945)
Payments to suppliers and contractors	**(14,522,468)**	(13,455,731)
Net cash from operating activities	**1,939,126**	579,929
Cash flows from noncapital financing activities		
Proceeds from grants	**117,091**	278,600
Taxation for operations	**706,635**	754,039
Proceeds from contributions	**4,520**	42,116
Net cash from noncapital financing activities	**828,246**	1,074,755
Cash flows from capital and related financing activities		
Purchase of capital assets	**(782,147)**	(723,115)
Principal paid on lease liabilities	**(157,567)**	(186,523)
Principal paid on long-term debt	**(555,000)**	(460,000)
Interest paid on long-term debt and lease liabilities	**(445,206)**	(476,404)
Proceeds from capital grants	**-**	284,640
Net cash from capital and related financing activities	**(1,939,920)**	(1,561,402)
Cash flows from investing activities		
Proceeds from the sale of investments	**3,377,030**	2,086,432
Purchase of investments	**(3,058,386)**	(3,391,209)
Interest	**616,858**	634,326
Net cash from investing activities	**935,502**	(670,451)
Net change in cash and cash equivalents	**1,762,954**	(577,169)
Cash and cash equivalents, beginning of year	**9,960,440**	10,537,609
Cash and cash equivalents, end of year	**$ 11,723,394**	$ 9,960,440

See accompanying notes to financial statements.

Kit Carson County Health Service District
Statements of Cash Flows (Continued)
Years Ended December 31, 2025 and 2024

		2025		2024
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position				
Cash and cash equivalents in current assets	**$**	**8,298,473**	$	6,548,170
Cash and cash equivalents held by trustee for debt service		**779,921**		767,270
Cash and cash equivalents restricted by bond indenture for capital projects		**2,645,000**		2,645,000
Total cash and cash equivalents	**$**	**11,723,394**	$	9,960,440
Reconciliation of Operating Income to Net Cash from Operating Activities				
Operating income	**$**	**564,690**	$	1,606,077
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization		**804,043**		806,522
Provision for bad debts		**2,614,325**		3,027,188
(Increase) decrease in assets:				
Receivables:				
Patient accounts receivable, net		**(2,748,990)**		(3,062,937)
Estimated third-party payor settlements		**(160,000)**		156,001
Inventories		**(34,797)**		931
Prepaid expenses		**(49,473)**		154,400
Increase (decrease) in liabilities:				
Accounts payable		**(578,486)**		171,855
Accrued compensation and related liabilities		**(2,186)**		207,892
Estimated third-party payor settlements		**1,530,000**		(2,488,000)
Net cash from operating activities	**$**	**1,939,126**	$	579,929

The District recorded $186,603 of right-of-use assets and lease liabilities in 2024.

See accompanying notes to financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Kit Carson County Health Service District (the District) is a 19-bed critical access hospital located in Burlington, Colorado, and rural health clinics located in Burlington and Stratton, Colorado. The District provides healthcare services to Kit Carson County and surrounding areas. The District was created in 1996 as a political subdivision of the state of Colorado. As a political subdivision of the state of Colorado, the District is exempt from income taxes under Section 115 of the Internal Revenue Code (IRC) and a similar provision of state law. The District is governed by a Board of Directors consisting of seven members elected by the residents of the District. The District is not a component unit of another government entity. The District does not have any material component units.

b. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows of resources, and disclosure of contingent 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.

Enterprise fund accounting – The District's accounting policies conform to GAAP as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Inventories – Inventories of medical, pharmaceuticals, and other supplies are stated at cost, determined using the first-in, first-out method.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit of the related expense.

Capital assets – It is the District's policy to capitalize property and equipment over $5,000 and a useful life of at least two years; lesser amounts are expensed. Such assets, other than lease assets, are recorded at historical cost if purchased or constructed. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets other than land are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under lease liabilities are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense. Lease assets are stated at the present value of the future payments under the agreement, plus any payments made at or before the start of the contract and costs to place the asset in service.

1. **Reporting Entity and Summary of Significant Accounting Policies (continued):**

   b. **Summary of Significant Accounting Policies (continued)**

   ***Capital assets* (continued)** –

   Estimated useful lives are as follows:

Land improvements	10 to 20 years
Buildings and improvements	5 to 40 years
Fixed equipment	3 to 25 years
Major movable equipment	3 to 20 years
Leased right-of-use equipment	4 to 6 years

   Lease agreements do not contain material residual value guarantees or material restrictive covenants.

