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Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response or note to any line in this Part III

1

Briefly describe the organization's mission

TAOS HEALTH SYSTEM IS A PROGRESSIVE ORGANIZATION WHERE GREAT CARE COMES TOGETHER TO CREATE A HEALTHY COMMUNITY

2

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

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?

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 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 \$ 51,831,262 including grants of \$ 42,790) (Revenue \$ 53,950,526)

ACUTE CARE HOSPITAL OPERATIONS, 1,706 INPATIENT ADMISSIONS, 42,495 OUTPATIENT VISITS, 15,130 EMERGENCY DEPARMENT VISITS

4b

(Code) (Expenses \$ including grants of \$) (Revenue \$)

4c

(Code) (Expenses \$ including grants of \$) (Revenue \$)

4d

Other program services (Describe in Schedule O)




















(Expenses \$ including grants of \$) (Revenue \$)

4e

Total program service expenses

51,831,262

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 Section 501(c)(3) organizations. 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 Yes	
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 Yes	
9 Did the organization report an amount in Part X, line 21 for escrow or custodial account liability, 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 Yes	
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	No
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X 	11e	No
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	No
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI and XII 	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 and XII 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, Parts I and IV	14b	No
15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or other assistance to or for any foreign organization? If "Yes," complete Schedule F, Parts 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 other assistance to or for foreign individuals? If "Yes," complete Schedule F, Parts 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 (see instructions)	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 hospital facilities? If "Yes," complete Schedule H 	20a Yes	
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return? 	20b Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants or other assistance to any domestic organization or government 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 or 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	Yes	
23	Did the organization answer "Yes" to Part VII, Section A, line 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 lines 24b through 24d and complete Schedule K. If "No," go to line 25a</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	Section 501(c)(3) and 501(c)(4) organizations. 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	Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? <i>If so, complete Schedule L, Part II</i>	26	Yes	
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <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 direct or indirect 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	Yes	
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	Yes	
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, Part II, III, or IV, and Part V, line 1</i>	34		No
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a		No
b	If 'Yes' to line 35a, 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		
36	Section 501(c)(3) organizations. 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 11b and 19? Note. 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 or note to any line in this Part V

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	149
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b	0
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes
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.	2a	533
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).	2b	Yes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	Yes
b	If "Yes," has it filed a Form 990-T for this year? If "No" to line 3b, provide an explanation in Schedule O.	3b	Yes
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, securities account, or other financial 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 as charitable contributions?	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. See the instructions for additional information the organization must report on Schedule O.	13a	
b	Enter the 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 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 or note to any line 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		
	If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O		
b	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?	2	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?	3	Yes
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5	No
6	Did the organization have members or stockholders?	6	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?	7a	No
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b	No
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
a	The governing body?	8a	Yes
b	Each committee with authority to act on behalf of the governing body?	8b	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	9	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?	10a	No
b	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?	10b	
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes
b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c	Yes
13	Did the organization have a written whistleblower policy?	13	Yes
14	Did the organization have a written document retention and destruction policy?	14	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?		
a	The organization's CEO, Executive Director, or top management official	15a	Yes
b	Other officers or key employees of the organization	15b	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?	16a	Yes
b	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?	16b	Yes

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. Own website Another's website Upon request Other (explain in Schedule O)
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 during the tax year
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization STEVE ROZENBOOM 1397 WEIMER ROAD TAOS,NM 87571 (575) 758-8883

Part VII

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

Check if Schedule O contains a response or note to any line 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 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 organization compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(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 0	X		X				0	0	0
(2) PAMELA ROMERO BOARD MEMBER	1 0	X						0	0	0
(3) ANNA MARTINEZ BOARD MEMBER	1 0	X						0	0	0
(4) ANDY TORRES BOARD MEMBER	1 0	X						0	0	0
(5) CHARLIE GONZALES SECRETARY	1 0	X		X				0	0	0
(6) DAN GUTTMAN BOARD MEMBER	1 0	X						0	0	0
(7) GUS CORDOVA VICE-CHAIRMAN	1 0	X		X				0	0	0
(8) JAY CHRIS STAGG TREASURER	1 0	X		X				0	0	0
(9) JEANNIE MASTERS BOARD MEMBER	1 0	X						0	0	0
(10) LINDA AUBRECHT BOARD MEMBER	1 0	X						0	0	0
(11) STUART HAMILTON BOARD MEMBER	1 0	X						0	0	0
(12) GEILAN ISMAIL BOARD MEMBER	1 0	X						0	0	0
(13) JACK GARLAND BOARD MEMBER/CHIEF OF STAFF	1 0	X						248,543	0	4,944
(14) PETER HOFSTETTER CEO	40 0			X				0	0	0
(15) STEVE ROZENBOOM CFO	40 0			X						
(16) TIM HOWARD INTERIM CFO	40 0			X						
(17) MARY ANNA ABEYTA CHIEF CLINICAL OFFICER	40 0				X			161,664	0	5,593

