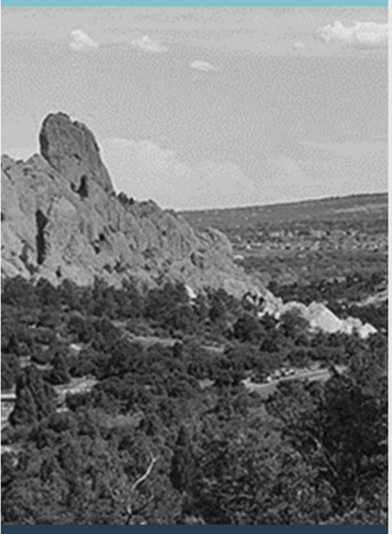


sorren CPAs, PC

Financial Statements

Huerfano County Hospital District
d/b/a Spanish Peaks Regional Health Center
For the Years Ended December 31, 2025 and 2024

HUERFANO COUNTY HOSPITAL DISTRICT
D/B/A SPANISH PEAKS REGIONAL HEALTH CENTER

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center
Walsenburg, Colorado

Opinion

We have audited the accompanying financial statements of Huerfano County Hospital District, d/b/a Spanish Peaks Regional Health Center (the District), which comprise the statements of net position as of December 31, 2025 and 2024, and the related statements of revenues, expenses and changes in net position 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 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audit. 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 the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility 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 generally accepted auditing standards 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 generally accepted auditing standards 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.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements 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 for the year ended December 31, 2025 as listed in the table of contents is presented for the purpose 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sorren CPAs P.C.
Colorado Springs, Colorado
September 25, 2026

HUERFANO COUNTY HOSPITAL DISTRICT
D/B/A SPANISH PEAKS REGIONAL HEALTH CENTER

STATEMENTS OF NET POSITION
DECEMBER 31, 2025 AND 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,250,699	$ 5,022,041
Cash held for residents	40,371	57,439
Patient accounts receivable, net	4,206,741	4,536,972
Property taxes receivable	1,287,656	1,092,316
Employee retention tax credits receivable		4,072,572
Supplies	917,990	827,711
Other current assets	1,140,174	702,627
Total current assets	14,843,631	16,311,678
NON-CURRENT CASH AND INVESTMENTS		
Internally designated	1,000	1,080
Assets whose use is limited:		
Investments held as collateral on long-term debt	1,500,000	1,500,000
Held by Colorado State Treasurer	296,462	296,462
Cash restricted by donors	46,094	87,126
Total non-current cash and investments	1,843,556	1,884,668
CAPITAL ASSETS, NET	12,656,582	14,272,252
TOTAL	$ 29,343,769	$ 32,468,598

(Continued)

HUERFANO COUNTY HOSPITAL DISTRICT
D/B/A SPANISH PEAKS REGIONAL HEALTH CENTER

STATEMENTS OF NET POSITION
DECEMBER 31, 2025 AND 2024

	2025	2024
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 856,626	$ 1,649,282
Accrued expenses and other current liabilities	776,604	684,382
Compensated absences	1,335,038	1,271,283
Deposits from residents	40,371	57,439
Estimated third-party payer settlements	184,355	1,200,345
Current maturities of note payable	202,281	195,657
Current maturities of lease liabilities	221,843	274,810
Total current liabilities	3,617,118	5,333,198
NOTE PAYABLE	370,693	574,280
LEASE LIABILITIES	290,221	499,445
Total liabilities	4,278,032	6,406,923
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenues	1,287,656	1,092,316
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	5,565,688	7,499,239
NET POSITION		
Net investment in capital assets	11,571,544	12,728,060
Restricted expendable	1,842,556	1,883,588
Unrestricted	10,363,981	10,357,711
Total net position	23,778,081	24,969,359
TOTAL	$ 29,343,769	$ 32,468,598

See notes to financial statements. (Concluded)