   Compensated absences and related liabilities – The District's employees earn accrued vacation leave for vacation and holidays based upon years of service. The related liability is accrued during the period in which it is earned. Depending on years of service, accrued vacation leave accrues from 0.05769 to 0.010384 per hour worked each year. The District's policy is to permit employees to accumulate up to a maximum of 480 hours. Upon reaching 480 hours, any excess accrued vacation leave earned that would extend an employee over the stated maximum is not paid to the employee. Employees also earn sick leave benefits based on a standard rate of 0.054 per hour worked up to 320 hours maximum. Unused sick leave is not paid upon termination of employment.

   Accrued compensation and related liabilities includes accruals for compensated absences related to paid time off and sick leave. Accruals for vacation are fully vested and are calculated by multiplying the vacation hours earned by the employee wage rates for each employee. Accruals for sick leave are not vested and are estimated based on the amount of the accrued hours expected to be used by the employees. For all accruals for compensated absences, payroll-related expenses, such as employer payroll taxes and retirement contributions, that relate to the compensated absences are also estimated and accrued.

   Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted.*

   Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

1. **Reporting Entity and Summary of Significant Accounting Policies (continued):**

   b. Summary of Significant Accounting Policies (continued)

   Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

   Grants and contributions – From time to time, the District receives grants from the state of Colorado and others, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses. Grants that are restricted for specific projects or purposes related to the District's operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

   Upcoming accounting standard pronouncements - In April 2024, the Governmental Auditing Standards Board (GASB) issued Statement No. 103, *Financial Reporting Model Improvements*, which increases the usefulness of governments' financial statements by improving definitions and disclosures related to management's discussion and analysis, unusual or infrequent items, and nonoperating revenue. It also changes presentation requirements for component units and budgetary comparison information. These changes will improve the comparability of the financial statements. The new guidance is effective for the District's year ending December 31, 2026, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

   Subsequent events – The District has evaluated subsequent events and transactions through April 6, 2026, the date on which the financial statements were available to be issued.

2. **Deposits and Investments:**

   Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the depository institution, the District may not be able to recover its deposits or investments. The District's investment policy does not contain policy requirements that would limit the exposure to custodial credit risk for investments.

   Under Colorado State Statute, the Commercial Bank Code Public Deposit Protection Act of 1989 (PDPA) protects public funds held in bank deposit accounts if the bank holding the public deposits becomes insolvent. As defined by the PDPA, deposit accounts include checking, savings, bank money market, and certificates of deposit accounts. Banks must deliver bank assets (usually securities) to a third-party institution, which are pledged to the Colorado Division of Banking, for all Colorado public depositors.

   The District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation or by deposits collateralized by securities not held in the District's name under the PDPA.

2. Deposits and Investments (continued):

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District has a policy specifically limiting its investments to U.S. government-backed securities, insured certificates of deposits, or money market accounts.

Investments – Colorado State statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, banker's acceptance notes, commercial paper, repurchase agreements, money market funds, and guaranteed investment contracts. All investments must be held by the District, in its name, or in custody of a third party on behalf of the local government.

Concentration of credit risk – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – The possibility that an interest rate change could adversely affect an investment's fair value. The District does not have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation of inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The District's certificates of deposit are valued using observable inputs from similar investments (Level 2 input) as approximately $11,200,000 and $11,500,000 for the years ended December 31, 2025 and 2024, respectively.

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

3. Patient Accounts Receivable (continued):

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted, is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District were as follows:

		2025		2024
Receivable from patients and their insurance carriers	**$**	**4,139,121**	$	4,110,846
Receivable from Medicare		**807,425**		284,140
Receivable from Medicaid		**108,389**		129,284
Total patient accounts receivable		**5,054,935**		4,524,270
Less allowance for uncollectible accounts		**(2,357,000)**		(1,961,000)
Patient accounts receivable, net	**$**	**2,697,935**	$	2,563,270