Part VII

1b	Sub-Total			
c	Total from continuation sheets to Part VII, Section A			
d	Total (add lines 1b and 1c)	1,755,664	0	85,380

2

3

Section B. Independent Contractors

1

(A) Name and business address	(B) Description of services	(C) Compensation
CLINICAL COLLEAGUES, 1121 N BETHLEHEM PIKE SUITE 60-23 SPRINGHOUSE PA 19477	ANESTHESIOLOGISTS	1,264,646
QUORUM HEALTH RESOURCES LLC, 105 CONTINENTAL PLACE BRENTWOOD TN 37027	MANAGEMENT CONTRACT	1,095,234
ARAMARK CORP, 24863 NETWORK PLACE CHICAGO IL 60673	PLANT OPS MGMT	584,798
WEATHERBY LOCUMS INC, 6451 NORTH FEDERAL HWY SUITE 800 FORT LAUDERDALE FL 33308	STAFFING SERVICES	477,625
SHARED IMAGING INC, 801 PHOENIX LAKE AVE STREAMWOOD IL 60107	IMAGING SERVICES	438,266

2

Part VIII

Statement of Revenue

Check if Schedule O contains a response or note to any line in this Part VIII

				(A)	(B)	(C)	(D)	
				Total revenue	Related or exempt function revenue	Unrelated business revenue	Revenue excluded from tax under sections 512-514	
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	503,823				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	493,163				
	g	Noncash contributions included in lines 1a-1f \$		12,500				
	h	Total. Add lines 1a-1f			996,986			
Program Service Revenue			Business Code					
	2a	MEDICARE/MEDICAID REVENUE	624100	23,273,081	23,273,081			
	b	OTHER PATIENT SERVICE REVENUE	624100	26,113,062	26,113,062			
	c	INDIGENT FUND REVENUE	624100	4,353,784	4,353,784			
	d							
	e							
	f	All other program service revenue						
	g	Total. Add lines 2a-2f			53,739,927			
Other Revenue	3	Investment income (including dividends, interest, and other similar amounts)		66,557			66,557	
	4	Income from investment of tax-exempt bond proceeds		0				
	5	Royalties		0				
	6a	(i) Real		(ii) Personal				
		0		0				
	d	Net rental income or (loss)		0				
	7a	(i) Securities		(ii) Other				
		582,087						
		410,309		55,857				
		171,778		-55,857				
	d	Net gain or (loss)		115,921			115,921	
	8a	Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18		a	0			
	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	0			
	b	Less direct expenses		b				
	c	Net income or (loss) from gaming activities						
	10a	Gross sales of inventory, less returns and allowances		a	0			
		b		b				
c	Net income or (loss) from sales of inventory							
Miscellaneous Revenue		Business Code						
11a	FOOD SERVICES INCOME		722210	309,333			309,333	
b	MANAGEMENT SERVICES		541610	111,116		111,116		
c	OTHER MISCELLANEOUS REVENUE		900099	210,599	210,599			
d	All other revenue							
e	Total. Add lines 11a-11d			631,048				
12	Total revenue. See Instructions			55,550,439	53,950,526	111,116	491,811	

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).

