Upper San Juan Health Service District
doing business as
Pagosa Springs Medical Center

Basic Financial Statements and Independent Auditors' Report

December 31, 2025 and 2024

ACCOUNTANTS | ADVISORS

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
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ACCOUNTANTS | ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Pagosa Springs, Colorado

Opinion

We have audited the accompanying financial statements of Upper San Juan Health Service District doing business as Pagosa Springs Medical Center (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.

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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, including omissions, 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

GAAP requires that the management's discussion and analysis on pages 4-7 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 information is fairly stated in all material respects in relation to the financial statements as a whole.

DZA PLLC

Spokane Valley, Washington
June 16, 2026

Our discussion and analysis of Upper San Juan Health Service District doing business as Pagosa Springs Medical Center's (the District) financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2025 and 2024. Please read it in conjunction with the District's financial statements, which begin on page 8.

Financial Highlights

- The District's net position increased $5,491,275 or 24.1 percent, and $2,031,318, or 9.8 percent, in 2025 and 2024, respectively.
- The District reported an operating loss of $12,765 and $2,769,792 in 2025 and 2024, respectively. Income in 2025 increased $2,757,027, or 99.5 percent, over the income reported in 2024. Operating income in 2024 decreased by $1,894,086, or 216.3 percent, under the income reported in 2023.
- Nonoperating revenues (expenses) increased by $1,580,341, or 70.4 percent, in 2025 compared to 2024. Nonoperating revenues (expenses) increased by $1,142,475, or 103.7 percent, in 2024 compared to 2023.

Using this Annual Report

The District's financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District that are designated for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the District's finances begin on page 5. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These statements report the District's net position and changes in it. The difference between assets and liabilities is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. The District will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as the local economic factors, to assess the overall health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement provides meaningful information on how the District's cash was generated and how it was used.

The District's Net Position

The District's net position is the difference between its assets and liabilities reported in the Statements of Net Position on pages 8-9. The District's net position increased $5,491,275, or 24.1 percent, in 2025, and increased $2,031,318, or 9.8 percent, in 2024.

ASSETS	2025	2024	2023
Assets			
Current assets	**$ 29,390,627**	$ 25,050,864	$ 22,784,031
Other noncurrent assets	**1,565,670**	1,361,706	1,537,688
Capital assets, net	**28,856,902**	28,815,125	27,476,641
Total assets	**$ 59,813,199**	$ 55,227,695	$ 51,798,360
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Liabilities			
Current liabilities	**$ 8,358,817**	$ 7,620,116	$ 5,157,796
Long-term debt, lease, and subscription liabilities, less current maturities	**20,673,801**	22,385,262	23,455,262
Total liabilities	**29,032,618**	30,005,378	28,613,058
Deferred inflows of resources			
Property tax revenue	**2,316,672**	2,236,337	2,217,294
Deferred inflow from debt refinancing	**152,366**	165,712	179,058
Total deferred inflows of resources	**2,469,038**	2,402,049	2,396,352
Net position			
Net investment in capital assets	**6,342,110**	3,851,484	2,318,169
Restricted	**1,565,670**	1,361,706	1,537,688
Unrestricted	**20,403,763**	17,607,078	16,933,093
Total net position	**28,311,543**	22,820,268	20,788,950
Total liabilities, deferred inflows of resources, and net position	**$ 59,813,199**	$ 55,227,695	$ 51,798,360

The significant changes in assets and liabilities in 2025 were as follows:

- Total assets for the District were $59,813,199 at the end of 2025, an increase of $4,585,504 from the balance of $55,227,695 at the end of 2024.

  Current assets increased $4,339,763 from $25,050,864 in 2024 to $29,390,627 in 2025 due to a combination in an increase in patient accounts receivable and receiving the Employee Retention Credit (ERC). Net patient receivables of $4,062,385 in 2025 decreased $593,173 from $4,655,558 at the end of 2024. The District received notice of payment of $2,064,052 in employee retention credits and interest in November 2025 and received the funds in March 2026.

- Total liabilities for the District were $29,032,618 in 2025, a decrease of $972,760 from the balance of $30,005,378 in 2024.

  Current liabilities increased $738,701 from $7,620,116 at the end of 2024 to $8,358,817 at the end of 2025, primarily due to an increase in estimated third-party payor settlements.

  Long-term debt, lease, and subscription liabilities decreased by $1,711,461 from $22,385,262 in 2024 to a balance of $20,673,801 in 2025, primarily due to payments on debt.

Operating Results and Changes in the District's Net Position

In 2025, the District's net position increased by $5,491,275, or 24.1 percent, as shown in the table below. In 2024, the District's net position increased by $2,031,318, or 9.8 percent, as shown in the table below.