4. Capital Assets:

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2024	Additions	Retirements	Transfers	Balance December 31, 2025
Capital assets not being depreciated or amortized					
Land	$ 176,836	$ 435,910	$ -	$ -	**$ 612,746**
Construction in progress	17,248	177,019	-	(194,267)	**-**
Total capital assets not being depreciated or amortized	194,084	612,929	-	(194,267)	**612,746**
Capital assets being depreciated or amortized					
Land improvements	36,420	-	-	-	**36,420**
Buildings and improvements	12,688,378	36,734	-	176,645	**12,901,757**
Fixed equipment	2,821,906	71,263	-	-	**2,893,169**
Major movable equipment	5,449,080	61,221	-	17,622	**5,527,923**
Leased right-of-use equipment	1,463,864	-	-	-	**1,463,864**
Total capital assets being depreciated or amortized	22,459,648	169,218	-	194,267	**22,823,133**
Less accumulated depreciation and amortization for					
Land improvements	29,548	1,085	-	-	**30,633**
Buildings and improvements	10,098,147	363,100	-	-	**10,461,247**
Fixed equipment	2,560,413	60,645	-	-	**2,621,058**
Major movable equipment	4,420,630	208,491	-	-	**4,629,121**
Leased right-of-use equipment	896,372	170,722	-	-	**1,067,094**
Total accumulated depreciation or amortized	18,005,110	804,043	-	-	**18,809,153**
Total capital assets being depreciated or amortized, net	4,454,538	(634,825)	-	194,267	**4,013,980**
Capital assets, net	**$ 4,648,622**	**$ (21,896)**	**$ -**	**$ -**	**$ 4,626,726**

	Balance December 31, 2023	Additions	Retirements	Transfers	Balance December 31, 2024
Capital assets not being depreciated or amortized					
Land	$ 176,836	$ -	$ -	$ -	**$ 176,836**
Construction in progress	161,548	91,365	-	(235,665)	**17,248**
Total capital assets not being depreciated or amortized	338,384	91,365	-	(235,665)	**194,084**
Capital assets being depreciated or amortized					
Land improvements	36,420	-	-	-	**36,420**
Buildings and improvements	12,333,096	193,734	-	161,548	**12,688,378**
Fixed equipment	2,821,906	-	-	-	**2,821,906**
Major movable equipment	4,943,832	438,016	-	67,232	**5,449,080**
Leased right-of-use equipment	1,270,376	186,603	-	6,885	**1,463,864**
Total capital assets being depreciated or amortized	21,405,630	818,353	-	235,665	**22,459,648**
Less accumulated depreciation and amortization for					
Land improvements	28,462	1,086	-	-	**29,548**
Buildings and improvements	9,771,695	326,452	-	-	**10,098,147**
Fixed equipment	2,507,003	53,410	-	-	**2,560,413**
Major movable equipment	4,183,250	237,380	-	-	**4,420,630**
Leased right-of-use assets equipment	708,178	188,194	-	-	**896,372**
Total accumulated depreciation and amortized	17,198,588	806,522	-	-	**18,005,110**
Total capital assets being depreciated or amortized, net	4,207,042	11,831	-	235,665	**4,454,538**
Capital assets, net	**$ 4,545,426**	**$ 103,196**	**$ -**	**$ -**	**$ 4,648,622**

5. Long-term Debt:

A schedule of changes in the District's long-term debt follows:

	Balance December 31, 2024	Additions	Reductions	Balance December 31, 2025	Amounts Due Within One Year
2023 revenue bonds	$ 9,540,000	$ -	$ (555,000)	$ 8,985,000	**$ 580,000**
Lease liabilities	576,331	-	(157,567)	418,764	**168,325**
Total long-term debt and lease liabilities	$ 10,116,331	$ -	$ (712,567)	$ 9,403,764	**$ 748,325**

	Balance December 31, 2023	Additions	Reductions	Balance December 31, 2024	Amounts Due Within One Year
2023 revenue bonds	$ 10,000,000	$ -	$ (460,000)	$ 9,540,000	**$ 555,000**
Lease liabilities	576,251	186,603	(186,523)	576,331	**161,766**
Total long-term debt and lease liabilities	$ 10,576,251	$ 186,603	$ (646,523)	$ 10,116,331	**$ 716,766**

The terms and due dates of the District's long-term debt are as follows:

- Health Care Facilities Revenue Bonds Series 2023 (the 2023 Bonds), in the original amount of $10,000,000 dated February 2023. The bonds are payable annually on January 1 in varying principal installments from $580,000 to $940,000, plus interest at 4.45 percent, payable through January 2037. The 2023 Bonds were issued to refinance the 2007 Bonds and provide funding for a future construction project. These bonds are secured by the District's net revenues.

