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Form 990   Department of the Treasury Internal Revenue Service	<b>Return of Organization Exempt From Income Tax</b>  <b>Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)</b>  ▶ The organization may have to use a copy of this return to satisfy state reporting requirements	OMB No 1545-0047
		<b>2011</b>
		<b>Open to Public Inspection</b>

<b>A For the 2011 calendar year, or tax year beginning 06-01-2011 and ending 05-31-2012</b>		
<b>B</b> Check if applicable <input type="checkbox"/> Address change  <input type="checkbox"/> Name change  <input type="checkbox"/> Initial return  <input type="checkbox"/> Terminated  <input type="checkbox"/> Amended return  <input type="checkbox"/> Application pending	<b>C</b> Name of organization TAOS HEALTH SYSTEMS INC DBA HOLY CROSS HOSPITAL  Doing Business As  Number and street (or P O box if mail is not delivered to street address) Room/suite 1397 WEIMER RD  City or town, state or country, and ZIP + 4 TAOS, NM 87571	<b>D</b> Employer identification number  85-0289839
		<b>E</b> Telephone number  (505) 758-8883
		<b>G</b> Gross receipts \$ 66,660,724
	<b>F</b> Name and address of principal officer PETER HOFSTETTER 1397 WEIMER RD TAOS, NM 87571	<b>H(a)</b> Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No  <b>H(b)</b> Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list (see instructions) <b>H(c)</b> Group exemption number ▶
<b>I</b> Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) ( ) ◀ (Insert no ) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527		
<b>J Website:</b> ▶ WWW.TAOSHOSPITAL.ORG		
<b>K</b> Form of organization <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶		<b>L</b> Year of formation 1980
		<b>M</b> State of legal domicile NM

Part I		Summary		
Activities & Governance	<b>1</b> Briefly describe the organization's mission or most significant activities HOLY CROSS HOSPITAL'S MISSION IS TO CONTINUE TO BE THE REGIONAL HEALTH CARE PROVIDER OF CHOICE WHERE GREAT CARE COMES TOGETHER			
	<b>2</b> Check this box <input checked="" type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets			
	<b>3</b> Number of voting members of the governing body (Part VI, line 1a) . . . . .		<b>3</b> 11	
	<b>4</b> Number of independent voting members of the governing body (Part VI, line 1b) . . . . .		<b>4</b> 11	
	<b>5</b> Total number of individuals employed in calendar year 2011 (Part V, line 2a) . . . . .		<b>5</b> 556	
<b>6</b> Total number of volunteers (estimate if necessary) . . . . .		<b>6</b> 94		
<b>7a</b> Total unrelated business revenue from Part VIII, column (C), line 12 . . . . .		<b>7a</b> 103,175		
<b>b</b> Net unrelated business taxable income from Form 990-T, line 34 . . . . .		<b>7b</b> 59,704		
Revenue	<b>8</b> Contributions and grants (Part VIII, line 1h) . . . . .		<b>Prior Year</b> 1,415,148	<b>Current Year</b> 1,557,153
	<b>9</b> Program service revenue (Part VIII, line 2g) . . . . .		55,406,396	60,494,533
	<b>10</b> Investment income (Part VIII, column (A), lines 3, 4, and 7d ) . . . . .		309,968	532,015
	<b>11</b> Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)		755,082	1,928,481
	<b>12</b> Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12) . . . . .		57,886,594	64,512,182
	Expenses	<b>13</b> Grants and similar amounts paid (Part IX, column (A), lines 1–3 ) . . . . .		0
<b>14</b> Benefits paid to or for members (Part IX, column (A), line 4) . . . . .		0	0	
<b>15</b> Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)		32,559,660	32,679,714	
<b>16a</b> Professional fundraising fees (Part IX, column (A), line 11e) . . . . .		0	0	
<b>b</b> Total fundraising expenses (Part IX, column (D), line 25) ▶0				
<b>17</b> Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e) . . . . .		29,224,422	32,001,658	
<b>18</b> Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)		61,784,082	64,681,372	
<b>19</b> Revenue less expenses Subtract line 18 from line 12 . . . . .		-3,897,488	-169,190	
Net Assets or Fund Balances			<b>Beginning of Current Year</b>	<b>End of Year</b>
	<b>20</b> Total assets (Part X, line 16) . . . . .		44,942,199	44,162,714
	<b>21</b> Total liabilities (Part X, line 26) . . . . .		9,379,352	9,297,425
	<b>22</b> Net assets or fund balances Subtract line 21 from line 20 . . . . .		35,562,847	34,865,289

<b>Part II Signature Block</b>				
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.				
Sign Here	***** Signature of officer		2013-02-26 Date	
	RIC EISENRING CFO Type or print name and title			
Paid Preparer's Use Only	Preparer's signature ▶ PAMELA ALEXANDERSON	Date	Check if self-employed ▶ <input type="checkbox"/>	Preparer's taxpayer identification number (see instructions) P01218925
	Firm's name (or yours if self-employed), address, and ZIP + 4 ▶ MOSS ADAMS LLP 6100 UPTOWN BLVD NE STE 400 ALBUQUERQUE, NM 87110			EIN ▶ 91-0189318
				Phone no ▶ (505) 878-7200
May the IRS discuss this return with the preparer shown above? (see instructions) . . . . . <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No				

Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

1

Briefly describe the organization's mission

HOLY CROSS HOSPITAL'S MISSION IS TO CONTINUE TO BE THE REGIONAL HEALTH CARE PROVIDER OF CHOICE WHERE GREAT CARE COMES TOGETHER

2

Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

Yes

No

If "Yes," describe these new services on Schedule O

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services?

Yes

No

If "Yes," describe these changes on Schedule O

4

Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a

(Code ) (Expenses \$ 37,751,324 including grants of \$ ) (Revenue \$ 55,308,906 )

HOSPITAL HOLY CROSS HOSPITAL IS A REGIONAL ACUTE CARE FACILITY SERVING A DIVERSE CULTURAL COMMUNITY WITH A POVERTY RATE OF 21%. THE PAYOR MIX FOR THE HOSPITAL INCLUDES 36% MEDICARE PATIENTS, 17% MEDICAID PATIENTS AND 9% UNINSURED PATIENTS. THE HOSPITAL PROVIDES A VARIETY OF SERVICES DESIGNED FOR THE EXPRESS GOOD OF THE COMMUNITY EITHER AT REDUCED COST OR FOR FREE, SUCH AS DIABETES SELF MANAGEMENT SERVICES.

4b

(Code ) (Expenses \$ including grants of \$ ) (Revenue \$ -3,863,892 )

CHARITY CARE BENEFITING THE COMMUNITY WE SERVE IS AN ESSENTIAL EXPRESSION OF HOLY CROSS HOSPITAL'S MISSION. THE HOSPITAL ASSUMES THAT RESPONSIBILITY BY HEALTHCARE SERVICES TO THE COMMUNITY WHO ARE UNINSURED AND LACK THE ABILITY TO PAY. DURING FY2012 TAOS HEALTH SYSTEMS SERVED APPROXIMATELY 2033 PATIENTS WHO QUALIFIED FOR THE HOSPITAL'S CHARITY CARE.

4c

(Code ) (Expenses \$ 4,934,309 including grants of \$ ) (Revenue \$ 2,953,236 )

THE HOSPITAL OWNS AND ACTIVELY RECRUITS PHYSICIANS TO STAFF A WOMEN'S HEALTH CLINIC, A RURAL HEALTH CLINIC, A PHYSICAL MEDICINE AND REHABILITATION CLINIC, AND A SURGICAL SPECIALTIES CLINIC TO ENSURE THAT THE COMMUNITY'S NEED FOR THOSE SERVICES ARE MET.

(Code ) (Expenses \$ 983,999 including grants of \$ ) (Revenue \$ 7,525,395 )

OTHER MISCELLANEOUS PATIENT SERVICES TO INCLUDE COMMUNITY HEALTH FAIR, COMMUNITY WELLNESS PROGRAMS, COMMUNITY DEVELOPMENT PROGRAMS, DONATIONS TO COMMUNITY PROGRAMS AND COMMUNITY SCHOLARSHIP COSTS.

4d

Other program services (Describe in Schedule O )

(Expenses \$ 983,999 including grants of \$ ) (Revenue \$ 7,525,395 )


















4e

Total program service expenses

\$ 43,669,632

Form 990 (2011)

Part IV Checklist of Required Schedules

		Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A 	1	Yes
2	Is the organization required to complete Schedule B, Schedule of Contributors (see instructions)? 	2	Yes
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I	3	No
4	<b>Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II	4	No
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III	5	No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I 	6	No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? If "Yes," complete Schedule D, Part II 	7	No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	8	No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV 	9	No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V 	10	No
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI. 	11a	Yes
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII. 	11b	No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII. 	11c	No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX. 	11d	Yes
e	Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X. 	11e	Yes
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X. 	11f	Yes
12a	Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII 	12a	No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional 	12b	Yes
13	Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	13	No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a	No
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Part I	14b	No
15	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S? If "Yes," complete Schedule F, Part II and IV	15	No
16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S? If "Yes," complete Schedule F, Part III and IV	16	No
17	Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I	17	No
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II	18	No
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19	No
20a	Did the organization operate one or more hospitals? If "Yes," complete Schedule H 	20a	Yes
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? <b>Note.</b> All Form 990 filers that operated one or more hospitals must attach audited financial statements 	20b	Yes

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .	21		No
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .	22		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer questions 24b–24d and complete Schedule K. If "No," go to line 25</i> . . . . .	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? . . . .	24b		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? . . . . .	24c		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? . . . .	24d		
25a	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i> . . . . .	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i> . . . . .	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . . .	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> . . . . .	33	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i> . . . . .	34	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35a	Yes	
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	35b	Yes	
36	<b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i> . . . . .	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? <b>Note.</b> All Form 990 filers are required to complete Schedule O . . . . .	38	Yes	

Part V

Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable. .		
	1a213		
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.		
	1b0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1cYes	
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements filed for the calendar year ending with or within the year covered by this return. .		
	2a556		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?  Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2bYes	
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3aYes	
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	3bYes	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)?	4a	No
b	If "Yes," enter the name of the foreign country: See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a	No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c	
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6a	No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b	
7	Organizations that may receive deductible contributions under section 170(c).		
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a	No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c	No
d	If "Yes," indicate the number of Forms 8282 filed during the year.	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h	
8	Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8	
9	Sponsoring organizations maintaining donor advised funds.		
a	Did the organization make any taxable distributions under section 4966?	9a	
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b	
10	Section 501(c)(7) organizations. Enter		
a	Initiation fees and capital contributions included on Part VIII, line 12.	10a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b	
11	Section 501(c)(12) organizations. Enter		
a	Gross income from members or shareholders.	11a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	11b	
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b	
13	Section 501(c)(29) qualified nonprofit health insurance issuers.		
a	Is the organization licensed to issue qualified health plans in more than one state? Note. All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state.	13a	
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b	
c	Enter the aggregate amount of reserves on hand.	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b	

Part VI

Governance, Management, and Disclosure

For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.  
Check if Schedule O contains a response to any question in this Part VI

Section A. Governing Body and Management

		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year		
1b	Enter the number of voting members included in line 1a, above, who are independent		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	Yes	
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?		No
6	Did the organization have members or stockholders?		No
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?		No
7b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?		No
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
8a	The governing body?	Yes	
8b	Each committee with authority to act on behalf of the governing body?	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O		No

Section B. Policies

(This Section B requests information about policies not required by the Internal Revenue Code.)

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?		No
10b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	Yes	
11b	Describe in Schedule O the process, if any, used by the organization to review the Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	Yes	
12b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	Yes	
12c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	Yes	
13	Did the organization have a written whistleblower policy?	Yes	
14	Did the organization have a written document retention and destruction policy?	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
15a	The organization's CEO, Executive Director, or top management official	Yes	
15b	Other officers or key employees of the organization	Yes	
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)		
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?		No
16b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?		