	2025	2024	2023
Operating revenues			
Net patient service revenue	**$ 45,060,985**	$ 39,314,930	$ 40,366,911
340B contract pharmacy	**1,631,579**	1,251,611	410,834
Grants	**427,505**	314,592	-
Other	**933,967**	928,599	359,214
Total operating revenues	**48,054,036**	41,809,732	41,136,959
Operating expenses			
Salaries and benefits	**27,410,972**	26,111,000	24,373,738
Supplies	**8,834,133**	7,292,025	7,443,840
Depreciation and amortization	**2,947,510**	2,709,092	2,641,357
Other	**8,874,186**	8,467,407	7,553,730
Total operating expenses	**48,066,801**	44,579,524	42,012,665
Operating loss	**(12,765)**	(2,769,792)	(875,706)
Nonoperating revenues (expenses)			
Property taxes	**2,426,836**	2,625,996	1,638,939
CARES Act Employee Retention Credit	**1,553,877**	-	-
CARES Act Employee Retention Credit professional fees	**(233,082)**	-	-
Interest expense	**(1,062,496)**	(1,133,011)	(1,155,044)
CARES Act Employee Retention Credit interest income	**510,175**	-	-
Interest income	**629,033**	751,017	617,632
Total nonoperating revenues (expenses), net	**3,824,343**	2,244,002	1,101,527
Excess of revenues (expenses) before capital grants and contributions	**3,811,578**	(525,790)	225,821
Capital grants and contributions	**1,679,697**	2,557,108	131,346
Change in net position	**5,491,275**	2,031,318	357,167
Net position, beginning of year	**22,820,268**	20,788,950	20,431,783
Net position, end of year	**$ 28,311,543**	$ 22,820,268	$ 20,788,950

Operating Results

The first component of the overall change in the District's net position is operating income – the difference between the revenue and the expenses incurred to perform those services. Operating income increased by $2,757,027 from 2024 to 2025.

The primary component of the change in operating income for 2025 compared to 2024 is:

- Net patient service revenue increased $5,746,055 or 14.6 percent due to an increase in patient services provided.

Overall, operating expenses increased between 2024 and 2025 by $3,487,277, or 7.8 percent, and increased between 2023 and 2024 by $2,566,859, or 6.1 percent.

Nonoperating Revenues and Expenses

Nonoperating activity for 2025 and 2024 consists primarily of property taxes levied for repayment of the District's bonds, interest expense, and interest income. Nonoperating activity for 2025 included revenues and expenses related to the receipt of the CARES Act ERC that was applied for in 2022. Net nonoperating revenues and expenses increased by $1,580,341, or 70.4 percent, in 2025.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating results and nonoperating revenues and expenses discussed earlier.

Capital Assets and Debt Administration

Capital Assets

Net capital assets increased in 2025 by $41,777, or 0.1 percent, from 2024. This net increase includes purchases (including construction in progress) and the recognition subscription assets. Net capital assets increased $1,338,484, or 4.9 percent, from 2023 to 2024. This net increase includes purchases (including construction in progress) and the recognition of lease right-of-use assets and subscription assets.

At the end of 2025, the District had $28,856,902 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements.

Debt Administration

At December 31, 2025, the District had $20,673,801 in long-term debt, lease, and subscription liabilities, a decrease of $1,711,461 from December 31, 2024. At December 31, 2024, the District had $22,385,262 in long-term debt, lease, and subscription liabilities.

The District's formal debt issuances must be approved by the District's Board of Directors. The amount of debt issued is subject to limitations that apply to the District. There have been no changes in the District's debt ratings in the past two years.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District's office at Pagosa Springs Medical Center, 95 South Pagosa Boulevard, Pagosa Springs, Colorado, 81147.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Statements of Net Position
December 31, 2025 and 2024

ASSETS	2025	2024
Current assets		
Cash and cash equivalents	**$ 15,964,460**	$ 13,128,932
Receivables:		
Patient accounts, net	**4,062,385**	4,655,558
Property tax levy	**2,316,672**	2,236,337
Estimated third-party payor settlements	**1,902,000**	1,555,000
Grants	**160,614**	856,039
CARES Act Employee Retention Credit	**2,064,052**	-
Other	**469,548**	333,022
Inventories	**2,197,609**	2,074,882
Prepaid expenses	**253,287**	211,094
Total current assets	**29,390,627**	25,050,864
Noncurrent assets		
Cash and cash equivalents, restricted for debt service	**1,565,670**	1,361,706
Depreciable capital assets, net	**27,360,819**	24,954,294
Nondepreciable capital assets	**1,496,083**	3,860,831
Total noncurrent assets	**30,422,572**	30,176,831
Total assets	**$ 59,813,199**	$ 55,227,695

See accompanying notes to financial statements.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Statements of Net Position (Continued)
December 31, 2025 and 2024

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2025	2024
Current liabilities		
Accounts payable	**$ 2,078,651**	$ 1,268,538
Capital accounts payable	**-**	799,994
Refunds payable	**181,359**	225,935
Accrued compensation and related liabilities	**2,106,560**	2,162,143
Estimated third-party payor settlements	**2,234,000**	1,480,000
Accrued interest payable	**69,622**	70,833
Current maturities of long-term debt and other noncurrent liabilities	**1,688,625**	1,612,673
Total current liabilities	**8,358,817**	7,620,116
Noncurrent liabilities		
Long-term debt and other noncurrent liabilities, net of current maturities	**20,673,801**	22,385,262
Total liabilities	**29,032,618**	30,005,378
Deferred inflows of resources		
Property tax revenue	**2,316,672**	2,236,337
Deferred inflow from debt refinancing	**152,366**	165,712
Total deferred inflows of resources	**2,469,038**	2,402,049
Net position		
Net investment in capital assets	**6,342,110**	3,851,484
Restricted	**1,565,670**	1,361,706
Unrestricted	**20,403,763**	17,607,078
Total net position	**28,311,543**	22,820,268
Total liabilities, deferred inflows of resources, and net position	**$ 59,813,199**	$ 55,227,695