  The bond resolution requires, among other things, the establishment of a debt service fund to be held by the issuer for the purpose of paying principal and interest on the bonds when sufficient monies are unavailable in the Senior Bond Fund into which the loan repayments are deposited in order to pay the principal and interest on the bonds.

  Terms of the 2023 Bonds place limits on the incurrence of additional borrowings. Also, the provisions of the indenture related to the 2023 Bonds contain covenants pertaining to reporting requirements, current ratio, debt service coverage ratio, and maintenance of days cash on hand.

- Lease liabilities are due in monthly installments including principal and interest at varying amounts from $1,224 to $3,919, including interest at varying rates from 2.50 percent to 9.50 percent through 2029; collateralized by related equipment.

5. Long-term Debt (continued):

Scheduled principal and interest repayments on long-term debt are as follows:

Years Ending December 31,	Long-term Debt		Lease Liabilities	
	Principal	Interest	Principal	Interest
2026	$ 580,000	$ 386,927	$ 168,325	$ 24,051
2027	610,000	360,450	145,375	13,667
2028	635,000	332,749	103,510	3,860
2029	665,000	303,824	1,554	12
2030	690,000	273,675	-	-
2031-2035	3,960,000	866,414	-	-
2036-2037	1,845,000	82,881	-	-
	$ 8,985,000	**$ 2,606,920**	**$ 418,764**	**$ 41,590**

6. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District has not changed its charity care or uninsured discount policies during the years ended December 31, 2025 or 2024. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources is as follows:

	2025	2024
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	**$ 9,762,948**	$ 9,895,022
Medicaid	**2,858,811**	3,395,142
Other third-party payors	**9,189,377**	8,620,929
Patients	**1,967,465**	1,945,003
Supplemental payments	**3,768,952**	4,174,616
	27,547,553	28,030,712
Less:		
Charity care	**217,521**	309,144
Provision for bad debts	**2,614,325**	3,027,188
Net patient service revenue	**$ 24,715,707**	$ 24,694,380

6. Net Patient Service Revenue (continued):

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- ***Medicare*** – The District has been designated a critical access hospital and the clinics as rural health clinics by Medicare, and are reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. The District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Nonrural health clinic physician services are reimbursed on a fee schedule.

- ***Medicaid*** – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are paid based on prospectively determined rates. Rural health clinic encounters are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid. Physician services are reimbursed on a fee schedule.

- ***Other*** – The District has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately $157,000 and decreased by approximately $97,000 in the years ended December 31, 2025 and 2024, respectively, due to differences between original estimates and final settlements or revised estimates for all settlements.

The Colorado Department of Health Care Policy and Financing (the State) reconciles the District's Medicaid rural health care clinic rate on a retrospective basis. As of the report date, the State had reconciled the rate through 2020.

Under the Colorado Health Care Affordability Act (the Act), the District pays provider fees to the state of Colorado. The provider fees are based on inpatient days and outpatient charges. The District also receives various supplemental payments from the state of Colorado under this Act.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2025 and 2024, were approximately $159,000 and $219,000, respectively. The District received no gifts or grants to subsidize the cost of caring for charity care patients in 2025 or 2024.

7. Property Taxes:

The Kit Carson County Treasurer acts as an agent to assess and collect property taxes levied in the county for all taxing authorities. Property taxes are levied and assessed on January 1 of the prior year on property values assessed as of May 1 of the prior year. Taxes are due in two equal amounts by April 30 and February 28, or all may be paid by February 28. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. The assessed property is subject to lien on the levy date; therefore, no allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2025 and 2024, for taxes levied for 2025 and 2024, respectively.

For 2025, the District's regular tax levy was $3.000 per $1,000 on a total assessed valuation of $261,155,715, for a total regular levy of $783,467. For 2024, the District's regular tax levy was $3.000 per $1,000 on a total assessed valuation of $218,094,196, for a total regular levy of $654,283.

The District paid $19,000 in both 2025 and 2024, to the Kit Carson County Treasurer for assessment and collection of the tax levy.