HUERFANO COUNTY HOSPITAL DISTRICT
D/B/A SPANISH PEAKS REGIONAL HEALTH CENTER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
OPERATING REVENUES		
Net patient service revenue	$ 38,619,036	$ 36,526,451
Other operating revenue	1,504,105	1,410,351
Total operating revenues	40,123,141	37,936,802
OPERATING EXPENSES		
Salaries, wages and employee benefits	24,855,305	24,522,955
Supplies and other	9,825,456	9,010,776
Purchased services and professional fees	6,329,552	6,207,024
Depreciation	2,096,041	2,289,411
Total operating expenses	43,106,354	42,030,166
LOSS FROM OPERATIONS	(2,983,213)	(4,093,364)
NON-OPERATING INCOME (EXPENSE)		
Property taxes	1,141,834	1,327,440
Interest income	344,043	926,114
Non-capital grants and gifts	275,267	569,142
Interest expense	(55,641)	(64,956)
Other	39,104	(212,401)
Non-operating income, net	1,744,607	2,545,339
REVENUES UNDER EXPENSES BEFORE CAPITAL GRANTS AND GIFTS	(1,238,606)	(1,548,025)
CAPITAL GRANTS AND GIFTS	47,328	1,744,648
INCREASE (DECREASE) IN NET POSITION	(1,191,278)	196,623
NET POSITION, Beginning of year	24,969,359	24,772,736
NET POSITION, End of year	$ 23,778,081	$ 24,969,359

See notes to financial statements.

HUERFANO COUNTY HOSPITAL DISTRICT
D/B/A SPANISH PEAKS REGIONAL HEALTH CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 37,933,277	$ 36,175,368
Payments to employees	(24,680,182)	(24,517,680)
Payments to suppliers and contractors	(16,966,810)	(14,690,735)
Other receipts, net	959,211	1,548,655
Net cash used in operating activities	(2,754,504)	(1,484,392)
NON-CAPITAL FINANCING ACTIVITIES		
Collection of employee retention credits receivable	4,072,572	
Property taxes supporting operations	1,141,834	1,327,440
Non-capital grants and gifts	275,267	569,142
Other	39,104	51,651
Net cash provided by non-capital financing activities	5,528,777	1,948,233
CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	47,328	1,744,648
Purchases of capital assets	(461,593)	(1,502,314)
Principal payments on notes payable and lease liabilities	(477,932)	(1,983,562)
Interest paid	(55,641)	(64,956)
Net cash used in capital and related financing activities	(947,838)	(1,806,184)
INVESTING ACTIVITIES		
Net cash provided by investing activities—		
Interest received	344,043	142,438
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,170,478	(1,199,905)
CASH AND CASH EQUIVALENTS, Beginning of year	5,464,148	6,664,053
CASH AND CASH EQUIVALENTS, End of year	$ 7,634,626	$ 5,464,148

(Continued)

HUERFANO COUNTY HOSPITAL DISTRICT
D/B/A SPANISH PEAKS REGIONAL HEALTH CENTER

STATEMENTS OF CASH FLOWS
FOR THE 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	$ 7,250,699	$ 5,022,041
Cash held for residents	40,371	57,439
Cash held by Colorado State Treasurer	296,462	296,462
Cash restricted by donors	46,094	87,126
Internally designated	1,000	1,080
Total cash and cash equivalents	$ 7,634,626	$ 5,464,148
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES		
Loss from operations	$ (2,983,213)	$ (4,093,364)
Depreciation	2,096,041	2,289,411
Changes in operating assets and liabilities:		
Patient accounts receivable, net	330,231	(652,930)
Estimated third-party payer settlements	(1,015,990)	301,847
Accounts payable and other current liabilities	(653,747)	527,651
Other	(527,826)	142,993
Net cash used in operating activities	$ (2,754,504)	$ (1,484,392)
NON-CASH CAPITAL AND FINANCING ACTIVITIES		
Lease liabilities incurred for capital assets	$ 18,778	$ 774,018

See notes to financial statements. (Concluded)

HUERFANO COUNTY HOSPITAL DISTRICT
D/B/A SPANISH PEAKS REGIONAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity — Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District) is a political subdivision formed under the Colorado Revised Statutes as a local service and improvement district to provide medical care to the residents of Huerfano County, Colorado, including Walsenburg. The District supports and operates the Spanish Peaks Hospital (the Hospital), a 20-bed facility that is certified as a Critical Access Hospital. In addition, a 120-bed Spanish Peaks Veterans Community Living Center (the Living Center) is operated by the District adjacent to the Hospital. The District has component units but is not a component unit of another governmental entity.