See accompanying notes to financial statements.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2025 and 2024

	2025	2024
Operating revenues		
Net patient service revenue	**$ 45,060,985**	$ 39,314,930
340B contract pharmacy	**1,631,579**	1,251,611
Grants	**427,505**	314,592
Other	**933,967**	928,599
Total operating revenues	**48,054,036**	41,809,732
Operating expenses		
Salaries and wages	**23,587,930**	22,876,781
Employee benefits	**3,823,042**	3,234,219
Professional fees and other purchased services	**4,670,983**	4,586,099
Supplies	**8,834,133**	7,292,025
Utilities	**473,179**	461,574
Depreciation and amortization	**2,947,510**	2,709,092
Leases and rentals	**353,445**	194,855
Repairs and maintenance	**701,196**	857,537
Provider fees	**1,120,588**	983,700
Insurance	**453,838**	439,669
Other	**1,100,957**	943,973
Total operating expenses	**48,066,801**	44,579,524
Operating loss	**(12,765)**	(2,769,792)
Nonoperating revenues (expenses)		
Property taxes	**2,426,836**	2,625,996
CARES Act Employee Retention Credit	**1,553,877**	-
CARES Act Employee Retention Credit interest income	**510,175**	-
CARES Act Employee Retention Credit professional fees	**(233,082)**	-
Interest expense	**(1,062,496)**	(1,133,011)
Interest income	**629,033**	751,017
Total nonoperating revenues (expenses), net	**3,824,343**	2,244,002
Excess of revenues (expenses) before capital grants and contributions	**3,811,578**	(525,790)
Capital grants and contributions	**1,679,697**	2,557,108
Change in net position	**5,491,275**	2,031,318
Net position, beginning of year	**22,820,268**	20,788,950
Net position, end of year	**$ 28,311,543**	$ 22,820,268

See accompanying notes to financial statements.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
Change in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from and on behalf of patients	**$ 47,692,737**	$ 40,806,873
Other receipts	**1,224,946**	1,118,352
Payments to and on behalf of employees	**(27,466,555)**	(25,759,919)
Payments to suppliers and contractors	**(17,340,784)**	(15,774,806)
Net cash from operating activities	**4,110,344**	390,500
Cash flows from noncapital financing activities		
Property taxes	**2,426,836**	2,625,996
Cash flows from capital and related financing activities		
Principal payments on lease and subscription liabilities	**(792,520)**	(785,623)
Principal payments on long-term debt	**(815,000)**	(790,000)
Purchase of capital assets	**(3,208,518)**	(2,600,686)
Interest paid on long-term debt and lease and subscription liabilities	**(1,129,805)**	(1,197,070)
Capital grants and contributions	**1,819,122**	1,701,069
Net cash from capital and related financing activities	**(4,126,721)**	(3,672,310)
Cash flows from investing activities, investment income	**629,033**	751,017
Net change in cash and cash equivalents	**3,039,492**	95,203
Cash and cash equivalents, beginning of year	**14,490,638**	14,395,435
Cash and cash equivalents, end of year	**$ 17,530,130**	$ 14,490,638

See accompanying notes to financial statements.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
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	**$**	**15,964,460**	$	13,128,932
Cash and cash equivalents, restricted for debt service		**1,565,670**		1,361,706
Total cash and cash equivalents	**$**	**17,530,130**	$	14,490,638
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	**$**	**(12,765)**	$	(2,769,792)
Adjustments to reconcile operating loss to net cash from operating activities				
Depreciation and amortization		**2,947,510**		2,709,092
Provision for bad debts		**3,403,104**		3,294,047
(Increase) decrease in assets:				
Receivables:				
Patient accounts		**(2,809,931)**		(4,033,799)
Estimated third-party payor settlements		**(347,000)**		79,000
Other		**(136,526)**		(124,839)
Inventories		**(122,727)**		(249,004)
Prepaid expenses		**(42,193)**		(85,971)
Increase (decrease) in liabilities:				
Accounts payable		**577,031**		278,001
Refunds payable		**(44,576)**		41,600
Accrued compensation and related liabilities		**(55,583)**		351,081
Estimated third-party payor settlements		**754,000**		901,084
Net cash from operating activities	**$**	**4,110,344**	$	390,500

Noncash noncapital financing activities – During the year ended December 31, 2025, the District recognized a subscription asset and related subscription liability totaling $24,764. During the year ended December 31, 2024, the District recognized a subscription liability totaling $266,109 and a right-of-use asset totaling $380,787.

Noncash capital activities – During the year ended December 31, 2025, the District received a donation of a building from the Dr. Mary Fisher Medical Foundation doing business as Pagosa Springs Medical Center Foundation. The building was capitalized with a value of $556,000.