Check if Schedule O contains a response or note to any line 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.	9,790	9,790		
2	Grants and other assistance to individuals in the United States. See Part IV, line 22.	33,000	33,000		
3	Grants and other assistance to governments, organizations, and individuals outside the United States. See Part IV, lines 15 and 16.	0			
4	Benefits paid to or for members.	0			
5	Compensation of current officers, directors, trustees, and key employees.	420,744	420,744		
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B).	0			
7	Other salaries and wages.	23,050,388	20,530,444	2,519,944	
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	203,940	181,645	22,295	
9	Other employee benefits.	3,080,068	2,743,345	336,723	
10	Payroll taxes.	1,645,140	1,465,288	179,852	
11	Fees for services (non-employees):				
a	Management.	1,102,369	163,238	939,131	
b	Legal.	349,217	6,947	342,270	
c	Accounting.	92,761		92,761	
d	Lobbying.	9,668		9,668	
e	Professional fundraising services. See Part IV, line 17.	0			
f	Investment management fees.	18,466		18,466	
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	9,246,088	8,012,507	1,164,350	69,231
12	Advertising and promotion.	211,193	643	194,114	16,436
13	Office expenses.	1,483,401	1,193,809	287,155	2,437
14	Information technology.	146,667		146,667	
15	Royalties.	0			
16	Occupancy.	3,397,131	1,634,962	1,762,169	
17	Travel.	108,328	32,612	75,691	25
18	Payments of travel or entertainment expenses for any federal, state, or local public officials.	0			
19	Conferences, conventions, and meetings.	0			
20	Interest.	46,301		46,301	
21	Payments to affiliates.	0			
22	Depreciation, depletion, and amortization.	2,560,042	1,895,740	664,302	
23	Insurance.	1,298,482	976,505	321,977	
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O):				
a	BAD DEBT EXPENSE	5,854,284	5,854,284		
b	MEDICAL SUPPLIES	5,219,611	5,190,878	28,733	
c	EHR OVERPAYMENT	748,222	748,222		
d	UBI TAXES	15,880		15,880	
e	All other expenses	2,217,754	736,659	1,479,688	1,407
25	Total functional expenses. Add lines 1 through 24e.	62,568,935	51,831,262	10,648,137	89,536
26	Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720).				

Part X

Balance Sheet

Check if Schedule O contains a response or note to any line in this Part X

			(A)		(B)
			Beginning of year		End of year
Assets	1	Cash—non-interest-bearing	1,116,218	1	658,308
	2	Savings and temporary cash investments	321,307	2	1,452,979
	3	Pledges and grants receivable, net	0	3	0
	4	Accounts receivable, net	6,770,515	4	6,279,917
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L	17,500	5	26,500
	6	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Complete Part II of Schedule L	0	6	0
	7	Notes and loans receivable, net	1,936,234	7	122,797
	8	Inventories for sale or use	1,602,440	8	1,394,846
	9	Prepaid expenses and deferred charges	1,218,857	9	844,655
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	44,394,186		
		10a			
	b	Less accumulated depreciation	25,983,282	10c	18,410,904
		10b			
	11	Investments—publicly traded securities	2,503,551	11	2,077,247
	12	Investments—other securities See Part IV, line 11	0	12	0
	13	Investments—program-related See Part IV, line 11	320,927	13	53,134
Liabilities	14	Intangible assets	0	14	0
	15	Other assets See Part IV, line 11	779,309	15	603,476
	16	Total assets. Add lines 1 through 15 (must equal line 34)	36,855,539	16	31,924,763
	17	Accounts payable and accrued expenses	5,927,471	17	7,980,583
	18	Grants payable	0	18	0
	19	Deferred revenue	0	19	0
	20	Tax-exempt bond liabilities	0	20	0
	21	Escrow or custodial account liability Complete Part IV of Schedule D	0	21	0
	22	Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L	0	22	0
	23	Secured mortgages and notes payable to unrelated third parties	1,204,180	23	1,195,801
Net Assets or Fund Balances	24	Unsecured notes and loans payable to unrelated third parties	0	24	0
	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	0	25	0
	26	Total liabilities. Add lines 17 through 25	7,131,651	26	9,176,384
		Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.			
	27	Unrestricted net assets	28,774,081	27	21,877,570
	28	Temporarily restricted net assets	949,807	28	870,809
	29	Permanently restricted net assets	0	29	0
		Organizations that do not follow SFAS 117 (ASC 958), 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	29,723,888	33	22,748,379
	34	Total liabilities and net assets/fund balances	36,855,539	34	31,924,763

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response or note to any line in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	55,550,439
2	Total expenses (must equal Part IX, column (A), line 25)	2	62,568,935
3	Revenue less expenses Subtract line 2 from line 1	3	-7,018,496
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	29,723,888
5	Net unrealized gains (losses) on investments	5	55,487
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	-12,500
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	22,748,379

Part XII Financial Statements and Reporting

Check if Schedule O contains a response or note to any line in this Part XII

		Yes	No
1	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		
2a	Were the organization's financial statements compiled or reviewed by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis		No
2b	Were the organization's financial statements audited by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were audited 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 separate basis	Yes	
2c	If "Yes," to line 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	
3a	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
3b	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)

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.
▶ Information about Schedule A (Form 990 or 990-EZ) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Taos Health Systems Inc

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 described in **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 See **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 - Non-functionally integrated

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 supported organization?