In November 1993, the District entered into a contract for the operation of the Living Center with the state of Colorado for the benefit of the Department of Human Services. Under the terms of the contract, the District is responsible for the costs associated with operating the facility; in return, all revenue, bank accounts and receivables accrue to the benefit of the District. The original term of the contract was 20 years and is renewable at the District's option for successive 10-year terms up to 99 years from the original commencement date. As stipulated in the agreement, expenditures made in excess of revenues earned by the Living Center are the responsibility of the District.

The District is organized to finance and operate a hospital and a living center. As required by accounting principles generally accepted in the United States of America, these financial statements present the District and each of its component units. The component units are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

Basis of Accounting and Presentation — The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated non-exchange transactions.

Government-mandated non-exchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in non-operating income and expense. The District first applies restricted net positions when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and 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.

Cash and Cash Equivalents — The District considers all liquid investments with original maturities of three months or less to be cash equivalents.

Patient Accounts Receivable — The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. Patient accounts receivable are due in full when billed. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies — Supply inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

Investments and Investment Income — Investments in U.S. Treasury obligations and in non-negotiable certificates of deposit are carried at cost. All other investments are carried at fair value. Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Capital Assets — Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under lease liabilities and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense. The following estimated useful lives are being used by the District:

Buildings and leasehold improvements	10 – 40 years
Equipment and computer software	3 – 10 years

The District evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2025 and 2024.

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Compensated Absences — The District accrues leave for compensated absences as an expense and a liability, based on the District's estimated usage patterns and future payouts in compliance with GASB issued Statement No. 101, *Compensated Absences*. District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. All employees who terminate their employment will be paid unused paid time off hours at their regular rate of pay up to 100% of their balance.

Risk Management — The District is exposed to various risks of loss from 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 accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Deferred Inflows of Resources — The District reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

Net Position — Net position of the District is classified in three components on its statements of net position. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of non-capital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by debt agreements, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue — The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. The provision for uncollectible accounts totaled $550,610 and $2,057,939 for the years ended December 31, 2025 and 2024, respectively. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care — The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The costs of charity care provided under the District's charity care policy were $1,170,580 and $690,972 in 2025 and 2024, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Property Taxes — The District received approximately 3% of its financial support from property taxes in both 2025 and 2024. These funds were used to support operations. Property taxes are assessed in January and are due in one installment on April 30 or in two installments on February 28 and June 15 of each year. Property tax revenue is recognized in the year for which the taxes are levied.

Income Taxes — As an essential government function of the County, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Living Center Cost Allocations — Costs for the use of shared facilities, common areas and joint operations are allocated between the Living Center and the District in accordance with Medicare and Medicaid principles and guidelines. Allocation bases, such as direct salary dollars, and square footage are used to allocate the costs accumulated in the various departments between the two facilities.

Subsequent Events — The District has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. NET PATIENT SERVICE REVENUE

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare: The District is designated as a Critical Access Hospital and is reimbursed on a cost basis. The District is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the District and audit thereof by the Medicare fiscal intermediary.

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 encounters are reimbursed at a tentative rate with final settlement determined after submission of cost reports and audits thereof by Medicaid.

Approximately 71% and 73% of net patient service revenue are from participation in the Medicare and Medicaid programs for the years ended December 31, 2025 and 2024, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Net patient service revenue increased by approximately $535,000 and $159,000 during 2025 and 2024, respectively, as the result of prior-year settlements and the elimination of prior year allowances.

The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The state of Colorado has implemented a fee on hospitals to generate matching funds to the state from federal sources through the Colorado Healthcare Accountability and Sustainability Enterprise (CHASE).

During the years ended December 31, 2025 and 2024, the impact on the District's financial statements was as follows:

	2025	2024
CHASE supplemental payments included in net patient service revenue	$ 4,134,016	$ 4,286,470
CHASE fee expense	(757,685)	(576,088)
Effect of CHASE payments and fees	$ 3,376,331	$ 3,710,382

The CHASE provider fee payments have been recorded as an operating expense and the supplemental payments received have been recorded as an adjustment to net patient service revenue in the accompanying financial statements.