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed	NM
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request	
19	Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.	
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization.	RIC EISENRING 1397 WEIMER RD TAOS, NM 87571 (505) 758-8883

Part VII

Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization's tax year

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, or highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons

Check this box if neither the organization nor any related organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) RON BURNHAM CHAIRMAN	1 00	X		X				0	0	0
(2) PAMELA ROMERO TREASURER	1 00	X		X				0	0	0
(3) ANNA MARTINEZ SECRETARY	1 00	X		X				0	0	0
(4) JEANNIE MASTERS BOARD MEMBER	1 00	X						0	0	0
(5) ANNY TORRES BOARD MEMBER	1 00	X						0	0	0
(6) SYLVIA VILLAREAL BOARD MEMBER	1 00	X						0	0	0
(7) DAN GUTTMAN BOARD MEMBER	1 00	X						0	0	0
(8) MICHAEL HOWARD BOARD MEMBER	1 00	X						0	0	0
(9) LINDA AUBRECHT BOARD MEMBER	1 00	X						0	0	0
(10) GUS CORODOVA BOARD MEMBER	1 00	X						0	0	0
(11) CHARLIE GONZALES BOARD MEMBER	1 00	X						0	0	0
(12) PETER HOFFSTETTER CEO	40 00			X				246,260	0	58,797
(13) RICHARD EISENRING CFO	40 00			X				149,470	0	35,767
(14) MARY ANNA ABEYTA CNO	40 00			X				157,747	0	5,981
(15) RICHARD MASSEN SURGEON	40 00					X		333,620	0	7,962
(16) ALDEN G COCKBURN SURGEON	40 00					X		357,444	0	0
(17) STEPHEN CETRULO SURGEON	40 00					X		290,160	0	2,803



## Part VII

<b>1b</b>	<b>Sub-Total . . . . .</b>	<b>▼</b>			
<b>c</b>	<b>Total from continuation sheets to Part VII, Section A . . . . .</b>	<b>▼</b>			
<b>d</b>	<b>Total (add lines 1b and 1c) . . . . .</b>	<b>▼</b>	2,063,722	0	122,078

**2** Total number of individuals (including but not limited to those listed in Item 1) who received more than \$100,000 of reportable compensation from the organization. 25

		Yes	No
<b>3</b>	Did the organization list any <b>former</b> officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i> . . . . .	<b>3</b>	No
<b>4</b>	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i> . . . . .	<b>4</b>	Yes
<b>5</b>	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i> . . . . .	<b>5</b>	No

## **Section B. Independent Contractors**

**1** Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. Report compensation for the calendar year ending with or within the organization's tax year.

(A) Name and business address	(B) Description of services	(C) Compensation
NORTHERN NEW MEXICO ANESTHESIA PO BOX 1235 RANCHOS DE TAOS, NM 87557	ANESTHESIOLOGISTS	1,515,854
QUORUM HEALTH RESOURCES LLC 105 CONTINENTAL PLACE BRENTWOOD, TN 37027	MANAGEMENT CONTRACTOR	980,381
WEATHERBY LOCUMS PO BOX 972633 DALLAS, TX 75397	CONTRACT DOCTORS	840,952
RURAL RADIOLOGY ASSOCIATES PLLC 12687 W CEDAR DR STE 200 DENVER, CO 80228	RADIOLOGY	631,322
SHARED IMAGING INC BOX 88544 MILWAUKEE, WI 53288	RADIOLOGY	507,922

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization 32

Part VIII

Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns . . .	1a				
	b	Membership dues . . . . .	1b				
	c	Fundraising events . . . . .	1c				
	d	Related organizations . . . .	1d				
	e	Government grants (contributions)	1e	313,514			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	1,243,639			
	g	Noncash contributions included in lines 1a-1f \$ 15,015					
	h	Total. Add lines 1a-1f . . . . .		1,557,153			
Program Service Revenue	2a	NET PATIENT SERVICE RE	Business Code 624100	60,494,533	60,494,533		
	b						
	c						
	d						
	e						
	f	All other program service revenue					
	g	Total. Add lines 2a-2f . . . . .		60,494,533			
	Other Revenue	3	Investment income (including dividends, interest and other similar amounts) . . . . .		137,766		
4		Income from investment of tax-exempt bond proceeds . .					
5		Royalties . . . . .					
6a		Gross rents	(i) Real (ii) Personal				
b		Less rental expenses					
c		Rental income or (loss)					
d		Net rental income or (loss) . . . . .					
7a		Gross amount from sales of assets other than inventory	(i) Securities (ii) Other 2,536,791 6,000				
b		Less cost or other basis and sales expenses	2,148,542 0				
c		Gain or (loss)	388,249 6,000				
d		Net gain or (loss) . . . . .		394,249			394,249
8a		Gross income from fundraising events (not including \$ of contributions reported on line 1c) See Part IV, line 18 . . . . .	a				
b		Less direct expenses . . . .	b				
c		Net income or (loss) from fundraising events . .					
9a		Gross income from gaming activities See Part IV, line 19 . . . . .	a				
b		Less direct expenses . . . .	b				
c		Net income or (loss) from gaming activities . .					
10a		Gross sales of inventory, less returns and allowances . . . . .	a				
b		Less cost of goods sold . . .	b				
c		Net income or (loss) from sales of inventory . .					
Miscellaneous Revenue		Business Code					
11a	FOOD SERVICE	722210	396,194			396,194	
b	MANAGEMENT SERVICES	541610	103,175		103,175		
c	INCOME FROM TAOS SPORT	624100	68,489	68,489			
d	All other revenue . . . . .		1,360,623	1,360,623			
e	Total. Add lines 11a-11d . . . . .		1,928,481				
12	Total revenue. See Instructions . . . . .		64,512,182	61,923,645	103,175	928,209	

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns  
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)  
Check if Schedule O contains a response to any question in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21				
2	Grants and other assistance to individuals in the United States See Part IV, line 22				
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees . . . . .	556,647		556,647	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) . . . . .				
7	Other salaries and wages	27,581,123	24,781,216	2,799,907	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions) . . . . .	350,608	308,535	42,073	
9	Other employee benefits . . . . .	2,425,711	2,134,626	291,085	
10	Payroll taxes . . . . .	1,765,625	1,553,750	211,875	
11	Fees for services (non-employees)				
a	Management . . . . .	839,084		839,084	
b	Legal . . . . .	305,063		305,063	
c	Accounting . . . . .	114,280		114,280	
d	Lobbying . . . . .				
e	Professional fundraising See Part IV, line 17 . . . . .				
f	Investment management fees . . . . .	32,839		32,839	
g	Other . . . . .	6,842,686	5,504,722	1,337,964	
12	Advertising and promotion . . . . .	395,079		395,079	
13	Office expenses . . . . .	3,077,638	1,645,333	1,432,305	
14	Information technology . . . . .	385,676		385,676	
15	Royalties . . . . .				
16	Occupancy . . . . .	1,098,296		1,098,296	
17	Travel . . . . .	135,649	39,970	95,679	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials . . . . .				
19	Conferences, conventions, and meetings . . . . .	132,340	90,374	41,966	
20	Interest . . . . .	100,576		100,576	
21	Payments to affiliates . . . . .				
22	Depreciation, depletion, and amortization . . . . .	2,674,810		2,674,810	
23	Insurance . . . . .	1,387,592	1,260,726	126,866	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O )				
a	BAD DEBT EXPENSES	6,553,115		6,553,115	
b	MEDICAL SUPPLIES	5,610,546	5,610,546		
c	REPAIRS & MAINTENANCE	1,233,376		1,233,376	
d	GRANT EXPENSE	739,210	739,210		
e					
f	All other expenses	343,803	624	343,179	
25	Total functional expenses. Add lines 1 through 24f	64,681,372	43,669,632	21,011,740	0
26	Joint costs. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing . . . . .			1,816,548	1	2,898,490
	2	Savings and temporary cash investments . . . . .			3,109,804	2	3,019,603
	3	Pledges and grants receivable, net . . . . .				3	
	4	Accounts receivable, net . . . . .			7,647,193	4	7,582,405
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L . . . . .				5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L . . . . .				6	
	7	Notes and loans receivable, net . . . . .			1,247,678	7	2,178,818
	8	Inventories for sale or use . . . . .			1,752,810	8	1,660,989
	9	Prepaid expenses and deferred charges . . . . .			551,891	9	1,151,383
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D . . . . .	10a	41,782,239			
	b	Less: accumulated depreciation . . . . .	10b	20,120,257	22,791,317	10c	21,661,982
	11	Investments—publicly traded securities . . . . .				11	
	12	Investments—other securities. See Part IV, line 11 . . . . .				12	
	13	Investments—program-related. See Part IV, line 11 . . . . .				13	
	14	Intangible assets . . . . .				14	
	15	Other assets. See Part IV, line 11 . . . . .			6,024,958	15	4,009,044
16	Total assets. Add lines 1 through 15 (must equal line 34) . . . . .			44,942,199	16	44,162,714	
Liabilities	17	Accounts payable and accrued expenses . . . . .			5,989,660	17	6,520,583
	18	Grants payable . . . . .				18	
	19	Deferred revenue . . . . .			119,269	19	104,291
	20	Tax-exempt bond liabilities . . . . .				20	
	21	Escrow or custodial account liability. Complete Part IV of Schedule D . . . . .				21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L . . . . .				22	
	23	Secured mortgages and notes payable to unrelated third parties . . . . .			2,748,837	23	2,235,804
	24	Unsecured notes and loans payable to unrelated third parties . . . . .				24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D . . . . .			521,586	25	436,747
	26	Total liabilities. Add lines 17 through 25 . . . . .			9,379,352	26	9,297,425
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets . . . . .			35,009,358	27	33,838,771
	28	Temporarily restricted net assets . . . . .			553,489	28	1,026,518
	29	Permanently restricted net assets . . . . .				29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.						
	30	Capital stock or trust principal, or current funds . . . . .				30	
	31	Paid-in or capital surplus, or land, building or equipment fund . . . . .				31	
	32	Retained earnings, endowment, accumulated income, or other funds . . . . .				32	
	33	Total net assets or fund balances . . . . .			35,562,847	33	34,865,289
	34	Total liabilities and net assets/fund balances . . . . .			44,942,199	34	44,162,714

**Part XI Reconciliation of Net Assets**

Check if Schedule O contains a response to any question in this Part XI ☒

<b>1</b>	Total revenue (must equal Part VIII, column (A), line 12)	<b>1</b>	64,512,182
<b>2</b>	Total expenses (must equal Part IX, column (A), line 25)	<b>2</b>	64,681,372
<b>3</b>	Revenue less expenses Subtract line 2 from line 1	<b>3</b>	-169,190
<b>4</b>	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	<b>4</b>	35,562,847
<b>5</b>	Other changes in net assets or fund balances (explain in Schedule O)	<b>5</b>	-528,368
<b>6</b>	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	<b>6</b>	34,865,289

**Part XII Financial Statements and Reporting**

Check if Schedule O contains a response to any question in this Part XII ☐

		Yes	No
<b>1</b>	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
<b>2a</b>	Were the organization's financial statements compiled or reviewed by an independent accountant?		No
<b>b</b>	Were the organization's financial statements audited by an independent accountant?	Yes	
<b>c</b>	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
<b>d</b>	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis		
<b>3a</b>	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?		No
<b>b</b>	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits		

SCHEDULE A

(Form 990 or 990EZ)

Department of the Treasury  
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public  
Inspection

Name of the organization TAOS HEALTH SYSTEMS INC DBA HOLY CROSS HOSPITAL	Employer identification number 85-0289839
---	--

Part I

Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box )

- 1

☐

A church, convention of churches, or association of churches **section 170(b)(1)(A)(i).**
- 2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E )
- 3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**
- 4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state
- 5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II )
- 6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**
- 7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III )
- 10

☐

An organization organized and operated exclusively to test for public safety Se**section 509(a)(4).**
- 11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h  

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box

g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?  

(i)

a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?

(ii)

a family member of a person described in (i) above?

(iii)

a 35% controlled entity of a person described in (i) or (ii) above?

h

☐

Provide the following information about the supported organization(s)

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		






(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support?
			Yes	No	Yes	No	Yes	No	
Total									

Part II

Support Schedule for Organizations Described in IRC 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)  
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public Support. Subtract line 5 from line 4						

Section B. Total Support							
Calendar year (or fiscal year beginning in)		(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7	Amounts from line 4						
8	Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9	Net income from unrelated business activities, whether or not the business is regularly carried on						
10	Other income (Explain in Part IV ) Do not include gain or loss from the sale of capital assets						
11	Total support (Add lines 7 through 10)						
12	Gross receipts from related activities, etc (See instructions )					12	
13	First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here						<input type="checkbox"/>

Section C. Computation of Public Support Percentage			
14	Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f))	14	
15	Public Support Percentage for 2010 Schedule A, Part II, line 14	15	
16a	<b>33 1/3% support test—2011.</b> If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization 		
b	<b>33 1/3% support test—2010.</b> If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization 		
17a	<b>10%-facts-and-circumstances test—2011.</b> If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and <b>stop here.</b> Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization 		
b	<b>10%-facts-and-circumstances test—2010.</b> If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and <b>stop here.</b> Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization 		
18	<b>Private Foundation</b> If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions 		

Part IIIPart III

Support Schedule for Organizations Described in IRC 509(a)(2)  
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6 )						

Section B. Total Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support (Add lines 9, 10c, 11 and 12.)						
14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and <b>stop here</b>						

Section C. Computation of Public Support Percentage		
15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2011. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization		
b 33 1/3% support tests—2010. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization		
20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions		



**Part IV** **Supplemental Information.** Supplemental Information. Complete this part to provide the explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

SCHEDULE D  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Supplemental Financial Statements

OMB No 1545-0047

2011

Open to Public Inspection

Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b

Attach to Form 990. See separate instructions.