See accompanying notes to financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Upper San Juan Health Service District doing business as Pagosa Springs Medical Center (the District) was organized to operate, maintain, and provide health services to the citizens of Archuleta County and a small portion of Hinsdale and Mineral Counties in the state of Colorado. As organized, the District is exempt from paying federal income tax. The District is governed by a Board of Directors consisting of members that must be qualified electors of the District. Members are elected to staggered four-year terms of office.

The District operates a licensed 11-bed hospital, a rural health clinic (RHC), and an ambulance service in Pagosa Springs, Colorado. The services provided include medical-surgical, pediatrics, surgery, emergency room, oncology, pain management clinic, and related ancillary services (laboratory, imaging, cardiology, physical therapy, respiratory therapy, etc.).

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 and liabilities and disclosures 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 are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

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 period of the related expense.

Grants receivable – Receivables arising from revenue from government agencies are stated at net realizable value. Management believes the amounts to be fully collectible.

Capital assets – The District capitalizes assets whose costs exceed $5,000 and have an estimated useful life of at least two years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses are incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method. Amortization of assets subject to leases and subscriptions is reported with depreciation expense.

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

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

   Capital assets (continued) – Useful lives and subscriptions are estimated as follows:

Buildings and improvements	5 to 39 years
Equipment	2 to 20 years
Lease right-of-use – building	25 years
Lease right-of-use – equipment	2 to 5 years
Subscription assets	3 to 10 years

   Accrued compensation and related liabilities – Accrued compensation and related liabilities includes accruals for compensated absences related to employee paid time off (PTO). Employees earn PTO at varying rates, depending on years of service. Employees must be full-time with at least one month of continuous employment in order to earn PTO. Accumulated PTO cannot exceed certain limits, depending on the employee's position. Accruals for employee PTO and payroll-related expenses, such as employer payroll taxes and retirement contributions, is accrued and expensed when earned. Employees also earn up to 48 hours of sick leave each year. Employees can use up to 48 hours of sick leave each year. Unused sick leave cannot be cashed out and will not be paid out upon termination of employment.

   Bond premiums and deferred inflows – Bond premiums and deferred inflows are being amortized on a straight-line basis over the life of the bond issue.

   Net position – The net position of the District is classified into three components. *Net investment in capital assets* consists of the District's 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 composed of 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 composed of remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

   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.

   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 and contributions received for purposes other than capital asset acquisitions, 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)**

   Grants and contributions – From time to time, the District receives federal, state, and county grants, 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. Grants that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Grants that are used to subsidize operating deficits are reported as nonoperating revenues. Contributions, except for capital contributions, are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. During the years ended December 31, 2025 and 2024, the District received contributions of approximately $1,307,000 and 825,000, respectively, from the Dr. Mary Fisher Medical Foundation, a related party.

   Upcoming accounting pronouncements – In April 2024, the Governmental Accounting 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 – Subsequent events have been reviewed through June 16, 2026, the date on which the financial statements were available to be issued.

2. **Bank Deposits and Investments:**

   Deposits

   Under Colorado state statute, the Commercial Bank Code Public Deposit Protection Act of 1989 (PDPA) protects public funds held in bank deposit accounts in the event that the bank holding the public deposits becomes insolvent. As defined by the PDPA, deposit accounts include checking, savings, bank money market, and certificate 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.

   Investments

   Colorado state statutes authorize the District to invest in obligations of the United States Treasury, agencies and instrumentalities, commercial paper, repurchase agreements, money market funds, and local government investment pools with a maturity date of no more than five years from the date of purchase.

2. Bank Deposits and Investments (continued):

Investments (continued)

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. The District's investment policy does not contain policy requirements that would limit the exposure to custodial credit risk for investments.

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 requiring or limiting investments of this type.

Concentration of credit risk – Concentration of credit risk is 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 has a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates could adversely affect an investment's fair value. The District has a policy specifically managing its exposure to fair value losses arising from changing interest rates.

At December 31, 2025 and 2024, the District had invested $1,891,691 and $1,811,720, respectively, in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to $1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially 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 investments owned by Colotrust. Colotrust funds carry a Standard & Poor's (S&P's) AAA rating. There is no custodial interest rate or foreign currency risk exposure. The underlying investments held by Colotrust are valued at fair value.

At December 31, 2025 and 2024, the District had invested $5,575,333 and $5,382,126 in the Colorado State Investment Program (CSIP), an investment vehicle established for local government entities in Colorado to pool surplus funds. CSIP operates similarly to a money market fund and each share is equal in value to $1.00. A designated custodial bank provides safekeeping and depository services to CSIP in connection with the direct investment and withdrawal functions of CSIP. Substantially all securities owned by CSIP are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by CSIP. CSIP funds carry a S&P's AAAm rating. There is no foreign currency risk exposure. The underlying investments held by CSIP are valued at fair value.

The District's remaining investments at December 31, 2025 and 2024, were in money market funds with a carrying value of $6,911,772 and $5,176,685, respectively.

The District's investments are recorded as cash equivalents.

2. Bank Deposits and Investments (continued):

Fair value measurements – The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation 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 money market funds are valued using quoted market prices (Level 1) as of December 31, 2025 and 2024.

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability 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. 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.