11g(i)

Yes

No

(ii)

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

11g(ii)

Yes

No

(iii)

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

11g(iii)

Yes

No

h

☐

Provide the following information about the supported organization(s)

(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 monetary support
			Yes	No	Yes	No	Yes	No	
Total									

For Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990EZ.

Cat No 11285F

Schedule A (Form 990 or 990-EZ) 2013

Part II

Support Schedule for Organizations Described in Sections 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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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 Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
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 ▶						

Section C. Computation of Public Support Percentage						
14 Public support percentage for 2013 (line 6, column (f) divided by line 11, column (f))		14				
15 Public support percentage for 2012 Schedule A, Part II, line 14		15				
16a 33 1/3% support test—2013. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶						
b 33 1/3% support test—2012. If the organization did not check a box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶						
17a 10%-facts-and-circumstances test—2013. 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 stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization ▶						
b 10%-facts-and-circumstances test—2012. 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 stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization ▶						
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions ▶						

Part IIISupport Schedule for Organizations Described in Section 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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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 stop here ▶						

Section C. Computation of Public Support Percentage		
15 Public support percentage for 2013 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2012 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2013 (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from 2012 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2013. 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 stop here. The organization qualifies as a publicly supported organization ▶		
b 33 1/3% support tests—2012. 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 stop here. 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.** Provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Return Reference	Explanation	
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SCHEDULE C

(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527
▶ **Complete if the organization is described below.** ▶ **Attach to Form 990 or Form 990-EZ.**
▶ **See separate instructions.** ▶ **Information about Schedule C (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.**

OMB No 1545-0047

2013

Open to Public Inspection

If the organization answered "Yes" to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered "Yes" to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered "Yes" to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, Part V, line 35c (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization Taos Health Systems Inc	Employer identification number 85-0289839
---	--

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1	Provide a description of the organization's direct and indirect political campaign activities in Part IV	
2	Political expenditures	▶ \$
3	Volunteer hours	

Part I-B Complete if the organization is exempt under section 501(c)(3).

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b	If "Yes," describe in Part IV	

Part I-C Complete if the organization is exempt under section 501(c), except section 501(c)(3).

1	Enter the amount directly expended by the filing organization for section 527 exempt function activities	▶ \$
2	Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt function activities	▶ \$
3	Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b	▶ \$
4	Did the filing organization file Form 1120-POL for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5	Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV	

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

- A
- Check ☐ if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)
- B
- Check ☐ if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing organization's totals	(b) Affiliated group totals												
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)															
b Total lobbying expenditures to influence a legislative body (direct lobbying)															
c Total lobbying expenditures (add lines 1a and 1b)															
d Other exempt purpose expenditures															
e Total exempt purpose expenditures (add lines 1c and 1d)															
f Lobbying nontaxable amount Enter the amount from the following table in both columns															
<table><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g Grassroots nontaxable amount (enter 25% of line 1f)															
h Subtract line 1g from line 1a If zero or less, enter -0-															
i Subtract line 1f from line 1c If zero or less, enter -0-															
j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes <input type="checkbox"/> No													

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2010	(b) 2011	(c) 2012	(d) 2013	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B

Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a	Volunteers?		No	
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
c	Media advertisements?		No	
d	Mailings to members, legislators, or the public?		No	
e	Publications, or published or broadcast statements?		No	
f	Grants to other organizations for lobbying purposes?		No	
g	Direct contact with legislators, their staffs, government officials, or a legislative body?	Yes		9,668
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i	Other activities?		No	
j	Total. Add lines 1c through 1i.			9,668
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912.			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912.			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

		Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1	
2	Did the organization make only in-house lobbying expenditures of \$2,000 or less?	2	
3	Did the organization agree to carry over lobbying and political expenditures from the prior year?	3	

Part III-B

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) and if either (a) BOTH Part III-A, lines 1 and 2, are answered "No" OR (b) Part III-A, line 3, is answered "Yes."

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) nondeductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).		
a	Current year	2a	
b	Carryover from last year	2b	
c	Total	2c	
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV

Supplemental Information

Provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, Part II-A (affiliated group list), Part II-A, line 2, and Part II-B, line 1. Also, complete this part for any additional information.

Return Reference	Explanation
PART II-B, LINE 1G	A PORTION OF MEMBERSHIP DUES PAID BY TAOS HEALTH SYSTEMS, INC. DURING THE YEAR ARE ATTRIBUTABLE TO LOBBYING ACTIVITY. THE AMOUNT LISTED ON LINE 1G REPRESENTS THIS PORTION AS NO OTHER LOBBYING ACTIVITIES OCCURRED.