Name of the organization  
TAOS HEALTH SYSTEMS INC DBA HOLY CROSS HOSPITAL

Employer identification number  
85-0289839

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year	
2	Aggregate contributions to (during year)	
3	Aggregate grants from (during year)	
4	Aggregate value at end of year	
5	Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control?	
	<div>Yes</div> <div>No</div>	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit	
	<div>Yes</div> <div>No</div>	

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1

Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or pleasure)

☐ Preservation of an historically importantly land area

☐ Protection of natural habitat

☐ Preservation of a certified historic structure

☐ Preservation of open space

2

Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year

4

Number of states where property subject to conservation easement is located

5

Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?

Yes

No

6

Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year

7

Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year

\$

8

Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)?

Yes

No

9

In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a

If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i)

Revenues included in Form 990, Part VIII, line 1

\$

(ii)

Assets included in Form 990, Part X

\$

2

If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a

Revenues included in Form 990, Part VIII, line 1

\$

b

Assets included in Form 990, Part X

\$

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

3

Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5

During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?

☐ Yes

☐ No

Part IV

Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a

Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	

2a

Did the organization include an amount on Form 990, Part X, line 21?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

Part V

Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance . . . . .				
b	Contributions . . . . .				
c	Investment earnings or losses . . . . .				
d	Grants or scholarships . . . . .				
e	Other expenditures for facilities and programs . . . . .				
f	Administrative expenses . . . . .				
g	End of year balance . . . . .				

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶

c

Term endowment ▶

3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by

	Yes	No
3a(i)		
3a(ii)		
3b		

(i)

unrelated organizations . . . . .

(ii)

related organizations . . . . .

b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

4

Describe in Part XIV the intended uses of the organization's endowment funds

Part VI

Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land . . . . .		2,487,338		2,487,338
b Buildings . . . . .		12,588,195	3,105,569	9,482,626
c Leasehold improvements . . . . .		3,139,457	1,363,837	1,775,620
d Equipment . . . . .		21,948,968	15,650,851	6,298,117
e Other . . . . .		1,618,281		1,618,281
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) . . . . . ▶				21,661,982

Schedule D (Form 990) 2011



<b>Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements</b>		
1	Total revenue (Form 990, Part VIII, column (A), line 12)	1
2	Total expenses (Form 990, Part IX, column (A), line 25)	2
3	Excess or (deficit) for the year Subtract line 2 from line 1	3
4	Net unrealized gains (losses) on investments	4
5	Donated services and use of facilities	5
6	Investment expenses	6
7	Prior period adjustments	7
8	Other (Describe in Part XIV)	8
9	Total adjustments (net) Add lines 4 - 8	9
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10

<b>Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return</b>		
1	Total revenue, gains, and other support per audited financial statements . . . . .	1
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12	
a	Net unrealized gains on investments . . . . . 2a	
b	Donated services and use of facilities . . . . . 2b	
c	Recoveries of prior year grants . . . . . 2c	
d	Other (Describe in Part XIV) . . . . . 2d	
e	Add lines 2a through 2d . . . . .	2e
3	Subtract line 2e from line 1 . . . . .	3
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1	
a	Investment expenses not included on Form 990, Part VIII, line 7b . . . . . 4a	
b	Other (Describe in Part XIV) . . . . . 4b	
c	Add lines 4a and 4b . . . . .	
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12 ) . . . . .	5

<b>Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return</b>		
1	Total expenses and losses per audited financial statements . . . . .	1
2	Amounts included on line 1 but not on Form 990, Part IX, line 25	
a	Donated services and use of facilities . . . . . 2a	
b	Prior year adjustments . . . . . 2b	
c	Other losses . . . . . 2c	
d	Other (Describe in Part XIV) . . . . . 2d	
e	Add lines 2a through 2d . . . . .	2e
3	Subtract line 2e from line 1 . . . . .	3
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:	
a	Investment expenses not included on Form 990, Part VIII, line 7b . . . . . 4a	
b	Other (Describe in Part XIV) . . . . . 4b	
c	Add lines 4a and 4b . . . . .	
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18 ) . . . . .	5

**Part XIV Supplemental Information**

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
DESCRIPTION OF UNCERTAIN TAX POSITIONS UNDER FIN 48	PART X	THE HOSPITAL IS A TAX-EXEMPT ORGANIZATION AND IS NOT SUBJECT TO FEDERAL OR STATE INCOME TAXES, EXCEPT FOR UNRELATED BUSINESS INCOME, IN ACCORDANCE WITH SECTION 501(C)(3) OF THE INTERNAL REVENUE CODE. IN ADDITION, THE HOSPITAL QUALIFIED FOR THE CHARITABLE CONTRIBUTION DEDUCTION UNDER SECTION 170(B)(1)(A) AND HAS BEEN CLASSIFIED AS AN ORGANIZATION THAT IS NOT A PRIVATE FOUNDATION. UNRELATED BUSINESS INCOME TAX, IF ANY, IS INSIGNIFICANT AND NO TAX PROVISION HAS BEEN MADE IN THE ACCOMPANYING FINANCIAL STATEMENTS. THE HOSPITAL RECOGNIZES THE TAX BENEFIT FROM FROM UNCERTAIN TAX POSITIONS ONLY IF IT IS MORE LIKELY THAN NOT THAT THE TAX POSITIONS WILL BE SUSTAINED ON EXAMINATION BY THE TAX AUTHORITIES, BASED ON THE TECHNICAL MERITS OF THE POSITION. THE TAX BENEFIT IS MEASURED BASED ON THE LARGEST BENEFIT THAT HAS A GREATER THAN 50% LIKLIHOOD OF BEING REALIZED UPON ULTIMATE SETTLEMENT. THE HOSPITAL HAD NO UNCERTAIN TAX BENEFITS AT MAY 31, 2012 OR 2011.

SCHEDULE H  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Hospitals

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**  
▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

**Name of the organization**  
TAOS HEALTH SYSTEMS INC DBA HOLY CROSS HOSPITAL

**Employer identification number**  
85-0289839

Part I Charity Care and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a charity care policy? If "No," skip to question 6a . . . . .	1a	Yes	
b	If "Yes," is it a written policy? . . . . .	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals <div><input type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Generally tailored to individual hospitals</div> <div><input type="checkbox"/> Applied uniformly to most hospitals</div>			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year			
a	Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <div><input checked="" type="checkbox"/> 100%<input type="checkbox"/> 150%<input type="checkbox"/> 200%<input type="checkbox"/> Other _____%</div>	3a	Yes	
b	Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care . . . . . <div><input type="checkbox"/> 200%<input type="checkbox"/> 250%<input checked="" type="checkbox"/> 300%<input type="checkbox"/> 350%<input type="checkbox"/> 400%<input type="checkbox"/> Other _____%</div>	3b	Yes	
c	If the organization did not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care			
4	Did the organization's policy provide free or discounted care to the "medically indigent"? . . . . .	4		No
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? . . . . .	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount? . . . . .	5b		No
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care? . . . . .	5c		
6a	Did the organization prepare a community benefit report during the tax year? . . . . .	6a	Yes	
6b	If "Yes," did the organization make it available to the public? . . . . .	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7 Charity Care and Certain Other Community Benefits at Cost						
Charity Care and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Charity care at cost (from Worksheet 1) . . . . .		2,033	1,896,785	1,392,636	504,149	0 870 %
b Medicaid (from Worksheet 3, column a) . . . . .			8,375,258	11,333,425	-2,958,167	0 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . . . . .						
d Total Charity Care and Means-Tested Government Programs . . . . .		2,033	10,272,043	12,726,061	-2,454,018	0 870 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4) . . . . .	22	185,960	813,978		813,978	1 400 %
f Health professions education (from Worksheet 5) . . . . .	1	86	112,750		112,750	0 190 %
g Subsidized health services (from Worksheet 6) . . . . .						
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8) . . . . .	2	65,834	19,320		19,320	0 030 %
j Total Other Benefits . . . . .	25	251,880	946,048		946,048	1 620 %
k Total. Add lines 7d and 7j . . . . .	25	253,913	11,218,091	12,726,061	-1,507,970	2 490 %

Part IICommunity Building Activities

Complete this table if the organization conducted any community building activities.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1Physical improvements and housing						
2Economic development						
3Community support						
4Environmental improvements						
5Leadership development and training for community members						
6Coalition building						
7Community health improvement advocacy						
8Workforce development						
9Other						
10Total						

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?	1	No
2	Enter the amount of the organization's bad debt expense	2	6,521,046
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3	4,246,219
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit.		

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	11,382,280
6	Enter Medicare allowable costs of care relating to payments on line 5	6	30,302,849
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	7	-18,920,569
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other		

Section C. Collection Practices

9a	Did the organization have a written debt collection policy during the tax year?	9a	Yes
b	If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI.	9b	Yes

Part IVManagement Companies and Joint Ventures (see instructions)

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

## Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 1

## Name and address

[illegible]



Part V

Facility Information (continued)

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

HOLY CROSS HOSPITAL

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A):1

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)		
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 . . . . . If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1	
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI . . . . .	4	
5 Did the hospital facility make its Needs Assessment widely available to the public? . . . . . If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input type="checkbox"/> Participation in community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7	
Financial Assistance Policy		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for free care 100 0000000000000% If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300 000000000000%</u> If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? . . . . . If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input type="checkbox"/> Income level b <input type="checkbox"/> Asset level c <input type="checkbox"/> Medical indigency d <input type="checkbox"/> Insurance status e <input type="checkbox"/> Uninsured discount f <input type="checkbox"/> Medicaid/Medicare g <input type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11		No
12	Explained the method for applying for financial assistance? . . . . .	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility? . . . . . If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input checked="" type="checkbox"/> The policy was attached to all billing invoices c <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input type="checkbox"/> The policy was available upon request g <input type="checkbox"/> Other (describe in Part VI)	13	Yes	

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment? . . . . .	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP a <input checked="" type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input type="checkbox"/> Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? . . . . . If "Yes," check all actions in which the hospital facility or a third party engaged a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input type="checkbox"/> Other (describe in Part VI)			

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
18	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? . . . . . If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care a <input checked="" type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged b <input type="checkbox"/> The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged c <input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged d <input type="checkbox"/> Other (describe in Part VI)		
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? . . . . . If "Yes," explain in Part VI		No
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient? . . . . . If "Yes," explain in Part VI		No

Part V

Facility Information (continued)

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? \_\_\_\_\_

Name and address		Type of Facility (Describe)
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

Part VI

Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6l, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc )
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
		PART I, LINE 7, COLUMN (F) THE BAD DEBT EXPENSE INCLUDED ON FORM 990, PART IX, LINE 25, COLUMN (A), BUT SUBTRACTED FOR PURPOSES OF CALCULATING THE PERCENTAGE IN THIS COLUMN IS \$ 6553115

Identifier	ReturnReference	Explanation
		PART III, LINE 4 PATIENT ACCOUNTS RECEIVABLE ARE STATED AT THE AMOUNT MANAGEMENT EXPECTS TO COLLECT FROM OUTSTANDING BALANCES ESTIMATED PROVISIONS FOR DOUBTFUL ACCOUNTS ARE RECORDED TO THE EXTENT IS IT PROBABLE A PORTION OR ALL OF A PARTICULAR ACCOUNT WILL NOT BE COLLECTED THE HOSPITAL DETERMINES IF PATIENT ACCOUNTS RECEIVABLE ARE PAST DUE BASED ON THE DATE THE SERVICE WAS PERFORMED AND THE HOSPITAL DOES NOT CHARGE INTEREST ON PAST DUE ACCOUNTS IN EVALUATING THE COLLECTIBILITY OF ACCOUNTS RECEIVABLE, THE COMPANY CONSIDERS A NUMBER OF FACTORS, INCLUDING THE AGE OF THE ACCOUNTS, CHANGES IN COLLECTION PATTERNS, THE COMPOSITION OF PATIENT ACCOUNTS BY PAYOR TYPE, THE STATUS OF ONGOING DISPUTES WITH THIRD PARTY PAYORS AND GENERAL INDUSTRY CONDITIONS THE COSTING METHODOLOGY USED WAS A COST TO CHARGE RATIO THE RATIONALE FOR INCLUDING A PORTION OF BAD DEBT AMOUNTS AS COMMUNITY BENEFIT IS THAT BASED ON THE FACT THAT THE COMMUNITY HAS A 21% POVERTY RATE, MANY PATIENTS WHO ARE UNABLE TO PAY FOR THEIR MEDICAL SERVICES WOULD LIKELY QUALIFY FOR CHARITY CARE IF THEY COMPLETED THE FINANCIAL ASSISTANCE APPLICATION

Identifier	ReturnReference	Explanation
		PART III, LINE 8 ALL OF THE MEDICARE SHORTFALL SHOULD BE TREATED AS COMMUNITY BENEFIT BECAUSE HOSPITALS MUST TREAT PATIENTS REGARDLESS OF THEIR ABILITY TO PAY THE GOVERNMENT SETS NON-NEGOTIABLE MEDICARE RATES, WHICH ARE SOMETIMES OUT OF LINE WITH THE TRUE COST TO TREAT MEDICARE PATIENTS BY TREATING MEDICARE ELIGIBLE PATIENTS, HOSPITALS ALLEVIATE THE FEDERAL GOVERNMENT'S BURDEN FOR DIRECTLY PROVIDING MEDICAL SERVICES THE DATA USED TO EVALUATE THE MEDICARE SHORTFALL WAS OBTAINED FROM THE FY2012 MEDICARE COST REPORT

