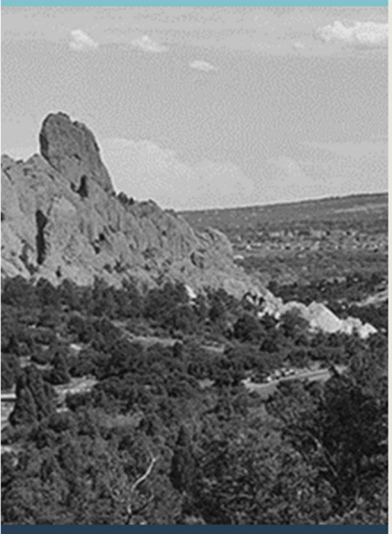


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Financial Statements

Spanish Peaks Veterans Community Living Center
A Component Unit of
Huerfano County Hospital District
For the Years Ended December 31, 2025 and 2024

SPANISH PEAKS VETERANS COMMUNITY LIVING CENTER
A COMPONENT UNIT OF HUERFANO COUNTY HOSPITAL DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Spanish Peaks Veterans Community Living Center
Walsenburg, Colorado

Opinion

We have audited the accompanying financial statements of Spanish Peaks Veterans Community Living Center (the Living Center), a component unit of Huerfano County Hospital District (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 Living Center 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 Living Center 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 Living Center'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 Living Center'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 Living Center'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.

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

SPANISH PEAKS VETERANS COMMUNITY LIVING CENTER
A COMPONENT UNIT OF HUERFANO COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION
DECEMBER 31, 2025 AND 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 80,046	$ 44,816
Cash held for residents	40,371	57,439
Patient accounts receivable, net	1,599,991	1,614,952
Due from affiliate	4,030,782	1,961,220
Receivable from Veterans Health Administration	215,269	218,823
Grants receivable	60,786	
Employee retention tax credits receivable		1,680,417
Other current assets	766	8,341
Total current assets	6,028,011	5,586,008
NON-CURRENT CASH		
Cash restricted by donors	46,094	87,126
CAPITAL ASSETS, NET	3,801,142	4,140,485
TOTAL ASSETS	$ 9,875,247	$ 9,813,619
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 73,077	$ 64,044
Compensated absences	349,046	361,300
Deposits from residents	40,371	57,439
Current portion of lease liability	3,001	
Total current liabilities	465,495	482,783
LEASE LIABILITY	8,078	
TOTAL LIABILITIES	473,573	482,783
NET POSITION		
Net investment in capital assets	3,790,063	4,140,485
Restricted expendable	46,094	87,126
Unrestricted	5,565,517	5,103,225
Total net position	9,401,674	9,330,836
TOTAL LIABILITIES AND NET POSITION	$ 9,875,247	$ 9,813,619

See notes to financial statements.

SPANISH PEAKS VETERANS COMMUNITY LIVING CENTER
A COMPONENT UNIT OF HUERFANO COUNTY HOSPITAL DISTRICT

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	$ 11,393,729	$ 11,215,557
Veterans Health Administration grant revenue	1,299,511	1,317,118
Total operating revenues	12,693,240	12,532,675
OPERATING EXPENSES		
Salaries, wages and employee benefits	7,845,387	7,829,079
Supplies and other	2,473,186	2,257,529
Purchased services and professional fees	2,020,095	1,692,816
Depreciation	433,598	437,463
Total operating expenses	12,772,266	12,216,887
INCOME (LOSS) FROM OPERATIONS	(79,026)	315,788
NON-OPERATING INCOME (EXPENSE)		
Interest income	34,521	325,902
Non-capital grants and gifts	70,456	12,625
Interest expense	(137)	
Other	45,024	37,452
Non-operating income, net	149,864	375,979
REVENUES OVER EXPENSES	70,838	691,767
NET POSITION, Beginning of year	9,330,836	8,639,069
NET POSITION, End of year	$ 9,401,674	$ 9,330,836

See notes to financial statements.

SPANISH PEAKS VETERANS COMMUNITY LIVING CENTER
A COMPONENT UNIT OF HUERFANO COUNTY HOSPITAL DISTRICT

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

	2025	2024
OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 11,408,690	$ 10,404,201
Payments to suppliers and contractors	(4,484,248)	(4,021,874)
Payments to employees	(7,857,641)	(7,770,262)
Other, net	843,641	1,380,521
Net cash used in operating activities	(89,558)	(7,414)
NON-CAPITAL FINANCING ACTIVITIES		
Non-capital grants and gifts	70,456	12,625
Other	79,545	51,652
Net cash provided by non-capital financing activities	150,001	64,277
CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on lease liabilities	(939)	
Interest expense	(137)	
Purchase of capital assets	(82,237)	(65,510)
Net cash used in capital and related financing activities	(83,313)	(65,510)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,870)	(8,647)
CASH AND CASH EQUIVALENTS, Beginning of year	189,381	198,028
CASH AND CASH EQUIVALENTS , End of year	$ 166,511	$ 189,381
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and cash equivalents	$ 80,046	$ 44,816
Cash held for residents	40,371	57,439
Cash restricted by donors	46,094	87,126
TOTAL CASH AND CASH EQUIVALENTS	$ 166,511	$ 189,381