Part IV

Explanation

SCHEDULE D
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ **Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b**
▶ **Attach to Form 990.** ▶ **See separate instructions.** ▶ **Information about Schedule D (Form 990) and its instructions is at www.irs.gov/form990.**

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization Taos Health Systems Inc	Employer identification number 85-0289839
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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><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds can 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><input type="checkbox"/> Yes <input type="checkbox"/> 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 education) ☐ Preservation of an historically important land area
☐ Protection of natural habitat ☐ Preservation of a certified historic structure
☐ Preservation of open space

2

Complete lines 2a through 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, and not on a historic structure listed in the National Register

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax 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 section 170(h)(4)(B)(ii)?

☐ Yes ☐ No

9

In Part XIII, 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 (ASC 958), 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 XIII, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116 (ASC 958), 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 (ASC 958) relating to these items

a

Revenues included in Form 990, Part VIII, line 1 ▶ \$ _____

b

Assets included in Form 990, Part X ▶ \$ _____

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Cat No 52283D

Schedule D (Form 990) 2013

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

- 3 Using the organization’s acquisition, 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 XIII
- 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 XIII and complete the following table
- c Beginning balance

d Additions during the year

e Distributions during the year

f Ending balance

	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 XIII Check here if the explanation has been provided in Part XIII

☐

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

	(a)Current year	(b)Prior year	b (c)Two years back	(d)Three years back	(e)Four years back
1a Beginning of year balance	20,465	20,200	20,000	10,000	10,000
b Contributions	2,507	683	759	10,000	
c Net investment earnings, gains, and losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses	509	418	559		
g End of year balance	22,463	20,465	20,200	20,000	10,000

- 2 Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as
- a Board designated or quasi-endowment ▶

b Permanent endowment ▶

c Temporarily restricted endowment ▶ 100 000 %
- The percentages in lines 2a, 2b, and 2c should equal 100%
- 3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by
- (i) unrelated organizations

(ii) related organizations

	Yes	No
3a(i)	Yes	
3a(ii)		No
3b		
- b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

☐
- 4 Describe in Part XIII the intended uses of the organization's endowment funds

Part VI Land, Buildings, and Equipment. Complete if the organization answered 'Yes' to Form 990, Part IV, line 11a. 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		1,645,483		1,645,483
b Buildings		13,572,124	4,079,998	9,492,126
c Leasehold improvements		3,166,438	1,556,803	1,609,635
d Equipment		23,829,481	19,195,065	4,634,416
e Other		1,625,103	640,736	984,367
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).)				18,366,027

Part XI

Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

1	Total revenue, gains, and other support per audited financial statements	1	48,990,920
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	55,487
b	Donated services and use of facilities	2b	
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIII)	2d	
e	Add lines 2a through 2d	2e	55,487
3	Subtract line 2e from line 1	3	48,935,433
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 XIII)	4b	6,615,006
c	Add lines 4a and 4b	4c	6,615,006
5	Total revenue Add lines 3 and 4c. (This must equal Form 990, Part I, line 12)	5	55,550,439

Part XII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.

Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

1	Total expenses and losses per audited financial statements	1	55,966,429
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 XIII)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	55,966,429
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 XIII)	4b	6,602,506
c	Add lines 4a and 4b	4c	6,602,506
5	Total expenses Add lines 3 and 4c. (This must equal Form 990, Part I, line 18)	5	62,568,935

Part XIII

Supplemental Information

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, line 2, Part XI, lines 2d and 4b, and Part XII, lines 2d and 4b. Also complete this part to provide any additional information.