Identifier	ReturnReference	Explanation
		PART III, LINE 9B WHEN AN ACCOUNT IS FINAL BILLED AND IDENTIFIED AS SELF PAY, A LETTER IS SENT TO THE PATIENT REQUESTING EITHER PAYMENT OR THE PATIENT CONTACT THE HOSPITAL TO DISCUSS FINANCIAL ASSISTANCE PAYMENT PLANS WORKED OUT AND INDIGENT FUND APPLICATIONS CAN BE OBTAINED ON SELF PAY ACCOUNTS UNDER \$1,000 NO CALLS ARE MADE TO THE PATIENT AND COLLECTION EFFORTS ARE THE SAME FOR ALL ACCOUNTS UNLESS THE PATIENT IS MAKING PAYMENTS OR HAD INDICATED THAT THEY WILL APPLY FOR FINANCIAL ASSISTANCE ON SELF PAY ACCOUNTS \$1,000-\$5,000 THE PATIENT WILL BE CONTACTED AT LEAST 3 TIMES BY TELEPHONE TO ENCOURAGE THEM TO DISCUSS THEIR BILL AND APPLY FOR ASSISTANCE PATIENTS AGREEING TO APPLY FOR THE INDIGENT FUND WILL BE GIVEN APPLICATIONS AND ASSISTED IN COMPLETING IF NECESSARY ON ACCOUNTS UNDER \$2,000, INCOMPLETE APPLICATIONS WILL NOT BE ACCEPTED ON ACCOUNTS OVER \$2,000, WE WILL ACCEPT ALL APPLICATIONS AND CALL THE PATIENT WEEKLY FOR 3 WEEKS TO OBTAIN THE MISSING INFORMATION AFTER 3 WEEKS, WE WILL MAIL THE APPLICATION TO THE PATIENT EXPLAINING THAT WE WERE UNABLE TO PROCESS AND TO BRING THE APPLICATION BACK TO US WHEN IT IS COMPLETE WHEN PATIENTS APPLY BUT FAIL TO QUALIFY FOR THE INDIGENT FUND WE WILL STILL WORK WITH THEM TO GIVE THEM CHARITY CARE UNDER THE HOSPITALS GUIDELINES ON SELF PAY ACCOUNTS OVER \$5000 THE PATIENT WILL BE CALLED AS SOON AS THE ACCOUNT IS 'IDENTIFIED' THE PATIENT WILL ALSO BE CALLED PRIOR TO EACH ADDITIONAL COLLECTION LETTER BEING SENT AFTER ALL APPROPRIATE COLLECTION LETTERS HAVE BEEN SENT AND TELEPHONE CALLS HAVE BEEN MADE AND THE PATIENT HAS NOT MADE AN ATTEMPT TO MAKE SUITABLE ARRANGEMENTS, THE ACCOUNT WILL BE REFERRED TO AN OUTSIDE COLLECTION AGENCY



Identifier	ReturnReference	Explanation
		PART VI, LINE 2 THE TAOS HEALTH SYSTEMS COMMUNITY BENEFIT COORDINATOR RELIES ON THE MOST UP TO DATE STATE AND FEDERAL DATA TO CREATE AN OVERVIEW OF HEALTH STATUS FOR OUR COMMUNITY THE COMMUNITY BENEFIT TEAM IS IN THE PROCESS OF CONDUCTING AN EXTENSIVE UPDATED NEEDS ASSESSMENT FOR REGIONAL GROWTH AND DEVELOPMENT IN THE COMMUNITY FOR FY 2012 THIS YEAR, NEEDS WERE DETERMINED FROM THE MOST RECENT STATE AND FEDERAL DATA AND FROM THE COMMUNITY HEALTH PROFILE CREATED IN 2009, AN EXTENSIVE STUDY OF COMMUNITY NEEDS CREATED FROM DATA COMPILATION, FOCUS GROUPS, KEY INFORMANT INTERVIEWS, AND SURVEYS CREATED IN COLLABORATION WITH COMMUNITY COALITIONS AND NETWORKS

Identifier	ReturnReference	Explanation
		PART VI, LINE 3 THE POLICY IS ATTACHED TO BILLING INVOICES AND IS POSTED ON THE HOSPITAL'S WEBSITE IT IS ALSO AVAILABLE IN THE HOSPITAL'S BILLING OFFICE

Identifier	ReturnReference	Explanation
		PART VI, LINE 4 TAOS HEALTH SYSTEMS SERVES RESIDENTS OF TAOS COUNTY AND PARTS OF WESTERN COLFAX AND NORTHERN RIO ARRIBA COUNTIES - APPROXIMATELY 51,000 PEOPLE SPREAD ACROSS A GEOGRAPHIC REGION OF MORE THAN 2,500 SQUARE MILES, OR TWO AND A HALF TIMES THE SIZE OF RHODE ISLAND THE POPULATION OF TAOS COUNTY IS 56 1% HISPANIC OR LATINO AND 7 3% NATIVE AMERICAN NEARLY 20% OF OUR POPULATION IS 65 AND OVER, COMPARED TO 13 6% NATIONWIDE, SO WE SEE DISPROPORTIONATELY HIGH ONSET IN CHRONIC DISEASES DESPITE BEING A DESTINATION FOR RETIREES AND HOSTING A WORLD-CLASS SKI RESORT (WHICH DRIVES OUR MEDIAN INCOME NUMBERS HIGHER THAN IS TRULY REPRESENTATIVE OF THE LOW INCOMES OF THE MAJORITY OF PEOPLE HERE), THE REGION IS ISOLATED AND MEDICALLY UNDERSERVED OUR RURAL/FRONTIER REGION IS IMPOVERISHED, WITH 17% OF THE POPULATION IN TAOS COUNTY LIVING BELOW THE POVERTY LEVEL AND A MEDIAN PER CAPITA INCOME OF \$22,145 THE PROPORTION OF TAOS COUNTY CHILDREN IN IMPOVERISHED OR LOW-INCOME FAMILIES REMAINS ONE OF THE HIGHEST IN THE COUNTRY, WITH MORE THAN 25% OF ALL CHILDREN IN POVERTY, 43% NEAR POVERTY, AND MORE THAN HALF LOW-INCOME RECENT DEPARTMENT OF LABOR STATISTICS TELL US THAT THE CURRENT TAOS UNEMPLOYMENT RATE IS 9 1% (FOR APRIL 2012), BUT OUR OUTLYING COMMUNITIES FACE MUCH HIGHER UNEMPLOYMENT RATES, RANGING FROM 13-16%

Identifier	ReturnReference	Explanation
		<p>PART VI, LINE 5 TAOS HEALTH SYSTEMS (THS) HAS HOLY CROSS HOSPITAL AS ITS REGIONAL HUB AND INCLUDES THE WOMENS HEALTH INSTITUTE, TAOS SURGICAL SPECIALTIES, TWO RURAL HEALTHCARE CLINICS, AND A PHYSICAL THERAPY AND REHABILITATION CENTER, ALL SERVING THREE RURAL AND FRONTIER COUNTIES IN NORTHERN NEW MEXICO TAOS HEALTH SYSTEMS IS A LOCAL, INDEPENDENT, NON-PROFIT ORGANIZATION THS AND HOLY CROSS HOSPITAL HAVE ALWAYS BEEN COMMUNITY-FOCUSED THROUGHOUT THE HOSPITALS 75-YEAR HISTORY, OUR MISSION HAS BEEN AND CONTINUES TO BE TO PROVIDE PREVENTATIVE, CURATIVE, AND SUPPORTIVE HEALTHCARE SERVICES WHILE MAINTAINING HIGH QUALITY STANDARDS AND UTILIZING INNOVATIVE, EDUCATIONAL, AND COST-EFFECTIVE APPROACHES FOR ALL MEMBERS OF OUR CULTURALLY DIVERSE REGION HOLY CROSS HOSPITAL HAS A LOCAL GOVERNING BOARD THAT INCLUDES PHYSICIANS AND COMMUNITY MEMBERS, WITH EQUAL REPRESENTATION FROM THE OUTLYING VILLAGES IN OUR AREA THS BELIEVES THAT HEALTH STARTS EARLY, AND SUPPORTS LOCAL ORGANIZATIONS THAT IDENTIFY AND RESPOND TO COMMUNITY HEALTH NEEDS, WITH A SPECIAL FOCUS ON SUPPORT FOR CHILDREN AND FAMILY SERVICES OUR COMMUNITY SERVICE PROGRAMS TARGET POPULATIONS FROM PRENATAL CARE TO HIGH SCHOOL STUDENTS TO SUPPORT FOR ELDERS WITH CHRONIC DISEASE SERVICES ADDRESS TOBACCO CESSATION, CHRONIC DISEASE SUPPORT, REDUCTION OF PARENT STRESS, AND MORE WITH SHARED LONG-TERM GOALS OF REDUCING OUR POPULATION'S DISPROPORTIONATELY HIGH RATES OF CHRONIC DISEASE IN ALL PROGRAMS, OUR APPROACH FOCUSES ON HOW FAMILIES WORK TOGETHER AND CAN BE SUPPORTED TOGETHER, AN APPROACH CONSISTENT WITH THE VALUES OF OUR TRI-CULTURAL COMMUNITY</p>

Schedule J  
(Form 990)

Compensation Information

OMB No 1545-0047

2011

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization TAOS HEALTH SYSTEMS INC DBA HOLY CROSS HOSPITAL	Employer identification number 85-0289839
---	--

Part I

Questions Regarding Compensation

	Yes	No
1a Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items		
<input type="checkbox"/> First-class or charter travel		
<input type="checkbox"/> Travel for companions		
<input type="checkbox"/> Tax idemnification and gross-up payments		
<input type="checkbox"/> Discretionary spending account		
<input type="checkbox"/> Housing allowance or residence for personal use		
<input type="checkbox"/> Payments for business use of personal residence		
<input type="checkbox"/> Health or social club dues or initiation fees		
<input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)		
1b If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain		
2 Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?		
3 Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply		
<input checked="" type="checkbox"/> Compensation committee		
<input type="checkbox"/> Independent compensation consultant		
<input type="checkbox"/> Form 990 of other organizations		
<input checked="" type="checkbox"/> Written employment contract		
<input checked="" type="checkbox"/> Compensation survey or study		
<input checked="" type="checkbox"/> Approval by the board or compensation committee		
4 During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization		
a Receive a severance payment or change-of-control payment?		No
b Participate in, or receive payment from, a supplemental nonqualified retirement plan?		No
c Participate in, or receive payment from, an equity-based compensation arrangement?		No
If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III		
Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.		
5 For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of		
a The organization?		No
b Any related organization?		No
If "Yes," to line 5a or 5b, describe in Part III		
6 For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of		
a The organization?		No
b Any related organization?		No
If "Yes," to line 6a or 6b, describe in Part III		
7 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III		No
8 Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III		No
9 If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?		