3. PATIENT ACCOUNTS RECEIVABLE, NET

The District grants credit without collateral to its patients, many of whom are insured under third-party payer agreements.

Patient accounts receivable at December 31, 2025 and 2024 consisted of:

	2025	2024
Medicare	$ 1,633,886	$ 1,989,975
Medicaid	787,494	1,140,466
Other third-party payers	2,938,386	2,940,845
Patients	1,222,070	1,763,109
Total	6,581,836	7,834,395
Less allowance for contractual adjustments and uncollectible accounts	(2,375,095)	(3,297,423)
Patient accounts receivable, net	$ 4,206,741	$ 4,536,972

4. DEPOSITS AND INVESTMENTS

Deposits — Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law. The Colorado Public Deposit Protection Act (the PDPA) requires financial institutions to collateralize any uninsured public deposits. The bank balance is insured by federal insurance (FDIC) for up to $250,000 for interest and non-interest bearing accounts. Any excess of deposit accounts over the FDIC limit that is not insured is covered by collateral pledged by the financial institution in accordance with the PDPA.

At December 31, 2025 and 2024, $2,568,193 and $6,945,815, respectively, of the District's bank balances of $3,159,849 and $7,656,674, respectively, were exposed to custodial credit risk as follows:

	2025	2024
Insured (FDIC) or collateralized with securities held by the District	$ 591,656	$ 710,859
Uninsured and collateral held by pledging financial Institution's trust department or agent in other than the District's name	2,271,731	6,649,353
Held by Colorado State Treasurer	296,462	296,462
Total	$ 3,159,849	$ 7,656,674

Colorado Government Liquid Asset Trust (COLOTRUST) is an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes by state statutes. At December 31, 2025, the District had deposits with COLOTRUST of $5,477,227, included within cash and cash equivalents in the statement of net position. COLOTRUST operates similarly to a money market fund and each share is equal in value to $1.00. COLOTRUST operates similarly to a money market fund and each share is equal in value to $1.00. Designated custodial banks provide safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. All securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investment owned by COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury notes.

Investments — The District may legally invest in certificates of deposit and direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. It may also invest to a limited extent in equity securities. Certificates of deposit and U.S. Treasury notes are valued at cost as an estimate of fair value.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles based on the valuation of inputs used to measure the fair value of investments. 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.

Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. COLOTRUST deposits are measured at fair value using NAV.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy is limited to purchasing securities that mature within one year from the date of purchase for operating funds and five years or less from the date of purchase for capital reserves. A U.S. Treasury note was acquired to use as collateral on a note payable to bank and has a maturity date of August 31, 2026.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's only investments consist of money market accounts, COLOTRUST deposits and the U.S. Treasury note discussed above.

Concentration of Credit Risk – The District's policy is to not have any single investment exceed one-third of the total portfolio, except for U.S. Treasury securities and federal agencies.

Foreign Currency Risk – This risk is related to adverse effects on the fair value of an investment from changes in exchange rates. The District's investment policy does not permit foreign currency holdings.

Summary of Carrying Values — The carrying values of deposits and investments shown above are included in the statements of net position as follows:

	2025	2024
Carrying value:		
COLOTRUST	$ 5,477,227	
Bank deposits	1,856,547	$ 5,163,956
U.S. Treasury note	1,500,000	1,500,000
On deposit with Colorado State Treasurer	296,462	296,462
Cash on hand	4,390	3,730
Total	$ 9,134,626	$ 6,964,148

Included in the following statement of net position captions:

	2025	2024
Cash and cash equivalents	$ 7,250,699	$ 5,022,041
Cash held for residents	40,371	57,439
Non-current cash and investments:		
Investments to be held as collateral on long term debt	1,500,000	1,500,000
Held by Colorado State Treasurer	296,462	296,462
Internally designated	1,000	1,080
Cash restricted by donors	46,094	87,126
Total	$ 9,134,626	$ 6,964,148