Return Reference	Explanation
organization's liability for uncertain tax positions	part x, line 2 MANAGEMENT HAS EVALUATED THEIR INCOME TAX POSITIONS UNDER THE GUIDANCE INCLUDED IN ASC 740. BASED ON THEIR REVIEW, MANAGEMENT HAS NOT IDENTIFIED ANY MATERIAL UNCERTAIN TAX POSITIONS TO BE RECORDED OR DISCLOSED IN THE FINANCIAL STATEMENTS
REVENUE ON RETURN, NOT ON BOOKS	PART XI, LINE 4B EHR OVERPAYMENT CLASSSED AS REVENUE ON FINANCIAL STATEMENTS 748,222 BAD DEBT EXPENSE CLASSSED AS REVENUE ON FINANCIAL STATEMENTS 5,854,284 ART CONTRIBUTION 12,500 TOTAL 6,615,006
EXPENSE ON RETURN, NOT ON BOOKS	PART XII, LINE 4B EHR OVERPAYMENT CLASSSED AS REVENUE ON FINANCIAL STATEMENTS 748,222 BAD DEBT EXPENSE CLASSSED AS REVENUE ON FINANCIAL STATEMENTS 5,854,284 TOTAL 6,602,506
footnote to financial statements for works of art	part iii, line 1a the financial statements do not include a footnote describing the works of art that taos health systems, inc. holds for public exhibition as the annual contributions received and the total collection are not material to the financial statement of the hospital as a whole
description of organization's collection	part iii, line 4 the city of taos is a well-known and respected art community. many artists have contributed works to taos health systems, inc. to help beautify and enhance the healing environment within the walls of the hospital building. there is a wide variety of art, with something for just about everyone's taste. the displays are in every hallway and provide enjoyment for not only patients, but their friends and family that may be visiting.

[illegible]

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.
► Information about Schedule H (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Taos Health Systems Inc

Employer identification number
85-0289839

Part I

Financial Assistance and Certain Other Community Benefits at Cost

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

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance 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 Financial Assistance at cost (from Worksheet 1)			982,709		982,709	1 730 %
b Medicaid (from Worksheet 3, column a)			10,628,030	8,979,659	1,648,371	2 910 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . .						
d Total Financial Assistance and Means-Tested Government Programs . .			11,610,739	8,979,659	2,631,080	4 640 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)	14	3,271	979,311		979,311	1 730 %
f Health professions education (from Worksheet 5)			133,971		133,971	0 240 %
g Subsidized health services (from Worksheet 6)			2,224,646	1,682,480	542,166	0 220 %
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)			9,790		9,790	0 020 %
j Total Other Benefits	14	3,271	3,347,718	1,682,480	1,665,238	2 210 %
k Total . Add lines 7d and 7j . .	14	3,271	14,958,457	10,662,139	4,296,318	6 850 %

Part IICommunity Building Activities

Complete this table if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(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

1Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?

1

No

2Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount.

2

5,854,284

3Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy. Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit.

3

3,215,867

4Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements

Section B. Medicare

5Enter total revenue received from Medicare (including DSH and IME).

5

16,339,529

6Enter Medicare allowable costs of care relating to payments on line 5.

6

19,991,612

7Subtract line 6 from line 5. This is the surplus (or shortfall).

7

-3,652,083

8Describe 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.

☐ Cost accounting system

☒ Cost to charge ratio

☐ Other

Section C. Collection Practices

9aDid the organization have a written debt collection policy during the tax year?

9a

Yes

bIf "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

(owned 10% or more by officers, directors, trustees, key employees, and physicians—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

Name, address, primary website address,
and state license number

Schedule H (Form 990) 2013

Part V Facility Information (continued)

Section B. Facility Policies and Practices

(Complete a separate Section B for each of the hospital facilities or facility reporting groups listed in Part V, Section A)
Taos Health Systems Inc

Name of hospital facility or facility reporting group

If reporting on Part V, Section B for a single hospital facility only: line number of hospital facility (from Schedule H, Part V, Section A)

	Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)		
1 During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9 If "Yes," indicate what the CHNA report describes (check all that apply)	1 Yes	
a <input checked="" type="checkbox"/> A definition of the community served by the hospital facility		
b <input checked="" type="checkbox"/> Demographics of the community		
c <input checked="" 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 checked="" type="checkbox"/> How data was obtained		
e <input checked="" type="checkbox"/> The health needs of the community		
f <input checked="" type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
g <input checked="" type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet the community health needs		
h <input checked="" type="checkbox"/> The process for consulting with persons representing the community's interests		
i <input checked="" 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)		
2 Indicate the tax year the hospital facility last conducted a CHNA 20 <u>12</u>		
3 In conducting its most recent CHNA, did the hospital facility take into account input from persons who represent the broad interests of the community served by the hospital facility, including those with special knowledge of or expertise in public health? 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 Yes	
4 Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	No
5 Did the hospital facility make its CHNA report widely available to the public? If "Yes," indicate how the CHNA report was made widely available (check all that apply)	5 Yes	
a <input checked="" type="checkbox"/> Hospital facility's website (list url) <u>www.taoshospital.org</u>		
b <input type="checkbox"/> Other website (list url) _____		
c <input checked="" type="checkbox"/> Available upon request from the hospital facility		
d <input checked="" type="checkbox"/> Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted CHNA, indicate how (check all that apply as of the end of the tax year)		
a <input checked="" type="checkbox"/> Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA		
b <input checked="" type="checkbox"/> Execution of the implementation strategy		
c <input type="checkbox"/> Participation in the development of a community-wide plan		
d <input type="checkbox"/> Participation in the execution of a community-wide 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 checked="" type="checkbox"/> Prioritization of health needs in its 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 CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	7 Yes	
8a Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	8a	No
b If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	8b	
c If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? \$ _____		