**Part II** **Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use Schedule J-1 if additional space needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

**Note.** The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) PETER HOFFSTETTER	(i)	239,000	0	7,260	0	58,797	305,057	0
	(ii)	0	0	0	0	0	0	0
(2) RICHARD EISENRING	(i)	149,470	0	0	0	35,767	185,237	0
	(ii)	0	0	0	0	0	0	0
(3) MARY ANNA ABEYTA	(i)	157,647	100	0	0	5,981	163,728	0
	(ii)	0	0	0	0	0	0	0
(4) RICHARD MASSEN	(i)	333,098	522	0	0	7,962	341,582	0
	(ii)	0	0	0	0	0	0	0
(5) ALDEN G COCKBURN	(i)	356,887	557	0	0	0	357,444	0
	(ii)	0	0	0	0	0	0	0
(6) STEPHEN CETRULO	(i)	289,914	246	0	0	2,803	292,963	0
	(ii)	0	0	0	0	0	0	0
(7) SHANTI MOHLING	(i)	279,049	418	0	0	7,962	287,429	0
	(ii)	0	0	0	0	0	0	0
(8) TIMOTHY MOORE	(i)	249,194	360	0	0	2,806	252,360	0
	(ii)	0	0	0	0	0	0	0
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							

**Part III**   **Supplemental Information**

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
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**SCHEDULE O**  
**(Form 990 or 990-EZ)**

Department of the Treasury  
Internal Revenue Service

**Supplemental Information to Form 990 or 990-EZ**

**Complete to provide information for responses to specific questions on  
Form 990 or to provide any additional information.**  
**► Attach to Form 990 or 990-EZ.**

**2011**

**Open to Public  
Inspection**

Name of the organization  
TAOS HEALTH SYSTEMS INC DBA HOLY CROSS HOSPITAL

**Employer identification number**

85-0289839

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION A, LINE 3	CONTRACTED TO QUORUM HEALTH RESOURCES FOR MANAGEMENT SERVICES
	FORM 990, PART VI, SECTION B, LINE 11	AFTER THE RETURN IS PREPARED BY AN INDEPENDENT ACCOUNTING FIRM, THE CFO AND CEO REVIEW A COPY OF THE FORM 990 FOR COMPLETENESS AND ACCURACY. ONCE APPROVED BY THE CEO AND CFO, A COPY IS PROVIDED TO THE BOARD OF DIRECTORS FOR REVIEW. THE BOARD OF DIRECTORS THEN APPROVES THE FINAL COPY AND THE RETURN IS FILED.
	FORM 990, PART VI, SECTION B, LINE 12C	THE COMPLIANCE COMMITTEE MONITORS AND ENFORCES THE CONFLICT OF INTEREST POLICY. BOARD MEMBERS, SENIOR LEADERS, DIRECTORS AND KEY EMPLOYEES MUST COMPLETE A CONFLICT OF INTEREST POLICY ANNUALLY.
	FORM 990, PART VI, SECTION B, LINE 15	AN INDEPENDENT MANAGEMENT COMPANY UTILIZES SURVEYS AND COMPARATIVE DATA TO DETERMINE COMPENSATION FOR THE CEO, TOP MANAGEMENT OFFICIALS, OFFICERS AND KEY EMPLOYEES.
	FORM 990, PART VI, SECTION C, LINE 18	THE FORM 990 AND FORM 1023 ARE AVAILABLE FOR PUBLIC INSPECTION UPON REQUEST.
	FORM 990, PART VI, SECTION C, LINE 19	THE AUDITED FINANCIAL STATEMENTS, CONFLICT OF INTEREST POLICY, AND ALL OTHER GOVERNING AND ORGANIZING DOCUMENTS ARE AVAILABLE FOR PUBLIC INSPECTION UPON REQUEST.
CHANGES IN NET ASSETS OR FUND BALANCES	FORM 990, PART XI, LINE 5	NET UNREALIZED LOSSES ON INVESTMENTS -491,022 CONSOLIDATED INCOME 64,577 BOOK/TAX DIFFERENCE IN TSM K-1 -68,489 UNRELATED BUSINESS INCOME EXPENSE -33,434 TOTAL TO FORM 990, PART XI, LINE 5 -528,368



SCHEDULE R  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.  
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization

TAOS HEALTH SYSTEMS INC DBA HOLY CROSS HOSPITAL

Employer identification number

85-0289839

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) TAOS PROFESSIONAL SERVICES 1397 WEIMER RD TAOS, NM 87571 27-4259044	CLINICS	NM	-1,990,073		TAOS HEALTH SYSTEMS

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of- year assets	(h) Dispropotionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) TAOS SPORTS MEDICINE SERVICES LLC  1398 WEIMER RD STE 103 TAOS, NM 87571 85-0473650	PHYSICAL THERAPY REHABILITATION	NM	HCH	RELATED	45,094	273,553		No		Yes		67.280 %

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

1

During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a

Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity

b

Gift, grant, or capital contribution to related organization(s)

c

Gift, grant, or capital contribution from related organization(s)

d

Loans or loan guarantees to or for related organization(s)

e

Loans or loan guarantees by related organization(s)

f

Sale of assets to related organization(s)

g

Purchase of assets from related organization(s)

h

Exchange of assets with related organization(s)

i

Lease of facilities, equipment, or other assets to related organization(s)

j

Lease of facilities, equipment, or other assets from related organization(s)

k

Performance of services or membership or fundraising solicitations for related organization(s)

l

Performance of services or membership or fundraising solicitations by related organization(s)

m

Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

n

Sharing of paid employees with related organization(s)

o

Reimbursement paid to related organization(s) for expenses

p

Reimbursement paid by related organization(s) for expenses

q

Other transfer of cash or property to related organization(s)

r

Other transfer of cash or property from related organization(s)

Yes

No

1a

Yes

1b

No

1c

No

1d

No

1e

No

1f

No

1g

No

1h

No

1i

No

1j

No

1k

No

1l

No

1m

No

1n

No

1o

No

1p

No

1q

No

1r

Yes

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) TAOS SPORTS MEDICINE SERVICES LLC	A	797	
(2) TAOS SPORTS MEDICINE SERVICES LLC	R	58,396	
(3)			
(4)			
(5)			
(6)			

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Part VII

Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation	
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Additional Data

Software ID:  
Software Version:  
EIN: 85-0289839  
Name: TAOS HEALTH SYSTEMS INC DBA HOLY CROSS  
HOSPITAL

Form 990, Special Condition Description:

Special Condition Description
-------------------------------

Form 990, Part III - 4 Program Service Accomplishments (See the Instructions)

4d. Other program services
(Code ) (Expenses \$ 983,999 including grants of \$ ) (Revenue \$ 7,525,395 ) OTHER MISCELLANEOUS PATIENT SERVICES TO INCLUDE COMMUNITY HEALTH FAIR, COMMUNITY WELLNESS PROGRAMS, COMMUNITY DEVELOPMENT PROGRAMS, DONATIONS TO COMMUNITY PROGRAMS AND COMMUNITY SCHOLARSHIP COSTS

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MAY 31, 2011 AND 2010**

**MOSS-ADAMS<sub>LLP</sub>**

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## Report of Independent Auditors

The Board of Trustees  
Holy Cross Hospital and Subsidiaries

We have audited the accompanying consolidated balance sheets of Holy Cross Hospital, a division of Taos Health Systems, Inc., and subsidiaries (Hospital) as of May 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of May 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Albuquerque, New Mexico  
September 27, 2011

**HOLY CROSS HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**May 31, 2011 and 2010**

	2011	2010
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 2,136,679	4,066,116
Short-term investments	3,109,804	3,059,166
Patient accounts receivable, net of allowance for doubtful accounts of \$2,927,831 in 2011 and \$3,438,821 in 2010	7,705,985	8,073,579
Inventories	1,752,810	1,689,651
Prepaid expenses	551,891	831,633
Estimated third-party pavor settlements	93,261	-
Other	1,398,570	538,142
<b>Total current assets</b>	<b>16,749,000</b>	<b>18,258,287</b>
Physician receivables	103,069	293,492
Assets limited as to use	5,370,230	7,566,647
Equity in net assets of PHO affiliate	33,217	19,735
Property and equipment, net	23,174,263	22,328,561
Other assets	28,249	38,249
<b>Total assets</b>	<b>\$ 45,458,028</b>	<b>48,504,971</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 2,531,297	2,063,343
Accrued expenses	3,499,856	3,091,337
Current portion of long-term debt	1,459,326	1,257,435
Current portion of capital lease obligations	346,962	145,567
Deferred revenue	119,269	110,508
Estimated third-party pavor settlements	521,586	2,268,978
<b>Total current liabilities</b>	<b>8,478,296</b>	<b>8,937,168</b>
Long-term debt, net of current portion	14,238	21,667
Capital lease obligations, net of current portion	1,239,264	497,442
<b>Total liabilities</b>	<b>9,731,798</b>	<b>9,456,277</b>
Noncontrolling interest in T S M. subsidiary	163,383	193,547
Net Assets		
Unrestricted	35,009,358	38,613,647
Temporarily restricted	553,489	241,500
<b>Total net assets</b>	<b>35,562,847</b>	<b>38,855,147</b>
<b>Total liabilities and net assets</b>	<b>\$ 45,458,028</b>	<b>48,504,971</b>

*See Notes to Consolidated Financial Statements*

**HOLY CROSS HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years Ended May 31, 2011 and 2010**

	2011	2010
Unrestricted revenues, gains and other support		
Net patient service revenue	\$ 56,891,905	59,332,212
Donations	159,344	413,491
Other revenue	561,158	265,812
Net assets released from restrictions used for operations	873,457	-
<b>Total unrestricted revenues, gains and other support</b>	<b>58,485,864</b>	<b>60,011,515</b>
Expenses		
Salaries and wages	24,840,039	24,712,831
Other purchased services	6,991,324	6,907,962
Supplies	6,443,255	6,622,605
Provision for bad debts	5,404,733	5,852,616
Employee benefits	4,533,696	4,559,000
Professional fees	3,403,453	2,504,343
Depreciation and amortization	2,671,050	2,579,393
Repairs and maintenance	1,265,445	1,316,204
Insurance	1,202,421	1,090,758
Management fees	1,119,848	915,958
Leases and rentals	1,112,195	1,051,791
Grants and scholarships	949,568	695,719
Utilities	767,416	797,151
Marketing and advertising	440,673	128,103
Recruiting	242,882	106,470
Travel	189,622	226,818
Interest	47,717	92,917
Other	1,408,397	695,719
<b>Total expenses</b>	<b>63,033,734</b>	<b>60,856,358</b>
Operating loss	(4,547,870)	(844,843)
Other income		
Investment income	298,819	185,345
Other gain	29,741	36,037
Deficiency of revenues over expenses	(4,219,310)	(623,461)
Net unrealized gains on assets limited as to use other than trading securities	653,666	324,816
Increase in unrestricted net assets before equity in net income (loss) of affiliate and noncontrolling interest in subsidiary's net income	(3,565,644)	(298,645)
Equity in net income (loss) of PHO affiliate	13,482	(6,655)
Noncontrolling interest in TSM subsidiary's net income	(52,127)	(93,949)
<b>Decrease in unrestricted net assets</b>	<b>\$ (3,604,289)</b>	<b>(399,249)</b>

*See Notes to Consolidated Financial Statements*

**HOLY CROSS HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**Years Ended May 31, 2011 and 2010**

	2011	2010
Unrestricted net assets		
Unrestricted net assets, beginning of year	<u>\$ 38,613,647</u>	39,012,896
Deficiency of revenue over expenses	(4,219,310)	(623,461)
Change in net unrealized gains on assets limited as to use other than trading securities	653,666	324,816
Equity in net income (loss) of PHO affiliate	13,482	(6,655)
Noncontrolling interest in TSM subsidiary's net income	<u>(52,127)</u>	<u>(93,949)</u>
Decrease in unrestricted net assets	<u>(3,604,289)</u>	<u>(399,249)</u>
Unrestricted net assets, end of year	35,009,358	38,613,647
Temporarily restricted net assets, beginning of year	<u>241,500</u>	-
Restricted grant awards	1,185,446	241,500
Net assets released from restrictions	<u>(873,457)</u>	-
Increase in temporarily restricted net assets	<u>311,989</u>	241,500
Temporarily restricted net assets, end of year	<u>553,489</u>	241,500
<b>Net assets, end of year</b>	<u><u>\$ 35,562,847</u></u>	<u><u>38,855,147</u></u>

*See Notes to Consolidated Financial Statements*

**HOLY CROSS HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended May 31, 2011 and 2010**

	2011	2010
Cash Flows From Operating Activities		
Decrease in unrestricted and temporarily restricted net assets	\$ (3,292,300)	(157,749)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for bad debts	5,404,733	5,852,616
Depreciation and amortization	2,671,050	2,579,393
(Gain) loss on sale of equipment	(13,054)	41,002
Write-off of construction in process	613,571	-
Net unrealized gains on assets limited as to use other than trading securities	(653,666)	(324,816)
Gain on sale of assets limited as to use	(117,450)	-
Forgiveness of and bad debt provision on physician loans	190,423	29,192
Net (income) loss from PHO affiliate	(13,482)	6,655
Noncontrolling interest in T S M subsidiary's net income	52,127	93,949
Changes in assets and liabilities		
Patient account receivable	(5,037,139)	(5,276,779)
Inventories	(63,159)	(212,956)
Prepaid expenses	279,742	(48,995)
Other assets	(854,478)	106,993
Accounts payable	472,003	407,158
Accrued expenses	408,520	330,281
Deferred revenue	8,761	(121,198)
Net amounts due to third-party payors	(1,840,653)	3,047,195
<b>Net cash (used in) provided by operating activities</b>	<b>(1,784,451)</b>	<b>6,351,941</b>
Cash Flows From Investing Activities		
Purchase of construction in progress	(1,969,090)	(719,281)
Proceeds from sale of equipment	23,653	21,000
Purchase of property and equipment	(1,083,047)	(1,686,270)
Purchase of short-term investments	(50,638)	(48,597)
Proceeds from the sale of assets limited as to use	5,299,465	2,807,707
Purchase of assets limited as to use	(2,331,932)	(3,769,630)
<b>Net cash used in investing activities</b>	<b>(111,589)</b>	<b>(3,395,071)</b>
Cash Flows From Financing Activities		
Noncontrolling interest in T S M members' distributions	(82,291)	(108,285)
Principal payments on long-term borrowings	(1,768,657)	(2,669,984)
Proceeds from issuance of long-term borrowings	1,963,119	1,332,473
Principal payments under capital lease obligations	(145,568)	(111,973)
<b>Net cash used in financing activities</b>	<b>(33,397)</b>	<b>(1,557,769)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(1,929,437)</b>	<b>1,399,101</b>
Cash and cash equivalents, beginning of the year	4,066,116	2,667,015
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,136,679</b>	<b>4,066,116</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash payments for interest	\$ 13,986	-
<b>Supplemental disclosure of non-cash investing activities and financing activities</b>		
Property and equipment acquired with capital lease	\$ 1,088,785	243,068

*See Notes to Consolidated Financial Statements*

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization.* Holy Cross Hospital, a division of Taos Health Systems, Inc (Hospital), located in Taos, New Mexico, is a not-for-profit 49-bed acute care hospital. The Hospital provides inpatient, outpatient, and emergency care services for residents of Taos County and surrounding areas. Admitting physicians are practitioners in the local area and employees of the hospital.