Patient accounts receivable reported as current assets consisted of these amounts:

		2025		2024
Receivable from patients and their insurance carriers	**$**	**7,233,124**	$	6,939,847
Receivable from Medicare		**1,565,033**		1,579,361
Receivable from Medicaid		**212,202**		288,996
Total patient accounts receivable		**9,010,359**		8,808,204
Less allowance for uncollectible accounts		**4,947,974**		4,152,646
Patient accounts receivable, net	**$**	**4,062,385**	$	4,655,558

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	$ 704,021	$ -	$ -	$ -	**$ 704,021**
Construction in progress	3,156,810	2,243,572	-	(4,608,320)	**792,062**
Total capital assets not being depreciated or amortized	3,860,831	2,243,572	-	(4,608,320)	**1,496,083**
Capital assets being depreciated or amortized					
Buildings and improvements	31,663,576	601,844	(196,420)	3,742,471	**35,811,471**
Equipment	13,024,986	119,107	(1,745,015)	865,849	**12,264,927**
Subscription assets	4,335,173	24,764	(29,720)	-	**4,330,217**
Lease right-of-use assets:					
Buildings	408,900	-	-	-	**408,900**
Equipment	2,371,771	-	-	-	**2,371,771**
Total capital assets being depreciated or amortized	51,804,406	745,715	(1,971,155)	4,608,320	**55,187,286**
Less accumulated depreciation and amortization for					
Buildings and improvements	(13,745,652)	(1,399,940)	196,420	-	**(14,949,172)**
Equipment	(11,049,571)	(636,494)	1,745,015	-	**(9,941,050)**
Subscription assets	(877,374)	(484,411)	29,720	-	**(1,332,065)**
Lease right-of-use assets:					
Buildings	(46,342)	(16,356)	-	-	**(62,698)**
Equipment	(1,131,173)	(410,309)	-	-	**(1,541,482)**
Total accumulated depreciation and amortization	(26,850,112)	(2,947,510)	1,971,155	-	**(27,826,467)**
Total capital assets being depreciated or amortized, net	24,954,294	(2,201,795)	-	4,608,320	**27,360,819**
Capital assets, net	$ 28,815,125	$ 41,777	$ -	$ -	**$ 28,856,902**

Construction in progress at December 31, 2025, consisted of costs related to the sterile processing department and implementation of a Cerner application. The sterile processing project is expected to be completed by June 2026, with additional costs to complete of approximately $100,000. The Cerner project has no estimated costs to complete or expected completion date at this time.

4. Capital Assets (continued):

	Balance December 31, 2023	Additions	Retirements	Transfers	Balance December 31, 2024
Capital assets not being depreciated or amortized					
Land	$ 704,021	$ -	$ -	$ -	**$ 704,021**
Construction in progress	752,490	2,622,428	-	(218,108)	**3,156,810**
Total capital assets not being depreciated or amortized	1,456,511	2,622,428	-	(218,108)	**3,860,831**
Capital assets being depreciated or amortized					
Buildings and improvements	31,663,576	-	-	-	**31,663,576**
Equipment	12,093,355	828,318	-	103,313	**13,024,986**
Subscription assets	3,954,269	266,109	-	114,795	**4,335,173**
Lease right-of-use assets:					
Buildings	408,900	-	-	-	**408,900**
Equipment	2,041,050	330,721	-	-	**2,371,771**
Total capital assets being depreciated or amortized	50,161,150	1,425,148	-	218,108	**51,804,406**
Less accumulated depreciation and amortization for					
Buildings and improvements	(12,436,825)	(1,308,827)	-	-	**(13,745,652)**
Equipment	(10,554,881)	(494,690)	-	-	**(11,049,571)**
Subscription assets	(403,771)	(473,603)	-	-	**(877,374)**
Lease right-of-use assets:					
Buildings	(29,986)	(16,356)	-	-	**(46,342)**
Equipment	(715,557)	(415,616)	-	-	**(1,131,173)**
Total accumulated depreciation and amortization	(24,141,020)	(2,709,092)	-	-	**(26,850,112)**
Total capital assets being depreciated or amortized, net	26,020,130	(1,283,944)	-	218,108	**24,954,294**
Capital assets, net	$ 27,476,641	$ 1,338,484	$ -	$ -	**$ 28,815,125**

5. Employee Health Self-insurance:

The District established a self-insurance fund for employee medical care that is administered through UMR, Incorporated. Specific and aggregate stop-loss coverage on the health plan is provided to limit the ultimate exposure of the District.

The District has recorded the estimated liability for self-insurance claims in the statements of net position in accrued compensation and related liabilities. The income and expenses related to administration of self-insurance and the estimated provision for claims liabilities are recorded in the statements of revenues, expenses, and changes in net position, in employee benefits expense.

The District accrues an incurred but not yet reported liability for plan claims that have been incurred but have not yet been reported to the District. The District has also purchased a supplementary insurance policy to cover claims in excess of $60,000.