(Continued)

SPANISH PEAKS VETERANS COMMUNITY LIVING CENTER
A COMPONENT UNIT OF HUERFANO COUNTY HOSPITAL DISTRICT

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

	2025	2024
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES		
Income (loss) from operations	$ (79,026)	$ 315,788
Depreciation	433,598	437,463
Changes in operating assets and liabilities:		
Patient accounts receivable	14,961	(811,356)
Due from affiliate	(389,145)	179,727
Receivable from Veterans Health Administration	3,554	(103,294)
Grants receivable	(60,786)	
Other current assets	7,575	(8,341)
Accounts payable and accrued liabilities	(3,221)	(12,712)
Deposits from residents	(17,068)	(4,689)
Net cash used in operating activities	$ (89,558)	$ (7,414)
NON-CASH CAPITAL ACTIVITY		
Lease liabilities incurred for capital assets	$ 12,018	$ —
Collection of employee retention tax credits by the Hospital and recorded as due from affliate	$ 1,680,417	$ —
Transfer of capital assets from the Hospital in exchange for reduction in due from affiliate	$ —	$ 1,895,337

See notes to financial statements. (Concluded)

SPANISH PEAKS VETERANS COMMUNITY LIVING CENTER
A COMPONENT UNIT OF HUERFANO COUNTY HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity — Spanish Peaks Veterans Community Living Center (the Living Center) is a 120-bed nursing facility owned by the state of Colorado and operated by the Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District). The Living Center is considered to be a component unit of the District and is included as a blended component unit in the District's financial statements. The Living Center is located adjacent to the Spanish Peaks Regional Health Center (the Hospital) in Walsenburg, Colorado. The Hospital is also operated by the District.

In November 1993, the District entered into an operating contract 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. Expenditures made in excess of revenues earned by the Living Center are the responsibility of the District. Thus, losses, if any, of the Living Center are funded by the District.

Basis of Accounting and Presentation — The financial statements of the Living Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities 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) and interest on capital assets-related debt are included in non-operating revenues and expenses. The Living Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position 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 Living Center considers all liquid investments with original maturities of three months or less to be cash equivalents.

Patient Accounts Receivable — The Living Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. When necessary, the Living Center provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

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 capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Living Center:

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

The Living Center 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 Living Center accrues leave for compensated absences as an expense and a liability, based on the Living Center's estimated usage patterns and future payouts in compliance with GASB issued Statement No. 101, *Compensated Absences*. The Living Center 's policies permit employees to accumulate paid time off benefits. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes computed using rates in effect at that date. The maximum allowable balance of paid time off time for each employee is the amount of his or her annual accrual. 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 Living Center 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 accident 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.

Net Position — Net position of the Living Center 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 noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Living Center, 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 Living Center has agreements with third-party payers that provide for payments to the Living Center 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. 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 Living Center provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes — As an essential government function of the County, the Living Center 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 Living Center 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 Living Center 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 Living Center has agreements with third-party payers that provide for payments to the Living Center at amounts different from its established rates. Approximately 23% and 27% of net patient service revenues are from participation in the Medicaid program for the years ended December 31, 2025 and 2024, respectively.

Living Center services rendered to Medicaid program beneficiaries are paid at a prospectively determined per diem rate. The Living Center is reimbursed at a base rate with final settlement determined after submission of annual cost reports by the Living Center and audit adjustments thereof by the Medicaid contracted auditors.

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). The impact to the financials was approximately $245,000 and $281,000 in supplemental payments included in net patient service revenue for the years ended December 31, 2025 and 2024, respectively. No CHASE fee expenses were paid during the years ended December 31, 2025 and 2024.

3. PATIENTS ACCOUNTS RECEIVABLE

The Living Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable as of December 31 consisted of:

	2025	2024
Veterans Health Administration	$ 1,276,788	$ 1,258,470
Medicaid	275,102	280,219
Patients	48,101	76,263
Total	$ 1,599,991	$ 1,614,952

4. DEPOSITS AND INVESTMENTS

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 Living Center'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 noninterest bearing accounts. Any excess of deposits 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, none of the Living Center's bank balances of $172,319 and $206,325 were exposed to custodial credit risk as follows:

	2025	2024
Insured (FDIC) or collateralized with securities held by the Living Center	$ 142,198	$ 206,325
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Living Center's name	—	—
Total	$ 142,198	$ 206,325

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 Living Center had deposits with COLOTRUST of $30,121, 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. 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 Living Center may legally invest in certificates of deposit, money market accounts 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. As of December 31, 2024, the Living Center had no investments.