In 2008, the Hospital established two 100% owned affiliates, MOMs and Taos Surgical Specialists (TSS). MOMs operates as an obstetrics and gynecology clinic and TSS is a surgery clinic. The Hospital also holds a majority interest in a subsidiary, Taos Sports Medicine Service, LLC (Taos Sports Medicine). Taos Sports Medicine contains two divisions, Taos MRI Services and Taos Center for Rehabilitation and Sports Medicine. The Hospital has a 50% ownership interest in Taos MRI Services, and a 66.7% ownership interest in Taos Center for Rehabilitation and Sports Medicine. The accompanying financial statements include all activities and accounts of the Hospital, MOMs, TSS, and Taos Sports Medicine. All transactions between these entities have been eliminated in consolidation. The outside investor's noncontrolling interest in Taos Sports Medicine is included in the Hospital's financial statements as a noncontrolling interest in subsidiary.

The Hospital has a management agreement with Quorum Health Resources, a healthcare management company, to supervise and direct the daily operations of the Hospital. The agreement expires in May 2014. Management fees were \$1,119,848 and \$915,958 in 2011 and 2010. The Hospital was provided other services by Quorum outside of the management agreement, which amounted to \$139,129 and \$173,064 in 2011 and 2010, respectively. Fees for the other services provided by Quorum are included in the caption *Other Purchased Services* in the accompanying statements of operations.

*Basis of Presentation.* Financial statement presentation follows the requirements of Financial Accounting Standards Board (FASB) for not-for-profits. Under this section, the Hospital is required to report information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets.

*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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Recent Accounting Pronouncements* In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The new guidance requires additional disclosures about transfers between levels within the fair value hierarchy and clarifies existing disclosure requirements regarding classes of assets and liabilities measured at fair value. The new guidance requires the Hospital to (a) disclose separately the amounts of significant transfers into and out of each level of the fair value hierarchy and describe the reasons for those transfers, (b) the Plan's policy for determining when transfers between levels of the fair value hierarchy are recognized, and (c) present information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of the beginning and ending balance of Level 3 fair value measurements. The new guidance is effective for reporting periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which are effective for reporting periods beginning after December 15, 2010. The adoption of this guidance has been incorporated into the consolidated financial statements for the year ended May 31, 2011.

In August 2010, the FASB issued a new accounting standard related to the accounting by an insured entity for claims incurred under claims-made insurance and retroactive insurance contracts. Under this accounting standard, unless conditions that allow for the right of offset exist, offsetting prepaid insurance and receivables for expected recoveries from insurers against a recognized incurred but not reported liability or the liability incurred as a result of a past insurable event is no longer appropriate. The application of this guidance will result in claim liabilities and related insurance recoveries being recorded on a gross basis. This accounting guidance will be applied as of the beginning of the period of adoption with a cumulative effect adjustment recorded in equity as of the beginning of the period. The new accounting standard will be effective for the Hospital for its fiscal year ended May 31, 2012. The Hospital is currently evaluating the impact the adoption of this accounting standard will have on its consolidated financial statements and related disclosures.

In August 2010, the FASB issued a new accounting standard that will require the measurement of the amount of charity care provided to be based on the direct and indirect costs of providing that care. This standard will be effective for the Hospital for its fiscal year ended May 31, 2012, with retrospective application to all periods presented. The Hospital does not believe that the adoption of this standard will have a material effect on its consolidated financial statements.

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Cash and Cash Equivalents.* Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Hospital places its temporary cash investments with high credit quality financial institutions. At times, such deposits exceed FDIC insurance coverage, however, the Hospital has not experienced any losses in such accounts.

*Fair Value Measurements.* The Hospital is required to follow a framework for measuring fair value under accounting principles generally accepted in the United States and provide disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value is based on the assumptions market participants would use when pricing an asset or liability. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to the Hospital's assumptions (unobservable inputs). Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. For assets and liabilities recorded at fair value, it is the Hospital's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

Except for certificates of deposit, investments are reported at fair value. Certificates of deposit are carried at cost, which approximates fair value.

*Short-term Investments.* Short-term investments consist of investments with original maturities between three months and one year. The short-term investments consist of certificates of deposit. At times, such investments may be in excess of the FDIC insurance limit, however, the Hospital has not experienced any losses in such accounts.

*Inventories.* Inventories consist of supplies and are stated at cost using the first-in first-out method.

*Investments.* Investments are measured at fair value in the balance sheet. Realized gains and losses on investments, and interest and dividend income are included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. As all investment securities are classified as available for sale, unrealized gains and losses on investments are excluded from the excess of revenues over expenses and are recorded as changes in net assets. Certificates of deposit exceed federal depository insurance and therefore are subject to custodial credit risk. Management does not expect any losses in such accounts.



**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Assets Limited as to Use.* Assets limited as to use primarily include investments held in brokerage accounts as collateral for the outstanding notes payable and designated assets set aside by the Board of Trustees (Board) for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes

*Patient Accounts Receivable.* Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Estimated provisions for doubtful accounts are recorded to the extent it is probable a portion or all of a particular account will not be collected. The Hospital determines if patient accounts receivable are past-due based on the date the service was performed, and the Hospital does not charge interest on past-due accounts.

In evaluating the collectability of accounts receivable, the Company considers a number of factors, including the age of the accounts, changes in collection patterns, the composition of patient accounts by payor type, the status of ongoing disputes with third party payors and general industry conditions.

*Property and Equipment, Net.* Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life (3 to 40 years) of each class of depreciable assets and is computed on the straight-line method. Equipment under capital leases is amortized on the straight-line method over a shorter period of the lease term or the estimated useful life of the equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

*Investment Accounted for Under the Equity Method.* The Hospital has a 50% ownership interest in Holy Cross Physicians Health Organization, Inc., a Physician Hospital Organization (PHO) created to present a united group of health care providers to negotiate contracts with managed care organizations. This investment is accounted for under the equity method of accounting. Under the equity method, the original investment is recorded at cost and adjusted by the Hospital's share of undistributed earnings or losses of this entity.

*Net Assets and Changes Therein.* Net assets and income, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, the net assets of the Hospital and changes therein are classified and reported as follows:

*Unrestricted* - Unrestricted net assets represent those resources that are not restricted by donors, or for which donor-imposed restrictions have expired.

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Temporarily Restricted* - Temporarily restricted net assets reflect donor-imposed restrictions that require the Hospital to use or expend the related assets as specified. The restrictions are satisfied either by the passage of time or by the satisfaction of donor specified use.

The Hospital records contributions as temporarily restricted if they are received with donor stipulations that limit their use through either purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted contributions received and expended in the same accounting period are recorded in the unrestricted net asset category.

*Excess of Revenues Over Expenses* - The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

*Net Patient Service Revenue* - The Hospital has arrangements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed cost, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net amounts realizable from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*Charity Care* - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$4,404,735 and \$3,948,579 in 2011 and 2010, respectively.

*Advertising Costs* - Advertising costs are expensed as incurred. Advertising expense totaled \$187,661 and \$102,443 for the years ended May 31, 2011 and 2010, respectively.

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Income Taxes.* The Hospital is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. In addition, the Hospital qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

The Hospital adopted the provisions of FASB, relating to accounting for uncertain tax positions on June 1, 2009, which had no financial statement impact to the Hospital. The Hospital recognizes the tax benefit from any uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. Any such tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Hospital had no unrecognized tax benefits which would require an adjustment to the June 1, 2009 beginning balance of net assets and had no unrecognized tax benefits at May 31, 2011 or 2010. The Hospital files an exempt organization return with the Internal Revenue Service (IRS). The Hospital is no longer subject to income tax examinations by the IRS for tax years through May 31, 2008.

*Financial Statement Reclassifications.* Certain 2010 financial information has been reclassified to conform to the 2011 presentation. These reclassifications did not affect the excess of revenues over expenses, total assets, total liabilities, or total net assets.

*Subsequent Events.* Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Hospital recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Hospital's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the date the consolidated financial statements were available to be issued.

The Company has evaluated subsequent events through September 27, 2011, which is the date the consolidated financial statements were available to be issued.

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 2. NET PATIENT SERVICE REVENUE**

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

*Medicare.* Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and defined capital, and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries through October 31, 2010 are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

The New Mexico Medicaid program implemented a new hospital outpatient payment reimbursement based on a simplified Medicare APC method effective November 1, 2010. The prospective payment system (OPPS) reimbursements were set to 100% of the Medicare standard rate. Under the new payment method, cost reports will still be required, however cost report settlements are discontinued.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 36% and 34%, respectively, of the Hospital's net patient revenue for the year ended 2011, and 35% and 21%, respectively, of the Hospital's net patient revenue, for the year ended 2010. Laws and regulations governing the Medicare and Medicaid programs are 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.

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 3. ASSETS LIMITED AS TO USE**

*Assets Limited as to Use.* The composition of assets limited as to use at May 31, 2011 and 2010 is set forth in the following table

	2011	2010
Cash and cash equivalents	\$ 415,225	1,858,656
Certificates of deposit	110,502	1,064,298
Equity securities	3,392,361	3,285,514
Mutual funds	1,048,159	-
Corporate bonds	100,500	-
Federal agency mortgage backed-securities	273,582	1,322,285
Accrued interest	-	6,421
	<u>5,340,329</u>	<u>7,537,174</u>
Internally designated for nursing scholarships		
Cash	<u>29,901</u>	<u>29,473</u>
Total assets limited as to use	<u><u>\$5,370,230</u></u>	<u><u>7,566,647</u></u>

**NOTE 4. INVESTMENTS**

The cost and estimated fair values of investments included in assets limited as to use at May 31, 2011 and 2010 are as follows

	2011	
	Cost	Fair Value
Equity securities	\$ 2,614,653	3,392,361
Mutual funds	941,025	1,048,159
Federal agency mortgage backed-securities	275,000	273,582
Corporate bonds	<u>106,038</u>	<u>100,500</u>
	<u><u>\$ 3,936,716</u></u>	<u><u>4,814,602</u></u>
	2010	
	Cost	Fair Value
Equity securities	\$ 3,069,880	3,285,514
Federal agency mortgage backed-securities	<u>1,315,699</u>	<u>1,322,285</u>
	<u><u>\$ 4,383,579</u></u>	<u><u>4,607,799</u></u>

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 4. INVESTMENTS (CONTINUED)**

*Investment Income* Investment income from cash and cash equivalents, short-term investment and assets limited as to use is comprised of the following for the years ending May 31, 2011 and 2010

	2011	2010
Dividends and interest	\$ 181,369	191,775
Realized gains (losses)	<u>117,450</u>	<u>(6,430)</u>
Investment income (loss)	<u>\$ 298,819</u>	<u>185,345</u>
Net unrealized gains (losses)	<u>\$ 653,666</u>	<u>324,816</u>

**NOTE 5. FAIR VALUE MEASUREMENTS**

Management uses a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Basis of Fair Value Measurement –

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
Level 2	Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Hospital has no Level 3 investments. In addition, the Hospital had no transfers between levels during the year ended May 31, 2011 and 2010.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2011 and 2010.