	2025	2024
Claim liability, beginning of year	**$ 202,611**	$ 367,106
Current year claims and changes in estimates	**1,909,673**	1,347,485
Claim payments	**(1,809,818)**	(1,511,980)
Claim liability, end of year	**$ 302,466**	$ 202,611

6. Long-term Debt and Other Noncurrent Liabilities:

A schedule of changes in the District's long-term debt and other noncurrent liabilities is as follows:

	Balance December 31, 2024	Additions	Reductions	Balance December 31, 2025	Amounts Due Within One Year
Long-term debt					
Improvement and Refunding Revenue Bonds, Series 2016A (Tax Exempt) and Refunding Revenue Bond Series 2016 B (Taxable)	$ 8,795,000	$ -	$ (235,000)	$ 8,560,000	$ 245,000
Limited Tax General Obligation Refunding Bonds, Series 2021	7,030,000	-	(450,000)	6,580,000	465,000
2016 bond premium	108,753	-	(5,098)	103,655	-
2021 bond premium	619,505	-	(47,654)	571,851	-
75 S Pagosa Building Mortgage	2,055,000	-	(130,000)	1,925,000	130,000
Total long-term debt	18,608,258	-	(867,752)	17,740,506	840,000
Lease liabilities					
CareFusion	357,114	-	(30,287)	326,827	30,192
Stryker surgery equipment	356,167	-	(121,276)	234,891	126,054
Siemens MRI	1,067,266	-	(267,700)	799,566	294,486
Total lease liabilities	1,780,547	-	(419,263)	1,361,284	450,732
Subscription liabilities					
nThrive (Savista)	9,481	24,763	(14,484)	19,760	8,021
MCG	21,858	-	(10,247)	11,611	11,610
Cerner	3,354,365	-	(300,339)	3,054,026	326,075
Cerner modules	223,426	-	(48,187)	175,239	52,187
Total subscription liabilities	3,609,130	24,763	(373,257)	3,260,636	397,893
Total long-term debt, lease liabilities, and subscription liabilities	**$ 23,997,935**	**$ 24,763**	**$ (1,660,272)**	**$ 22,362,426**	**$ 1,688,625**

	Balance December 31, 2023	Additions	Reductions	Balance December 31, 2024	Amounts Due Within One Year
Long-term debt					
Improvement and Refunding Revenue Bonds, Series 2016A (Tax Exempt) and Refunding Revenue Bond Series 2016 B (Taxable)	$ 9,025,000	$ -	$ (230,000)	$ 8,795,000	$ 235,000
Limited Tax General Obligation Refunding Bonds, Series 2021	7,465,000	-	(435,000)	7,030,000	450,000
2016 bond premium	113,851	-	(5,098)	108,753	-
2021 bond premium	667,159	-	(47,654)	619,505	-
75 S Pagosa Building Mortgage	2,180,000	-	(125,000)	2,055,000	130,000
Total long-term debt	19,451,010	-	(842,752)	18,608,258	815,000
Lease liabilities					
CareFusion	54,550	380,787	(78,223)	357,114	27,878
Stryker surgery equipment	472,910	-	(116,743)	356,167	121,309
Siemens MRI	1,319,046	-	(251,780)	1,067,266	280,231
Total lease liabilities	1,846,506	380,787	(446,746)	1,780,547	429,418
Subscription liabilities					
nThrive (Savista)	20,033	-	(10,552)	9,481	9,481
MCG	30,867	-	(9,009)	21,858	10,247
Cerner	3,630,998	-	(276,633)	3,354,365	300,339
Cerner modules	-	266,109	(42,683)	223,426	48,188
Total subscription liabilities	3,681,898	266,109	(338,877)	3,609,130	368,255
Total long-term debt, lease liabilities, and subscription liabilities	**$ 24,979,414**	**$ 646,896**	**$ (1,628,375)**	**$ 23,997,935**	**$ 1,612,673**

6. Long-term Debt and Other Noncurrent Liabilities (continued):

The terms of the District's long-term debt follow:

- Health Care Services Enterprise Improvement and Refunding Revenue Bonds, Series 2016A (Tax Exempt), and Refunding Revenue Bonds, Series 2016B (Taxable), in the original amounts of $9,590,000 and $1,545,000, respectively. The bonds are secured by the District's net revenue. The bonds mature annually at amounts ranging from $245,000 to $680,000 with semiannual interest payments at rates ranging from 2.75 percent to 6.125 percent through June 1, 2046.
- Limited Tax General Obligation Refunding Bonds, Series 2021, in the original amount of $7,885,000, issued in May 2021 to refund the Limited Tax General Obligation Bonds, Series 2006 and Series 2007. The bonds bear interest rates of 3 percent. The bonds mature annually at amounts ranging from $465,000 to $640,000, with semiannual interest payments through December 2037.
- Mortgage, in the original amount of $2,300,000, for the purchase of a building. The building was purchased from a former board member. The mortgage is due in annual installments from $130,000 to $195,000, including interest at 3.54 percent, paid semiannually, through December 31, 2037. The mortgage is secured by the related land and building.