8. Defined Contribution Plan:

The District participates in the Colorado County Officials and Employee Retirement Association, a defined contribution plan (the 457(b) Plan), covering all employees hired subsequent to January 1, 1984. The 457(b) Plan covers substantially all of the District's employees who have reached age 18. Participants may contribute a percentage of their compensation up to certain limits specified by the IRC. The District also has the discretion to make profit-sharing contributions as determined by the Board of Directors. Participants are immediately fully vested in their own contributions.

The District also participates in the Colorado Retirement Association Retirement Plan and Trust Agreement (the 401(a) Plan) into which the District and participating employees are required to contribute 3 percent of gross regular wages. Employees may contribute additional amounts to the 401(a) Plan up to the maximum allowed under the IRC. Employees vest in employer contributions and related earnings over a five-year period. Benefit provisions are contained in the Plan document and were established and can be amended by the District's Board of Directors and management. The District also has the discretion to make profit-sharing contributions as determined by the Board of Directors. The discretionary contributions are allocated to participants' accounts in the 401(a) Plan. Participants become fully vested in the District's contributions after five years of service.

The District administers and has the authority to amend both the 457(b) Plan and the 401(a) Plan.

Plan participants contributed approximately $152,000 and $120,000, for the years ended December 31, 2025 and 2024, respectively, to the 457(b) Plan.

Plan participants contributed approximately $250,000 and $212,000 for the years ended December 31, 2025 and 2024, respectively, to the 401(a) Plan. The District made matching contributions to the 401(a) Plan of approximately $238,000 and $212,000 for the years ended December 31, 2025 and 2024, respectively.

9. Contingencies and Commitments:

Medical malpractice claims – The District has professional liability insurance coverage with COPIC Insurance Company. The policy provides protection on a "claims-made" basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $3,000,000. The policy has no deductible per claim.

No liability has been accrued for future coverage for acts occurring in this or prior years. Also, it is possible that claims may exceed coverage obtained in any given year.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations.

If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

Tax, spending, and debt limitations – At the November 3, 1992, general election, Colorado voters approved an amendment to the Colorado Constitution, Article X, Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR was effective December 31, 1992, and its provisions limit government taxes, spending revenues, and debt without electoral approval.

TABOR, by its terms, applies to local governments such as special districts but excludes "enterprises," which are defined as (1) a government-owned business, (2) authorized to issue its own debt, and (3) receives less than 10 percent of its annual revenue in grants from all state and local governments. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR. However, the District has made certain interpretations of TABOR's language in order to determine its compliance.

Risk management – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for any of the three preceding years.

10. Concentration of Credit Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The following is the mix of receivables from patients and third-party payors reported by the District:

	2025	2024
Medicare	**20 %**	16 %
Medicaid	**5**	7
Other third-party payors	**31**	32
Patients	**44**	45
	100 %	100 %

Physicians – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on District operations.

11. Budget and Actual Revenues and Expenses:

The District overspent its approved budget by $740,000 in 2025.

SUPPLEMENTARY INFORMATION

Kit Carson County Health Service District
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2025

	Actual 2025	Preliminary and Final Approved Budget	Favorable (Unfavorable) Variance
Operating revenues			
Net patient service revenue	**$ 24,715,707**	$ 25,238,916	$ (523,209)
Contracted 340B pharmacy	**1,460,371**	-	1,460,371
Other	**175,114**	864,650	(689,536)
Total operating revenues	**26,351,192**	26,103,566	247,626
Operating expenses			
Salary, wages, and employee benefits	**11,122,747**	13,514,350	2,391,603
Professional fees and other purchased services	**9,801,926**	6,027,121	(3,774,805)
Supplies	**2,791,357**	2,260,401	(530,956)
Depreciation and amortization	**804,043**	932,862	128,819
Insurance	**190,732**	410,857	220,125
Utilities	**304,141**	302,164	(1,977)
Other	**771,556**	1,585,714	814,158
Total operating expenses	**25,786,502**	25,033,469	(753,033)
Operating income	**564,690**	1,070,097	(505,407)
Nonoperating revenues (expenses)			
Taxation for operations	**691,255**	654,283	36,972
Contributions	**4,520**	-	4,520
Interest income	**616,858**	604,380	12,478
Grants	**117,091**	280,000	(162,909)
Interest expense	**(432,857)**	(444,087)	11,230
Total nonoperating revenues (expenses), net	**996,867**	1,094,576	(97,709)
Change in net position	**$ 1,561,557**	**$ 2,164,673**	**$ (603,116)**

See accompanying independent auditors' report.