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 5. FAIR VALUE MEASUREMENTS (CONTINUED)**

Equities securities are valued at the closing price reported on the active market on which the individual securities are traded

Mutual funds are valued at the net asset value (NAV) of shares held by the Hospital at year end using prices quoted by the relevant pricing agent

Corporate bonds are valued at the closing price reported in the active market in which the bond is traded

Federal agency mortgage-backed securities are backed by U S Government sponsored and federal agencies. The fair value is determined using quoted market prices, recent market transactions and spread data for similar instruments. Mortgage-backed securities are valued based on quoted prices in active markets for similar securities and are therefore considered Level 2 Measurements

The following table discloses by level, the fair value hierarchy, of the Plan's assets at fair value as of May 31, 2011 and 2010

	<b>Balance at May 31, 2011</b>	<b>Level 1</b>	<b>Level 2</b>
Equity securities	\$ 3,392,361	3,392,361	—
Mutual funds	1,048,159	1,048,159	—
Federal agency mortgaged back securities	273,582	—	273,582
Corporate bonds	<u>100,500</u>	<u>100,500</u>	<u>—</u>
Total investments at fair value	<u>\$ 4,814,602</u>	<u>4,541,020</u>	<u>273,582</u>

	<b>Balance at May 31, 2010</b>	<b>Level 1</b>	<b>Level 2</b>
Equity securities	\$ 3,285,514	3,285,514	—
Federal agency mortgaged back securities	<u>1,322,285</u>	<u>—</u>	<u>1,322,285</u>
Total investments at fair value	<u>\$ 4,607,799</u>	<u>3,285,514</u>	<u>1,322,285</u>

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 6. SUMMARIZED INFORMATION OF INVESTEE ACCOUNTED FOR ON THE EQUITY METHOD**

The following table provided a condensed income statement and balance sheet of the PHO as of and for the years ending May 31, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Condensed income statement information		
Operating revenues	<u>\$ 113,419</u>	85,276
Net income (loss)	<u>\$ 26,963</u>	(13,307)
The Hospital's equity in net income (loss) of affiliate	<u>\$ 13,482</u>	(6,655)
Condensed balance sheet information		
Total assets	<u>\$ 69,164</u>	40,270
Liabilities	<u>2,730</u>	800
Equity	<u>66,434</u>	39,470
Total liabilities and equity	<u>\$ 69,164</u>	40,270
The Hospital's equity in net assets of affiliate	<u>\$ 33,217</u>	19,735

**NOTE 7. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at May 31

	<b>2011</b>	<b>2010</b>
Equipment	<b>\$ 20,139,428</b>	18,353,027
Equipment under capital lease obligations	<b>1,902,197</b>	813,412
Leasehold improvements	<b>3,491,667</b>	3,458,426
Land and improvements	<b>2,477,720</b>	2,477,720
Buildings	<b>12,411,419</b>	11,875,388
Construction in progress	<u><b>1,041,392</b></u>	987,229
	<b>41,463,823</b>	37,965,202
Accumulated depreciation and amortization	<u><b>(18,289,560)</b></u>	(15,636,641)
Property and equipment, net	<u><b>\$ 23,174,263</b></u>	22,328,561

The Hospital leases certain equipment under agreements that are classified as capital leases. Amortization of assets under capital leases is included in depreciation and amortization expense in the accompanying financial statements. Accumulated amortization of the leased equipment at May 31, 2011 and 2010 approximated \$290,000 and \$180,000, respectively.



**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 7. PROPERTY AND EQUIPMENT (CONTINUED)**

Depreciation and amortization expense for the years ended May 31, 2011 and 2010 amounted to \$2,671,050 and \$2,579,393, respectively. Construction in progress at May 31, 2011 consists primarily of a software customization project, and at May 31, 2010 consists primarily of costs related to a planned hospital expansion project.

**NOTE 8. LONG-TERM DEBT**

Long-term debt consisted of the following at May 31, 2011 and 2010:

	<b>2011</b>	2010
Non-interest bearing Note Payable, with monthly payments of \$619 through March 2014, collateralized by approximately 1.1 acres of land	\$ <b>21,667</b>	29,102
3.72325% Note Payable, with interest payments due quarterly, maturing July 26, 2010, collateralized by limited use investments	-	500,000
3.46489% Note Payable, with interest payments due quarterly, maturing January 26, 2011, collateralized by limited use investments	-	750,000
Variable interest rate revolving line of credit, maximum commitment equal to limited use investments less outstanding loan balances	<u><b>1,451,897</b></u>	<u>-</u>
<b>Total long-term debt</b>	<b>1,473,564</b>	1,279,102
Current portion	<u><b>(1,459,326)</b></u>	<u>(1,257,435)</u>
<b>Long-term debt, net of current portion</b>	<u><b>\$ 14,238</b></u>	<u>21,667</u>

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 8. LONG-TERM DEBT (CONTINUED)**

Aggregate maturities on long-term debt at May 31, 2011 are as follows

Year ending May 31	Aggregate Maturities
2012	\$ 1,459,326
2013	<u>14,238</u>
	<u>\$ 1,473,564</u>

During 2007, the Hospital entered into a Note Payable for the purchase of a parcel of land for the location of a clinic in Peñasco, New Mexico, totaling approximately 1.1 acres. The Note Payable is secured by the underlying parcel.

During 2002, the Hospital issued \$8,000,000 in Hospital Revenue Bonds (Series 2001 Bonds), the proceeds of which were used to fund the expansion, equipping, and furnishing of the Hospital to meet the rising demand of health care services. The Series 2001 Bonds were paid off in 2009 with the issuance of various notes payable through the Hospital's brokerage. The new notes are at varying interest rates and are collateralized by the Hospital's investment portfolio with the same broker.

**NOTE 9. CAPITAL LEASES**

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of May 31, 2011, are as follows:

Year ending May 31	Minimum Lease Payments
2012	\$ 417,025
2013	417,025
2014	343,734
2015	261,018
2016	261,018
Thereafter	<u>25,000</u>
Total minimum lease payments	1,724,820
Less: Amount representing interest	<u>(138,594)</u>
Present value of net minimum lease payments	1,586,226
Current maturities of capital lease obligations	<u>(346,962)</u>
Long-term capital lease obligations	<u>\$ 1,239,264</u>

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 10. PENSION PLAN**

In June 1998 a collective bargaining agreement was entered into by the Hospital and the Professional Performance Association, affiliated with District 1199 NM, National Union of Hospital and Health Care Employees, AFSCME AFL-CIO. As part of this agreement, a defined contribution pension plan (Plan) was established under Section 403(b) of the Internal Revenue Code as of that same date. This agreement expired as of May 31, 2002. On June 1, 2008, an amended collective bargaining agreement was entered into by the aforementioned parties.

Under the amended agreement, the Hospital agreed to match Plan contributions dollar for dollar, up to \$550 per fiscal year, increased to \$605 effective June 1, 2009, for participating employees who are members of the bargaining unit at a 0.4 FTE rate or higher, plus 18% of the amount by which the Hospital's excess of revenues over expenses exceeds 5% of total revenues. Future contributions will be determined as new collective bargaining agreements are negotiated. There have been no changes to the amended agreement during fiscal year 2011.

A similar contribution will be made for participating employees who are not members of the bargaining unit. These employees receive a discretionary contribution which is five to ten percent of their annual salaries determined annually by management.

The contribution allocated to participating employees who are members of the bargaining unit will be based on a service weighted formula where each year of service shall earn one point. Each eligible non-per diem employee over the age of 21 shall receive a distribution based on the ratio of her/his points divided by the total points of all bargaining unit employees' times the total amount of the distribution. The contribution allocated to participating employees who are not members of the bargaining unit will be based on a simplified formula. All participants will vest in the Plan on a six-year graduated schedule but will be fully vested no later than their sixty-fifth birthday.

The Hospital accrued \$230,041 and \$139,603 as of May 31, 2011 and 2010, respectively, as its contribution to the Plan.

**NOTE 11. COMMITMENTS**

On December 1, 2001, the Hospital entered into a thirty-year facility lease agreement with the County of Taos, New Mexico. Under the lease agreement the Hospital was required to make payments necessary to amortize the Series 2001 Bonds discussed in Note 8. As the Series 2001 Bonds are no longer outstanding, the Hospital has committed to pay for a new ambulance every two years, estimated at a total cost not to exceed \$105,000. Such cost is amortized over the two year period and recorded as rent expense.

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 11. COMMITMENTS (CONTINUED)**

The Hospital has various operating leases for buildings and equipment. Total expense approximated \$1,112,195 in 2011 and \$1,051,800 in 2010 for all operating leases. The following is a schedule by year of future minimum lease payments for the building and equipment under non-cancelable operating leases as of May 31, 2011 which have initial or remaining lease terms in excess of one year:

Year ending May 31	Minimum Lease Payments
2012	\$ 389,434
2013	188,066
2014	99,945
2015	<u>38,614</u>
Total minimum lease payments	<u>\$ 716,059</u>

**NOTE 12. CONTINGENCIES**

*Labor Agreements.* At May 31, 2011, 313 of the Hospital's 500 employees and at May 31, 2010, 371 of the Hospital's 521 employees work under collective bargaining agreements. All of the employees working under collective bargaining agreements are represented by unions whose existing labor agreements will expire on various dates during the fiscal year ending March 31, 2012.

*Employee Health Insurance.* The Hospital maintains a stop-loss agreement with an insurance company to limit its losses on individual claims related to group employee insurance. Under the current terms of this agreement, the Hospital's claims liability is limited to \$70,000 per employee per plan year, subject to an individual participant lifetime maximum of \$930,000. As of May 31, 2011 and 2010, the Hospital accrued employee insurance claims of \$261,689 and \$348,215, respectively, which are included in accounts payable in the accompanying consolidated balance sheet.

Stop-Loss premiums and claims payments totaling \$1,872,500 and \$1,981,510 were expended during the years ended May 31, 2011 and 2010, respectively, and are included in the *Employee Benefits* expense in the accompanying consolidated statement of operations.

*Professional Liability Insurance.* The Hospital maintains claims-made commercial insurance related to professional and general liability risks. The first level coverage includes losses of \$1,000,000 per occurrence subject to a \$3,000,000 aggregate loss. The second level excess coverage further covers individual losses up to \$5,000,000.

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 12. CONTINGENCIES (CONTINUED)**

The Hospital maintained a deductible of \$150,000 on these policies through April 2012. The annual premium for these policies is included in insurance expense in the accompanying consolidated financial statements, and approximated \$1,035,600 in 2011 and \$920,000 in 2010. The current policies expire April 1, 2012. In prior years, the Hospital maintained similar claims-made policies, and certain claims as discussed below are covered under those policies.

In the ordinary course of business, claims alleging malpractice and other matters are filed against the Hospital. In addition, further claims may be filed for incidents that have occurred, including some of which the Hospital is not presently aware. The claims are in various stages of processing, and some may ultimately be brought to trial. The Hospital has recorded reserves, which are recorded net of any underlying insurance coverage, for various asserted and unasserted claims based on management's best estimate of the probable outcome of those matters. Such reserves may change in future periods as more information becomes available to management.

*Workers' Compensation Insurance.* The Hospital is insured under the New Mexico Hospital Workers' Compensation Group for the purpose of providing insurance coverage for workers' compensation. The policy is a retrospectively rated policy whose premiums accrue based on the ultimate cost of the experience of a group of participating health care entities. The Hospital expensed approximately \$433,900 and \$473,300 in workers' compensation premiums during 2011 and 2010, respectively. Such amounts are included in *Employee Benefits* expense in the accompanying consolidated statement of operations.

*Cost Report Settlements.* The Hospital's Medicare cost reports have been final settled for fiscal years through May 31, 2009, and Medicaid cost reports have been final settled for fiscal years through May 31, 2008. In management's opinion, the estimated third-party settlement payable of \$521,586 and receivable of \$93,261 at May 31, 2011 is adequate to provide for the cost of settling all cost reports. However, there is at least a reasonable possibility that such estimates will change in the near term as all open cost reports are subject to audit by Medicare and Medicaid.

In connection with the completion of the fiscal year 2010 cost report, management discovered the Hospital's costs attributed to Medicare Part A patients was significantly lower than prior years' cost levels. Accordingly, there was a significant drop in the level of supplemental cost-based reimbursement received from the Rural Community Hospital Demonstration Project, which is further described below.

*Rural Community Hospital Demonstration Project.* The Hospital participates in a CMS demonstration project (project) to test the advisability and feasibility of establishing

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 12. CONTINGENCIES (CONTINUED)**

rural community hospitals to provide Medicare covered inpatient hospital services in rural areas. Under the project, the Hospital receives reimbursement based on the reasonable costs of providing such services to Medicare beneficiaries as defined by the project. The Hospital participated in the project through its initial five year demonstration period ending May 31, 2010 and in April 2010 the project was extended through the Hospital's fiscal year end May 31, 2015. In April 2011, the hospital elected not to participate in the project for the remaining period due to the unexpected increase in patients enrolled in Medicare Advantage versus Medicare in fiscal year 2010. As a result of the declining enrollment, in fiscal year 2011, the Hospital refunded payments received from Medicare of \$1,761,259 and \$2,136,000 during fiscal years 2011 and 2010, respectively. The amounts are netted with net patient service revenue in the accompanying consolidated statements of operations.

*Sole Community Provider Funding.* The Hospital receives Sole Community Provider Funding to compensate the Hospital for providing health care to the indigent population in Taos County. The funding is subject to annual reviews and approvals by Taos County as well as the State of New Mexico Human Services Department. In fiscal years 2011 and 2010, the Hospital recognized Sole Community Provider Funding of \$8,443,029 and \$6,902,257, respectively. Such amounts are reported as Net Patient Service Revenue in the accompanying consolidated financial statements. This funding is essential to the Hospital's financial results and management believes this program will continue to be funded at levels similar to prior years.