5. CAPITAL ASSETS

Capital assets activity is as follows for the years ended December 31, 2025 and 2024:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
2025:					
Buildings and leasehold improvements	$ 26,990,111	$ 32,659			$ 27,022,770
Equipment	14,763,043	107,654		$ 366,985	15,237,682
Lease right-of-use assets - equipment	3,302,785	18,778			3,321,563
Land	47,784				47,784
Construction in progress	993,230	321,280		(366,985)	947,525
	46,096,953	480,371	$ —	—	46,577,324
Less accumulated depreciation:					
Buildings and leasehold improvements	17,751,503	801,667			18,553,170
Equipment	12,120,037	1,029,520			13,149,557
Lease right-of-use assets - equipment	1,953,161	264,854			2,218,015
	31,824,701	2,096,041	—		33,920,742
Capital assets, net	$ 14,272,252	$ (1,615,670)	$ —	$ —	$ 12,656,582
2024:					
Buildings and leasehold improvements	$ 23,233,338	$ 148,740		$ 3,608,033	$ 26,990,111
Equipment	13,267,446	490,191	$ (238,746)	1,244,152	14,763,043
Lease right-of-use assets - equipment	4,458,767	774,018		(1,930,000)	3,302,785
Land	47,784				47,784
Construction in progress	3,585,663	863,383	(11,107)	(3,444,709)	993,230
	44,592,998	2,276,332	(249,853)	(522,524)	46,096,953
Less accumulated depreciation:					
Buildings and leasehold improvements	17,255,817	495,686			17,751,503
Equipment	10,801,020	1,216,995		102,022	12,120,037
Lease right-of-use assets - equipment	2,000,977	576,730		(624,546)	1,953,161
	30,057,814	2,289,411	—	(522,524)	31,824,701
Capital assets, net	$ 14,535,184	$ (13,079)	$ (249,853)	$ —	$ 14,272,252

6. LINE OF CREDIT

The District has a line of credit agreement with a financial institution that provides for borrowings of up to $1,000,000 through the maturity date of December 3, 2026. Interest on the line of credit borrowing is payable monthly at the prime rate less 1.35% with a floor of 3.5%. The line is collateralized by the District's accounts receivable. There were no transactions during 2025 or 2024.

7. LONG TERM DEBT

The following is a summary of long-term debt transactions for the years ended December 31:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2025:					
Note payable to bank	$ 769,937		$ (196,963)	$ 572,974	$ 202,281
Lease liabilities	774,255	$ 18,778	(280,969)	512,064	221,843
Total long-term debt	$ 1,544,192	$ 18,778	$ (477,932)	$ 1,085,038	$ 424,124
2024:					
Lease liabilities	$ 1,809,147	$ 774,018	$ (1,808,910)	$ 774,255	$ 274,810
Note payable to bank	944,589		(174,652)	769,937	195,657
Total long-term debt	$ 2,753,736	$ 774,018	$ (1,983,562)	$ 1,544,192	$ 470,467

Note Payable to Bank — During 2012, the District entered into a promissory note payable to a bank with maximum available borrowings for construction of $2,500,000. As of December 31, 2025 and 2024, borrowings under the note totaled $572,974 and $769,937, respectively. Interest only payments at 4% were due until November 2013, when principal and interest payments became due monthly. The note matures in October 2027 and is secured by a U.S. Treasury note with a balance of $1,500,000 as of December 31, 2024. The loan agreement requires the maintenance of certain financial covenants. The debt service requirements of the note payable to bank are as follows as of December 31, 2025:

	Principal	Interest	Total
2026	$ 202,281	$ 20,373	$ 222,654
2027	370,693	10,602	381,295
Total	$ 572,974	$ 30,975	$ 603,949

In September 2026, the District completely paid off the note which include the remaining principal balance and any related interest.

Lease Liabilities — The District is obligated under leases for equipment that are accounted for as lease liabilities. Lease liabilities are due in monthly installments including principal and interest at varying amounts from $140 to $11,000, including interest at varying rates from 1.75% to 4.76% through 2029; collateralized by related equipment. The following is a schedule by year of future minimum lease payments under the leases as of December 31, 2025:

	Principal	Interest	Total
2026	$ 221,843	$ 17,853	$ 239,696
2027	200,805	8,328	209,133
2028	86,561	1,471	88,032
2029	2,855	44	2,899
Total	$ 512,064	$ 27,696	$ 539,760

8. RESTRICTED EXPENDABLE NET POSITION

At December 31, 2025 and 2024, restricted expendable net position is available for the following purposes:

	2025	2024
Investments held as collateral on long-term debt	$ 1,500,000	$ 1,500,000
Living Center expense reserve held by Colorado State Treasurer	296,462	296,462
Resident needs	46,094	87,126
Total restricted expendable net position	$ 1,842,556	$ 1,883,588

At December 31, 2025 and 2024, $1,000 and $1,080, respectively, of cash has been designated for future use by the District's Board of Directors. Designated balances remain under the control of the Board of Directors and may be used at their discretion.