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

Years Ending December 31,	Principal	Interest	Total
2026	$ 840,000	$ 719,670	$ 1,559,670
2027	870,000	692,356	1,562,356
2028	895,000	663,427	1,558,427
2029	930,000	633,302	1,563,302
2030	960,000	601,669	1,561,669
2031-2035	5,315,000	3,325,917	8,640,917
2036-2040	3,740,000	1,857,786	5,597,786
2041-2045	2,835,000	663,484	3,498,484
2046	680,000	41,650	721,650
	$ 17,065,000	**$ 9,199,261**	**$ 26,264,261**

The terms of the District's lease liabilities follow:

- CareFusion equipment lease, effective December 2024, due in monthly installments of $4,620, including interest at 8.00 percent through January 2034.
- Siemens MRI equipment and building lease, effective March 2022, due in monthly installments of $27,154, including interest at 4.972 percent through June 2028.
- Stryker surgery equipment lease, effective November 2022, due in monthly installments of $11,073, including interest at 3.843 percent through October 2027.

6. Long-term Debt and Other Noncurrent Liabilities (continued):

The District's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Scheduled principal and interest payments on lease liabilities are as follows:

Years Ending December 31,	Principal	Interest	Total
2026	$ 450,732	$ 63,433	$ 514,165
2027	451,003	41,051	492,054
2028	231,026	22,365	253,391
2029	38,351	17,089	55,440
2030	41,535	13,905	55,440
2031-2034	148,637	19,894	168,531
	$ 1,361,284	**$ 177,737**	**$ 1,539,021**

The terms of the District's subscription arrangements follow:

- nThrive subscription arrangement, effective April 2025, due in monthly installments of $776, including interest at 8.00 percent through March 2028.
- MCG Software subscription arrangement, effective June 2022, due in annual installments of $10,341 to $12,098, including interest at 8.25 percent through June 2026.
- Cerner Core Software subscription arrangement, effective December 2019, due in monthly installments of $47,157, including interest at 8.25 percent through February 2033.
- Cerner Appointment Reminder and Consumer Notification Module subscription arrangement, effective February 2024, due in monthly installments of $5,360, including interest at 8.00 percent through January 2029.

The District's subscription arrangements do not contain any material residual value guarantees or material restrictive covenants.

6. Long-term Debt and Other Noncurrent Liabilities (continued):

Scheduled principal and interest payments on subscription arrangements are as follows:

Years Ending December 31,	Principal	Interest	Total
2026	$ 397,893	$ 253,722	$ 651,615
2027	419,222	220,295	639,517
2028	448,616	184,694	633,310
2029	422,613	148,631	571,244
2030	453,048	112,837	565,885
2031-2033	1,119,244	106,844	1,226,088
	$ 3,260,636	**$ 1,027,023**	**$ 4,287,659**

7. 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's provision for bad debts and write-offs have not changed significantly from the prior year. The District has not changed its charity care or uninsured discount policies during fiscal years 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	**$ 31,925,025**	$ 24,098,805
Medicaid	**4,210,637**	4,934,370
Other third-party payors	**5,414,518**	6,130,537
Patients	**3,484,449**	3,337,201
Medicaid supplemental payments	**3,950,849**	4,419,892
	48,985,478	42,920,805
Less:		
Charity care	**521,389**	311,828
Provision for bad debts	**3,403,104**	3,294,047
Net patient service revenue	**$ 45,060,985**	$ 39,314,930

7. 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 clinic an RHC by Medicare. The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after the submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

- ***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. RHC 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.

- The District also has 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.

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 $982,000 in the year ended December 31, 2025, and decreased by approximately $1,410,000 in the year ended December 31, 2024, due to differences between original estimates and final settlements.

During the year ended December 31, 2017, the District received notice that its Medicaid RHC rates were being updated to the higher of the prospectively determined rate or the cost per encounter as determined by the District's annual Medicare cost reports. Rate reconciliations are being conducted by the Colorado Department of Health Care Policy and Financing. As a result, Medicaid claims from 2018 through 2025 are being reprocessed.

Under the Colorado Health Care Affordability Act (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 $278,000 and $175,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2025 and 2024.

8. Property Taxes:

The Archuleta, Hinsdale, and Mineral County Treasurers act as agents to assess and collect property taxes levied in the county for all taxing authorities. Property taxes are levied and assessed in December on property values assessed as of January 1 of the prior year.

Taxes are due in two equal amounts by February 28 and June 15, or all may be paid by April 30. The assessed property is subject to lien on the levy date. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. 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 2026 and 2025, respectively.

For 2025, the District's regular tax levy was $3.884 per $1,000 on a total combined assessed valuation of $594,511,768, for a total regular combined levy of $2,316,671. For 2024, the District's regular tax levy was $3.884 per $1,000 on a total combined assessed valuation of $569,601,177, for a total regular combined levy of $2,217,294.

9. Defined Contribution Plans:

The District provides retirement benefits for all its employees through a defined contribution plan administered by the Colorado County Officials and Employees Retirement Association (the Plan). In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Under the defined contribution retirement plan, the District is required to contribute 6 percent of employee compensation to the Plan in lieu of paying into the social security portion of federal income tax payments.

Employees are required to participate in the Plan upon the first day of the payroll period after the employee's date of hire. The Plan provides retirement benefits based upon the employee's vested account. A participant becomes 100 percent vested upon completion of five years of covered service. Contributions by employees are immediately vested. Amounts forfeited by employees who leave employment before they become fully vested are applied to reduce future employer contributions. Under the Plan, employees direct the investment of both the employee and employer contributions among several investment options available through an outside plan administrator. Employer contributions to the Plan totaled approximately $1,318,000 and $1,252,000 for the years ended December 31, 2025 and 2024, respectively. Employee contributions to the Plan totaled approximately $777,000 and $733,000 for the years ended December 31, 2025 and 2024, respectively.