**NOTE 13. CONCENTRATIONS OF CREDIT RISK**

The Hospital provides credit, in the normal course of business, to patients located primarily in Taos, New Mexico, and their respective insurance companies. The Hospital performs ongoing credit evaluations of its patients and their respective insurance companies and does not require collateral with the extension of credit.

The mix of receivables from patients and third-party payors was as follows:

	<b>2011</b>	<b>2010</b>
Commercial and other	<b>29%</b>	33%
Self-pay	<b>24</b>	10
Medicare	<b>29</b>	36
Medicaid	<b>18</b>	21
	<b>100%</b>	100%

**HOLYCROSS HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2011 and 2010**

**NOTE 14. FUNCTIONAL EXPENSE CLASSIFICATION**

In recording the activities of the Hospital, expenses are specifically tracked or allocated on the basis of periodic time and expense studies, and recorded in the following functional categories for the year ended May 31, 2011 and 2010

	<b>2011</b>	2010
Health care services	<b>\$ 44,643,875</b>	42,612,306
Management general	<b>18,389,473</b>	18,148,612
Fundraising	<b>386</b>	95,440
Total expenses	<b><u>\$ 63,033,734</u></b>	<u>60,856,358</u>

**NOTE 15. RELATED PARTY TRANSACTIONS**

Individual members of the medical staff of the Hospital are owners in the Taos Medical Group that provides electrocardiogram and other various professional services to the Hospital. The Hospital paid fees to the Taos Medical Group in the amount of approximately \$64,100 in 2011 and \$77,000 in 2010.

## **SUPPLEMENTAL INFORMATION**





## Report of Independent Auditors on Consolidating Information

To the Board of Directors  
Holy Cross Hospital  
Taos, New Mexico

We have audited the consolidated financial statements of Holy Cross Hospital, a division of Taos Health Systems, Inc., and subsidiaries (Hospital) as of and for the years ended May 31, 2011 and 2010, and our report thereon dated September 27, 2011, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information, referred to as supplemental information in the accompanying table of contents, is presented for purposes of additional analysis of the 2011 consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Moss Adams LLP*

Albuquerque, New Mexico  
September 27, 2011

HOLY CROSS HOSPITAL AND SUBSIDIARIES  
CONSOLIDATING BALANCE SHEET  
May 31, 2011

	Holy Cross Hospital	Taos Sports Medicine	Intercompany Eliminations	Noncontrolling Interest	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,816,548	320,131	-	-	2,136,679
Short-term investments	3,109,804	-	-	-	3,109,804
Patient accounts receivable, net of allowance for doubtful accounts	7,647,193	58,792	-	-	7,705,985
Inventories	1,752,810	-	-	-	1,752,810
Prepaid expenses	551,891	-	-	-	551,891
Estimated third-party payor settlements	93,261	-	-	-	93,261
Other	1,387,771	17,313	(6,514)	-	1,398,570
<b>Total current assets</b>	16,359,278	396,236	(6,514)	-	16,749,000
Physicians receivables	103,069	-	-	-	103,069
Assets limited as to use	5,370,230	-	-	-	5,370,230
Equity in net assets of PHO affiliate	318,305	-	(285,088)	-	33,217
Property and equipment, net	22,791,317	382,946	-	-	23,174,263
Other assets	-	28,249	-	-	28,249
<b>Total assets</b>	\$ 44,942,199	807,431	(291,602)	-	45,458,028
<b>LIABILITIES AND NET ASSETS</b>					
Accounts payable	\$ 2,522,979	14,832	(6,514)	-	2,531,297
Accrued expenses	3,466,681	33,175	-	-	3,499,856
Current portion of long-term debt	1,459,326	-	-	-	1,459,326
Current portion of capital lease obligations	234,391	112,571	-	-	346,962
Deferred revenue	119,269	-	-	-	119,269
Estimated third-party payor settlements	521,586	-	-	-	521,586
<b>Total current liabilities</b>	8,324,232	160,578	(6,514)	-	8,478,296
Long-term debt, net of current portion	14,238	-	-	-	14,238
Capital lease obligations, net of current portion	1,040,882	198,382	-	-	1,239,264
<b>Total liabilities</b>	9,379,352	358,960	(6,514)	-	9,731,798
Noncontrolling interest in TSM subsidiary	-	-	-	163,383	163,383
<b>Net Assets</b>					
Unrestricted	35,009,358	448,471	(285,088)	(163,383)	35,009,358
Temporarily restricted	553,489	-	-	-	553,489
<b>Total net assets</b>	35,562,847	448,471	(285,088)	(163,383)	35,562,847
<b>Total liabilities and net assets</b>	\$ 44,942,199	807,431	(291,602)	-	45,458,028

**HOLY CROSS HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF OPERATIONS**  
**Year Ended May 31, 2011**

	Holy Cross Hospital	Taos Sports Medicine	Intercompany Eliminations	Noncontrolling Interest	Consolidated
Unrestricted revenues, gains and other support					
Net patient service revenue	\$ 55,476,754	1,415,151	-	-	56,891,905
Donations	159,344	-	-	-	159,344
Other revenue	634,765	-	(73,607)	-	561,158
Net assets released from restrictions used for operations	873,457	-	-	-	873,457
<b>Total unrestricted revenues, gains and other support</b>	<b>57,144,320</b>	<b>1,415,151</b>	<b>(73,607)</b>	<b>-</b>	<b>58,485,864</b>
Expenses					
Salaries and wages	24,182,946	657,093	-	-	24,840,039
Other purchased services	6,886,410	104,914	-	-	6,991,324
Supplies	6,418,395	24,860	-	-	6,443,255
Provision for bad debts	5,404,733	-	-	-	5,404,733
Employee benefits	4,533,696	-	-	-	4,533,696
Professional fees	3,403,453	-	-	-	3,403,453
Depreciation and amortization	2,515,908	155,142	-	-	2,671,050
Repairs and maintenance	1,220,870	44,575	-	-	1,265,445
Insurance	1,174,435	27,986	-	-	1,202,421
Management fees	1,119,848	73,607	(73,607)	-	1,119,848
Leases and rentals	1,008,249	103,946	-	-	1,112,195
Grants and scholarships	949,568	-	-	-	949,568
Utilities	744,502	22,914	-	-	767,416
Marketing and advertising	440,673	-	-	-	440,673
Recruiting	242,882	-	-	-	242,882
Travel	189,622	-	-	-	189,622
Interest	33,731	13,986	-	-	47,717
Other	1,366,031	42,366	-	-	1,408,397
<b>Total expenses</b>	<b>61,835,952</b>	<b>1,271,389</b>	<b>(73,607)</b>	<b>-</b>	<b>63,033,734</b>
Operating (loss) income	(4,691,632)	143,762	-	-	(4,547,870)
Other income					
Earnings from subsidiaries	93,539	-	(93,539)	-	-
Investment income	296,915	1,904	-	-	298,819
Other gain	29,741	-	-	-	29,741
(Deficiency) excess of revenues over expenses	(4,271,437)	145,666	(93,539)	-	(4,219,310)
Net unrealized gains on assets limited as to use other than trading securities	653,666	-	-	-	653,666
(Decrease) increase in unrestricted net assets before equity in net income (loss) of affiliate and noncontrolling interest in subsidiary's net income	(3,617,771)	145,666	(93,539)	-	(3,565,644)
Equity in net income of PHO affiliate	13,482	-	-	-	13,482
Noncontrolling interest in TSM subsidiary's net income	-	-	-	(52,127)	(52,127)
<b>(Decrease) increase in unrestricted net assets</b>	<b>\$ (3,604,289)</b>	<b>145,666</b>	<b>(93,539)</b>	<b>(52,127)</b>	<b>(3,604,289)</b>

HOLY CROSS HOSPITAL AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS  
Year Ended May 31, 2011

	Holy Cross Hospital	Taos Sports Medicine	Intercompany Eliminations	Noncontrolling Interest	Consolidated
Unrestricted net assets					
Unrestricted net assets, beginning of year	\$ 38,613,647	530,789	(337,242)	(193,547)	38,613,647
(Deficiency) excess of revenues over expenses	(4,271,437)	145,666	(93,539)	-	(4,219,310)
Change in net unrealized gains on assets limited as to use other than trading securities	653,666	-	-	-	653,666
Equity in net income of PHO affiliate	13,482	-	-	-	13,482
Noncontrolling interest in TSM subsidiary's net income	-	-	-	(52,127)	(52,127)
Distributions	-	(227,984)	145,693	82,291	-
(Decrease) increase in unrestricted net assets	(3,604,289)	(82,318)	52,154	30,164	(3,604,289)
Unrestricted net assets, end of year	35,009,358	448,471	(285,088)	(163,383)	35,009,358
Temporarily restricted net assets, beginning of the year	241,500	-	-	-	241,500 00
Restricted grant awards	1,185,446	-	-	-	1,185,446
Net assets released from restrictions	(873,457)	-	-	-	(873,457)
Increase in temporarily restricted net assets	311,989	-	-	-	311,989
Temporarily restricted net assets, end of year	553,489	-	-	-	553,489
Net assets, end of year	\$ 35,562,847	448,471	(285,088)	(163,383)	35,562,847

**HOLY CROSS HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**Year Ended May 31, 2011**

	Holy Cross Hospital	Taos Sports Medicine	Intercompany Eliminations	Noncontrolling Interest	Consolidated
<b>Cash Flows From Operating Activities</b>					
(Decrease) increase in unrestricted and temporarily restricted net assets	\$ (3,292,300)	145,666	(93,539)	(52,127)	(3,292,300)
Adjustments to reconcile change in net assets to net cash provided by operating activities					
Provision for bad debts	5,404,733	-	-	-	5,404,733
Depreciation and amortization	2,515,908	155,142	-	-	2,671,050
(Gain) loss on sale of equipment	(13,054)	-	-	-	(13,054)
Write-off of construction in process	613,571	-	-	-	613,571
Net unrealized gain on investments other than trading securities	(653,666)	-	-	-	(653,666)
Gain on sale of assets limited as to use	(117,450)	-	-	-	(117,450)
Forgiveness of and bad debt provision on physician loans	190,423	-	-	-	190,423
Net income from PHO affiliate	(13,482)	-	-	-	(13,482)
Net income of TSM	(93,539)	-	93,539	-	-
Noncontrolling interest in TSM subsidiary's net income	-	-	-	52,127	52,127
<b>Changes in assets and liabilities</b>					
Patient accounts receivable	(5,057,976)	20,837	-	-	(5,037,139)
Inventories	(63,159)	-	-	-	(63,159)
Prepaid expenses	279,742	-	-	-	279,742
Other assets	(848,745)	(5,968)	235	-	(854,478)
Accounts payable	469,388	2,850	(235)	-	472,003
Accrued expenses	443,852	(35,332)	-	-	408,520
Deferred revenue	8,761	-	-	-	8,761
Net amounts due to third-party payors	(1,840,653)	-	-	-	(1,840,653)
<b>Net cash (used in) provided by operating activities</b>	<b>(2,067,646)</b>	<b>283,195</b>	<b>-</b>	<b>-</b>	<b>(1,784,451)</b>
<b>Cash Flows From Investing Activities</b>					
Purchase of construction in progress	(1,969,090)	-	-	-	(1,969,090)
Proceeds from sale of equipment	23,653	-	-	-	23,653
Purchase of property and equipment	(1,083,047)	-	-	-	(1,083,047)
Purchase of short-term investments	(50,638)	-	-	-	(50,638)
Distributions from TSM	145,693	-	(145,693)	-	-
Proceeds from the sale of assets limited as to use	5,299,465	-	-	-	5,299,465
Purchase of assets limited as to use	(2,331,932)	-	-	-	(2,331,932)
<b>Net cash (used in) provided by investing activities</b>	<b>34,104</b>	<b>-</b>	<b>(145,693)</b>	<b>-</b>	<b>(111,589)</b>
<b>Cash Flows From Financing Activities</b>					
Noncontrolling interest in TSM members' distributions	-	(227,984)	145,693	-	(82,291)
Principal payments on long-term borrowings	(1,768,657)	-	-	-	(1,768,657)
Proceeds from issuance of long-term borrowings	1,963,119	-	-	-	1,963,119
Principal payments under capital lease obligations	(37,169)	(108,399)	-	-	(145,568)
<b>Net cash (used in) provided by financing activities</b>	<b>157,293</b>	<b>(336,383)</b>	<b>145,693</b>	<b>-</b>	<b>(33,397)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(1,876,249)</b>	<b>(53,188)</b>	<b>-</b>	<b>-</b>	<b>(1,929,437)</b>
Cash and cash equivalents beginning of year	3,692,797	373,319	-	-	4,066,116
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,816,548</b>	<b>320,131</b>	<b>-</b>	<b>-</b>	<b>2,136,679</b>
<b>Supplemental disclosure of cash flow information</b>					
Cash payments for interest	\$ -	13,986	-	-	13,986
<b>Supplemental disclosure of non-cash investing activities and financing activities</b>					
Property and equipment acquired with capital lease	\$ 1,088,785	-	-	-	1,088,785