Part V

Facility Information (continued)

Financial Assistance Policy		Yes	No
9	Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	9	Yes
10	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% If "No," explain in Part VI the criteria the hospital facility used	10	Yes
11	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care 300 % If "No," explain in Part VI the criteria the hospital facility used	11	Yes
12	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply)	12	Yes
a	<input checked="" 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"/> Residency		
i	<input type="checkbox"/> Other (describe in Part VI)		
13	Explained the method for applying for financial assistance?	13	Yes
14	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)	14	Yes
a	<input checked="" type="checkbox"/> The policy was posted on the hospital facility's website		
b	<input checked="" type="checkbox"/> The policy was attached to billing invoices		
c	<input checked="" 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 on admission to the hospital facility		
f	<input type="checkbox"/> The policy was available upon request		
g	<input type="checkbox"/> Other (describe in Part VI)		
Billing and Collections			
15	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?	15	Yes
16	Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP		
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 Section C)		
17	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 individual's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged	17	No
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 Section C)		

Part V Facility Information *(continued)*

- 18** Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)
- a** ☐ Notified individuals of the financial assistance policy on admission
 - b** ☐ Notified individuals of the financial assistance policy prior to discharge
 - c** ☐ Notified individuals of the financial assistance policy in communications with the individuals regarding the individuals' bills
 - d** ☐ Documented its determination of whether individuals were eligible for financial assistance under the hospital facility's financial assistance policy
 - e** ☐ Other (describe in Section C)

Policy Relating to Emergency Medical Care

		Yes	No
19	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?	Yes	
If "No," indicate why			
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)		

Charges to Individuals Eligible for Assistance under the FAP (FAP-Eligible Individuals)

20	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 its 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)		
21	During the tax year, did the hospital facility charge any FAP-eligible individual 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?		No
If "Yes," explain in Part VI			
22	During the tax year, did the hospital facility charge any FAP-eligible individual an amount equal to the gross charge for any service provided to that individual?		No
If "Yes," explain in Part VI			

Part V Facility Information *(continued)*

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 1j, 3, 4, 5d, 6i, 7, 10, 11, 12i, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22. If applicable, provide separate descriptions for each facility in a facility reporting group, designated by "Facility A," "Facility B," etc.

[illegible]

Part V

Facility Information *(continued)*

Section D. Other Health Care 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 health care facilities did the organization operate during the tax year? **5**

Name and address		Type of Facility (describe)
1	TAOS PROFESSIONAL SERVICES 1397 WEIMER ROAD TAOS,NM 87571	MEDICAL CLINIC
2	CENTER FOR PHYSICAL HEALTH 1398 WEIMER ROAD SUITE 203 TAOS,NM 87571	OUTPATIENT PHYSICAL THERAPY AND OCCUPATIONAL THERAPY
3	PENASCO HEALTH CLINIC 24 STATE ROAD 73 PENASCO,NM 87553	HEALTH CLINIC
4	TAOS SURGICAL SPECIALISTS 1399 WEIMER ROAD SUITE 600 TAOS,NM 87571	SURGERY CLINIC
5	TAOS WOMEN'S HEALTH INSTITUTE 1331 MAESTAS ROAD TAOS,NM 87571	OBSTETRICS/GYNECOLOGY CLINIC
6		
7		
8		
9		
10		

Part VI

Supplemental Information

Provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II and Part III, lines 2, 3, 4, 8 and 9b
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs 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

Form and Line Reference	Explanation
part iii, line 2	For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts

Form and Line Reference	Explanation
part III, line 4	<p>Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The Organization's allowance for doubtful accounts for self-pay patients decreased from 70% of self-pay accounts receivable at May 31, 2013, to 67% of self-pay accounts receivable at May 31, 2014. In addition, the Organization write-offs decreased approximately \$600,000 from approximately \$7.6 million for the year ended May 31, 2013 to approximately \$7.0 million for the year ended May 31, 2014. Both decreases were the result of Medicaid expansion. The decrease in write-offs was also due in part from the reduction in overall revenue.</p>

Form and Line Reference	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 FY2014 Medicare Cost Report.