9. PENSION PLAN

The District has established and administers the Spanish Peaks Regional Health Center 403(b) Plan (the Plan), a defined contribution plan. Benefit terms may be amended by the District.

For all full-time employees meeting the eligibility requirements of the Plan, the employer will make matching contributions of up to 50% of the first 6% of compensation deferred under the compensation reduction election of the employee into the Plan. Employees are permitted to make contributions to the pension plan, up to applicable Internal Revenue Code limits.

Employees are immediately vested in their own contributions and earnings on those contributions. Employer contributions into the Plan are subject to a 5-year graded vesting schedule. Non-vested employer contributions are forfeited upon termination of employment. Forfeitures are used to reduce the employer contributions. Except as permitted under the Plan, distributions from an employee's account may not be made earlier than the earliest date on which the employee has severance from employment, dies, becomes disabled, or attains age 59½. Contributions made or accrued by the District totaled $378,975 and $357,310 during 2025 and 2024, respectively.

10. LIVING CENTER EXPENSE RESERVE ACCOUNT

Under the terms of the operating contract with the state of Colorado (the State), the District is required to establish and fund an expense reserve account, under control of the State, to fund operations should the State be required to assume control of the Living Center. The District is required to make annual payments equal to one-half of the Living Center's average monthly net accounts receivable balance. The annual payments are to be made until the balance in the fund equals $660,000.

The District is allowed to borrow, interest free, up to 75% of the amount in the account. The balance in the expense reserve account (net of outstanding loans) was $296,462 as of December 31, 2025 and 2024, and is included in non-current cash and investments (see Note 4). Accordingly, the District had net borrowings from the account of $363,538 and $363,538 as of December 31, 2025 and 2024. Should the State assume control of the Living Center, the District would be required to repay the amount borrowed.

11. VETERANS' HEALTH ADMINISTRATION GRANT REVENUE

The Living Center receives Veterans Health Administration grant revenues as a contractor of the state of Colorado for the purpose of providing nursing home care to eligible veterans. For the years ended December 31, 2025 and 2024, such grant revenue totaled $1,299,511 and $1,317,118, respectively, and is recorded as other operating revenue in the accompanying financial statements.

12. RISK MANAGEMENT AND CONTINGENCIES

Malpractice Insurance — The District purchases medical malpractice insurance under a claims-made (or occurrence-basis) policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Litigation, Claims and Disputes — In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's commercial insurance. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

13. TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments. The District's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth. The amendment excludes enterprises from its provisions. Enterprises are defined as government-owned businesses authorized to issue revenue bonds and who receive less than 10% of their annual revenue in grants from all state and local governments combined. The District is of the opinion that its operations qualify for this exclusion.

14. EMPLOYEE RETENTION TAX CREDITS

In response to the COVID-19 outbreak the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act provides for employee retention tax credits (ERTC), which are refundable tax credits against certain employment taxes. During 2022, the District determined that it is eligible for refundable employee retention tax credits for the six months ended June 30, 2021. Subsequent to December 31, 2022, the District filed for the tax credits. The District has recognized a receivable and non-operating income of approximately $3.3 million for the employee retention tax credits as of and for the year ended December 31, 2022. During 2024, the District recognized an additional receivable of $783,636 relating to interest on the ERTC claim. The receivable remained outstanding as of December 31, 2024 and was collected by the District during the year ended December 31, 2025. ERTC claims are subject to audit by the Internal Revenue Service.