The Living Center 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. The Living Center’s U.S. Treasury note is considered a Level 2 investment. 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 Living Center’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.

Credit Risk — Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Living Center’s only investments consist of money COLOTRUST deposits.

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

5. CAPITAL ASSETS

Capital assets activity for the years ended December 31 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
2025:					
Buildings and leasehold improvements	$ 13,744,173	$ 29,459			$ 13,773,632
Equipment	1,866,899	48,886			1,915,785
Lease right-of-use-assets - equipment		12,018			12,018
Construction in progress	13,399	3,892			17,291
	15,624,471	94,255	$ —	$ —	15,718,726

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Less accumulated depreciation:					
Buildings and leasehold improvements	9,966,782	375,491			10,342,273
Equipment	1,517,204	57,106			1,574,310
Lease right-of-use-assets - equipment		1,001			1,001
	11,483,986	433,598			11,917,584
Capital assets, net	$ 4,140,485	$ (339,343)	$ —	$ —	$ 3,801,142
2024:					
Buildings and leasehold improvements	$ 11,839,905			$ 1,904,268	$ 13,744,173
Equipment	1,814,788	$ 52,111			1,866,899
Construction in progress	8,931	13,399		(8,931)	13,399
	13,663,624	65,510	$ —	1,895,337	15,624,471
Less accumulated depreciation:					
Buildings and leasehold improvements	9,595,234	371,548			9,966,782
Equipment	1,451,289	65,915			1,517,204
	11,046,523	437,463	—	—	11,483,986
Capital assets, net	$ 2,617,101	$ (371,953)	$ —	$ 1,895,337	$ 4,140,485

During 2024, capital assets of $1,895,337 were transferred from the Hospital and recorded as a reduction of the outstanding balance of due from affiliate.

6. LEASE LIABILITY

The following is a summary of lease liability transactions for the year ended December 31, 2025:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Lease liability	$ —	$ 12,018	$ (939)	$ 11,079	$ 3,001

Lease Liability — The Living Center is obligated under a lease for equipment that is accounted for as a lease liability. The lease liability is due in monthly installments of principal and interest of $420, including interest at 3.525% through 2029; collateralized by related equipment.

The following is a schedule by year of future minimum lease payments under the lease as of December 31, 2025:

	Principal	Interest	Total
2026	$ 3,001	$ 359	$ 3,360
2027	3,109	251	3,360
2028	3,220	140	3,360
2029	1,749	29	1,778
Total	$ 11,079	$ 779	$ 11,858

7. RESTRICTED EXPENDABLE NET POSITION

Restricted expendable net position consists of assets restricted for the purpose of resident needs. Restricted net position totaled $46,094 and $87,126 as of December 31, 2025 and 2024, respectively.

8. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2025 and 2024, the Living Center recorded receivables for payments received by the Hospital on behalf of the Living Center for patient payments and recorded payables for expenses paid by the Hospital on behalf of the Living Center. Also, during 2025, the Hospital collected the employee retention tax credits receivable for both entities and retained the funds. Accordingly, the Living Center has recorded its share of such amounts as a due from affiliate. See Note 13.

The entities also periodically transfer funds. See note 5 regarding the transfer of capital assets during 2024. As of December 31, 2025 and 2024, the balance receivable from the Hospital totaled $4,030,782 and $1,961,220, respectively.

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 five-year graded vesting schedule. Nonvested 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. Of the amounts contributed or accrued by the District, $127,769 and $126,433 were allocated to accounts for the benefit of Living Center employees in the years ended December 31, 2025 and 2024, respectively.

10. LIVING CENTER EXPENSE RESERVE ACCOUNT

Under the terms of the operating contract with the state of Colorado, 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. Accordingly, the District had net borrowings from the account of $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 operating revenue in the accompanying financial statements.

12. RISK MANAGEMENT AND CONTINGENCIES

Malpractice Insurance — The Living Center 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 Living Center'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 Living Center 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 Living Center's commercial insurance. The Living Center 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. 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 tax credits were allocated between the Hospital and Living Center based on the individual employees to which the tax credits relate and other overhead allocation methods. The Living Center recognized a receivable and non-operating income of $1,368,715 for the employee retention tax credits as of and for the year ended December 31, 2022. During 2025, the Living Center recognized an additional receivable of $311,702 relating to interest on the ERTC claim. The receivable remained outstanding as of December 31, 2024 and was collected by the Hospital during the year ended December 31, 2025. ERTC claims are subject to audit by the Internal Revenue Service. The Living Center has recorded its share of the collected tax credits as due from affiliate as of December 31, 2025. See Note 7.