District employees may defer a portion of their compensation under a District-sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until it is distributed to them; distributions may be made only at termination, retirement, or death. The laws governing deferred compensation plan assets require plan assets to be held by a trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property and are not subject to District control, they have been excluded from these financial statements.

The District made all required funding payments during the year.

10. Risk Management and Contingencies:

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; 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 in any of the three preceding years.

Medical malpractice claims – The District has professional liability insurance with COPIC Insurance Company. The policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policies, as well as past incidents that are reported during the current term. The malpractice insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $5,000,000. The policy has a deductible of $50,000 per claim.

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

Taxpayer's Bill of Rights – Colorado voters passed an amendment to the state constitution, Article X, Section 20, known as the *Taxpayer's Bill of Rights*. This amendment has several limitations including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of this amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

11. Concentration Risks:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2025		**2024**	
Medicare	**31**	**%**	29	%
Medicaid	**6**		8	
Other third-party payors	**24**		29	
Patients	**39**		34	
	100	**%**	100	%

11. Concentration Risks (continued):

Physicians – The District is dependent on local physicians and mid-level providers 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 changes in their utilization patterns may have an adverse effect on District operations.

12. CARES Act Employee Retention Credit:

In 2022, the District claimed the CARES Act Employee Retention Credit (ERC) in the amount of $1,553,877 by amending its Form 941, *Employer Quarterly Federal Tax Return*, for the third quarter of 2021. The District used a consultant to assist with the filing and claiming of the ERC. As per the contract, the District recorded a payable to the consultant in the amount of $233,082 in 2025, which is included in accounts payable on the accompanying statements of net position. The District received payments from the Internal Revenue Service (IRS) in the amount of $2,064,052, including interest of $510,175, in February 2026, for its third-quarter of 2021 amended Form 941.

During 2025, the District's 2021 first and second quarter ERC applications were denied by the IRS. The District appealed those denials during the same year. In April 2026, the District received a check from the IRS in the amount of $2,067,572 which comprised of $1,527,003 for the first quarter claim and $540,659 of related interest. The District did not receive a letter from the IRS stating what the payment was for. After consultation with the District's ERC consultant, the District has determined that the payment may have been made in error and is holding the funds until further information regarding the payment is provided from the IRS. As such, the District did not include this payment in 2025 as there is uncertainty as to whether the District's first quarter Form 941 appeal was approved.

Laws and regulations concerning the ERC are complex and subject to varying interpretations. ERC claims may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the District's claim to the ERC and it is not possible to determine the impact (if any) this would have upon the District.

13. Budget to Actual:

During the year ended December 31, 2025, the District overspent its budget by approximately $545,000.

14. Subsequent Events:

The District entered into a five-year lease agreement, effective February 2026, for a MAKO surgical arm robot, due in monthly installments of $12,987, including interest at 5.63 percent.

SUPPLEMENTAL INFORMATION

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2025

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues			
Net patient service revenue and 340B contract pharmacy	$ 39,016,766	**$ 42,741,715**	$ 3,724,949
Medicaid supplemental payments	4,165,172	**3,950,849**	(214,323)
Grants	503,815	**427,505**	(76,310)
Other	1,811,444	**933,967**	(877,477)
Total operating revenues	45,497,197	**48,054,036**	2,556,839
Operating expenses			
Salaries and wages	25,307,983	**23,587,930**	1,720,053
Employee benefits	4,140,318	**3,823,042**	317,276
Professional fees and other purchased services	3,620,194	**4,670,983**	(1,050,789)
Supplies	7,732,684	**8,834,133**	(1,101,449)
Utilities	469,651	**473,179**	(3,528)
Depreciation and amortization	2,602,184	**2,947,510**	(345,326)
Leases and rentals	189,583	**353,445**	(163,862)
Repairs and maintenance	861,850	**701,196**	160,654
Insurance	460,259	**453,838**	6,421
Provider fees and other	2,137,364	**2,221,545**	(84,181)
Total operating expenses	47,522,070	**48,066,801**	(544,731)
Operating loss	(2,024,873)	**(12,765)**	2,012,108
Nonoperating revenues (expenses)			
Property taxes	2,241,009	**2,426,836**	185,827
CARES Act Employee Retention Credit	-	**1,553,877**	1,553,877
CARES Act Employee Retention Credit interest income	-	**510,175**	510,175
CARES Act Employee Retention Credit professional fees	-	**(233,082)**	(233,082)
Interest expense	(1,268,717)	**(1,062,496)**	206,221
Interest income	641,756	**629,033**	(12,723)
Total nonoperating revenues (expenses), net	1,614,048	**3,824,343**	2,210,295
Excess of expenses over revenues before capital grants and contributions	(410,825)	**3,811,578**	4,222,403
Capital grants and contributions	450,000	**1,679,697**	1,229,697
Change in net position	**$ 39,175**	**$ 5,491,275**	**$ 5,452,100**

See accompanying independent auditors' report.