15. CONDENSED COMBINING INFORMATION

The following tables are condensed combining statements of net position for the District and its blended component units as of December 31, 2025 and 2024:

	District	Hospital	Living Center	Eliminations	Totals
2025:					
ASSETS					
Current assets	$ 13,461,162	$ 11,558,746	$ 6,028,011	$ (16,204,288)	$ 14,843,631
Non-current cash and investments	1,797,462		46,094		1,843,556
Capital assets, net		8,855,440	3,801,142		12,656,582
Total	$ 15,258,624	$ 20,414,186	$ 9,875,247	$ (16,204,288)	$ 29,343,769
LIABILITIES					
Current liabilities		$ 19,355,911	$ 465,495	$ (16,204,288)	$ 3,617,118
Long-term liabilities		652,836	8,078		660,914
Total liabilities	$ —	20,008,747	473,573	(16,204,288)	4,278,032
DEFERRED INFLOWS OF RESOURCES	1,287,656				1,287,656
NET POSTION					
Net investment in capital assets		7,781,481	3,790,063		11,571,544
Restricted expendable	1,796,462		46,094		1,842,556
Unrestricted	12,174,506	(7,376,042)	5,565,517		10,363,981
Total net position	13,970,968	405,439	9,401,674	—	23,778,081
Total	$ 15,258,624	$ 20,414,186	$ 9,875,247	$ (16,204,288)	$ 29,343,769
2024:					
ASSETS					
Current assets	$ 12,129,979	$ 11,594,574	$ 5,586,008	$ (12,998,883)	$ 16,311,678
Non-current cash and investments	1,797,542		87,126		1,884,668
Capital assets, net		10,131,767	4,140,485		14,272,252
Total	$ 13,927,521	$ 21,726,341	$ 9,813,619	$ (12,998,883)	$ 32,468,598

	District	Hospital	Living Center	Eliminations	Totals
LIABILITIES					
Current liabilities		$ 17,849,298	$ 482,783	$ (12,998,883)	$ 5,333,198
Long-term liabilities		1,073,725			1,073,725
Total liabilities	$ —	18,923,023	482,783	(12,998,883)	6,406,923
DEFERRED INFLOWS OF RESOURCES	1,092,316				1,092,316
NET POSTION					
Net investment in capital assets		8,587,575	4,140,485		12,728,060
Restricted expendable	1,796,462		87,126		1,883,588
Unrestricted	11,038,743	(5,784,257)	5,103,225		10,357,711
Total net position	12,835,205	2,803,318	9,330,836		24,969,359
Total	$ 13,927,521	$ 21,726,341	$ 9,813,619	$ (12,998,883)	$ 32,468,598

The following tables are condensed combining statements of revenues, expenses and changes in net position for the District and its blended component units for the years ended December 31, 2025 and 2024:

	District	Hospital	Living Center	Eliminations	Totals
2025:					
OPERATING REVENUES					
Net patient service revenue		$ 27,225,307	$ 11,393,729		$ 38,619,036
Other operating revenue		204,594	1,299,511		1,504,105
Total operating revenues	$ —	27,429,901	12,693,240	$ —	40,123,141
OPERATING EXPENSES					
Depreciation		1,662,443	433,598		2,096,041
Other operating expenses		28,671,645	12,338,668		41,010,313
Total operating expenses	—	30,334,088	12,772,266	—	43,106,354
LOSS FROM OPERATIONS	—	(2,904,187)	(79,026)	—	(2,983,213)
NON-OPERATING INCOME					
Property taxes	1,141,834				1,141,834
Non-capital grants and gifts		204,811	70,456		275,267
Other	(6,071)	254,169	79,408		327,506
Total non-operating income, net	1,135,763	458,980	149,864	—	1,744,607
REVENUE OVER (UNDER) EXPENSE BEFORE CAPITAL GRANTS AND GIFTS	1,135,763	(2,445,207)	70,838	—	(1,238,606)
CAPITAL GRANTS AND GIFTS		47,328			47,328
CHANGE IN NET POSITION	1,135,763	(2,397,879)	70,838	—	(1,191,278)
NET POSITION, Beginning of year	12,835,205	2,803,318	9,330,836		24,969,359
NET POSITION, End of year	$ 13,970,968	$ 405,439	$ 9,401,674	$ —	$ 23,778,081
2024:					
OPERATING REVENUES					
Net patient service revenue		$ 25,310,894	$ 11,215,557		$ 36,526,451
Other operating revenue		93,233	1,317,118		1,410,351
Total operating revenues	$ —	25,404,127	12,532,675	$ —	37,936,802
OPERATING EXPENSES					
Depreciation		1,851,948	437,463		2,289,411
Other operating expenses		27,961,331	11,779,424		39,740,755
Total operating expenses	—	29,813,279	12,216,887	—	42,030,166
INCOME (LOSS) FROM OPERATIONS	—	(4,409,152)	315,788	—	(4,093,364)

	District	Hospital	Living Center	Eliminations	Totals
NON-OPERATING INCOME					
Property taxes	1,327,440				1,327,440
Non-capital grants and gifts		556,517	12,625		569,142
Other	12,276	273,127	363,354		648,757
Total non-operating income, net	1,339,716	829,644	375,979	—	2,545,339
REVENUE OVER (UNDER) EXPENSE BEFORE CAPITAL GRANTS AND GIFTS	1,339,716	(3,579,508)	691,767	—	(1,548,025)
CAPITAL GRANTS AND GIFTS		1,744,648			1,744,648
CHANGE IN NET POSITION	1,339,716	(1,834,860)	691,767	—	196,623
NET POSITION, Beginning of year	11,495,489	4,638,178	8,639,069		24,772,736
NET POSITION, End of year	$ 12,835,205	$ 2,803,318	$ 9,330,836	$ —	$ 24,969,359

The following tables are condensed combining statements of cash flows for the District and its blended component units for the years ended December 31, 2025 and 2024:

	District	Hospital	Living Center	Totals
2025:				
NET CASH PROVIDED BY (USED IN):				
Operating activities		$ (2,664,946)	$ (89,558)	$ (2,754,504)
Non-capital financing activities	$ (80)	5,378,856	150,001	5,528,777
Capital and related financing activities		(864,525)	(83,313)	(947,838)
Investing activities		344,043		344,043
Increase (decrease) in cash and cash equivalents	(80)	2,193,428	(22,870)	2,170,478
CASH AND CASH EQUIVALENTS, Beginning of year	297,542	4,977,225	189,381	5,464,148
CASH AND CASH EQUIVALENTS, End of year	$ 297,462	$ 7,170,653	$ 166,511	$ 7,634,626
2024:				
NET CASH PROVIDED BY (USED IN):				
Operating activities		$ (1,476,978)	$ (7,414)	$ (1,484,392)
Non-capital financing activities	$ (2,336,907)	4,220,863	64,277	1,948,233
Capital and related financing activities		(1,740,674)	(65,510)	(1,806,184)
Investing activities	12,276	130,162		142,438
Increase (decrease) in cash and cash equivalents	(2,324,631)	1,133,373	(8,647)	(1,199,905)
CASH AND CASH EQUIVALENTS, Beginning of year	2,622,173	3,843,852	198,028	6,664,053
CASH AND CASH EQUIVALENTS, End of year	$ 297,542	$ 4,977,225	$ 189,381	$ 5,464,148

HUERFANO COUNTY HOSPITAL DISTRICT
D/B/A SPANISH PEAKS REGIONAL HEALTH CENTER

SUPPLEMENTARY INFORMATION

HUERFANO COUNTY HOSPITAL DISTRICT
D/B/A SPANISH PEAKS REGIONAL HEALTH CENTER

BUDGET AND ACTUAL REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2025

	Actual	Budget	Favorable (Unfavorable) Variance
OPERATING REVENUES			
Net patient service revenue	$ 38,619,036	$ 43,197,519	$ (4,578,483)
Other operating revenue	1,504,105	2,125,116	(621,011)
Total operating revenues	40,123,141	45,322,635	(5,199,494)
OPERATING EXPENSES			
Salaries, wages and employee benefits	24,855,305	27,053,436	2,198,131
Other operating expenses	18,251,049	18,826,283	575,234
Total operating expenses	43,106,354	45,879,719	2,773,365
LOSS FROM OPERATIONS	(2,983,213)	(557,084)	(2,426,129)
NON-OPERATING INCOME, NET	1,744,607	1,184,456	560,151
CAPITAL GRANTS AND GIFTS	47,328		47,328
INCREASE (DECREASE) IN NET POSITION	$ (1,191,278)	$ 627,372	$ (1,818,650)