Form and Line Reference	Explanation
part iii, line 9b	HOLY CROSS HOSPITAL WILL CONTINUALLY NOTIFY THE PATIENT WITH OPEN SELF-PAY ACCOUNTS OF THE FINANCIAL ASSISTANCE POLICY AVAILABILITY FOR A 120 DAY PERIOD THIS IS KNOWN AS THE FINANCIAL ASSISTANCE POLICY NOTIFICATION PERIOD HOLY CROSS HOSPITAL WILL PROVIDE THE PATIENT WRITTEN NOTIFICATION 30 DAYS PRIOR TO THE END OF THE FINANCIAL ASSISTANCE NOTIFICATION PERIOD ADDITIONALLY, HOLY CROSS HOSPITAL WILL NOT ENGAGE IN ANY EXTRAORDINARY COLLECTION ACTIVITY UNTIL SUFFICIENT TIME AND NOTIFICATION PERIODS HAVE PASSED (AT LEAST 120 DAYS)

Form and Line Reference	Explanation
needs assessment	In addition to our 2013 CHNA, Taos Health Systems, dba Holy Cross Hospital conducts a monthly Study Group in partnership with town and county officials. These sessions are open to the public and designed to address community concerns in an open forum. Also, Taos Health Systems, dba Holy Cross Hospital acts as fiscal agent for the Taos CARES Health Council, which convenes community members and partner agencies monthly in order to 1) Disseminate health information, including CHNA data, to community, 2) Gather community input, 3) Bring health care entities together, 4) Strengthen community services, 5) Assist communities with health and healthcare goals, 6) Educate community and health care providers. The information obtained from the monthly study groups, open public sessions and Taos CARES Health Council is used in conjunction with internal assessments to update the implementation strategy from the 2013 community health needs assessment.

Form and Line Reference	Explanation
<p>patient education of eligibility for assistance</p>	<p>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 may be arranged or an application for charity care may be completed. For self-pay accounts <\$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. For self-pay accounts between \$1,000 and \$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 charity care will be give applications and assisted in completing the forms if necessary. When an application is received the following steps will be taken - If the account is more than 120 days old all extraordinary collection activity will be suspended. Application information will be reviewed for a disposition within 5 business days. If the application is approved, the following steps will be taken - Billing Statement showing the amount of financial assistance given, any remaining balances owed will be sent to the patient - Refund any excess payments made by individual. If the application is received incomplete, the following action will be taken - Provide Individual with Written Notice of additional information needed with completion deadline - ONE Notice that Extraordinary Collections will proceed if application IS not completed or claim is not paid within 30 days from above completion deadline or last day of application period (240 days). If the application is denied, patients will be sent a letter informing them of the reason for denial. Holy Cross Hospital will continually notify the patient with open self-pay accounts of the Financial Assistance Policy Availability for a 120 days period. This is known as the Financial Assistance Policy Notification Period. Holy Cross Hospital will provide the patient written notification 30 days prior to the end of the Financial Assistance Notification Period (at 90 days). Holy Cross Hospital will not engage in any extraordinary collection activity until sufficient time and notification periods have passed (at least 120 days). Patients will BE billed full charges less 20% uninsured discount if they do not apply for financial assistance. For accounts <\$2,000, incomplete applications will not be accepted. For accounts >\$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 for them to bring the application back to THS when it is complete. On self-pay accounts over \$5,000, 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 collections 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.</p>

Form and Line Reference	Explanation
community information	Taos Health System serves approximately 51,000 residents of Taos, Colfax, and northern Rio Arriba counties, a diverse cultural community with a poverty rate of 23.9% in a rural frontier area of 15 people per square mile in more than 2,500 square miles. The population of Taos County is 56.1% Hispanic or Latino, 7.4% Native American and 36.2% White non-Hispanic. (Colfax is 48.4% Hispanic/Latino, 2.5% Native American, Rio Arriba is 71.4% Hispanic or Latino and 18% Native American). In Taos County, 20.9% of our collective population is 65 or over, compared to 14.7% nationwide, so we see disproportionately high onset in chronic diseases. 26% of all adults do not have health insurance. The proportion of Taos County children in impoverished or low-income families remains one of the highest in the state and the nation, with more than 43% of all Taos County children under 18 living in poverty.

Form and Line Reference	Explanation
promotion of community	<p>THS contains Holy Cross Hospital, the Women's Health Institute, Taos Surgical Specialties, Peasco Health Clinic and the Center for Physical Health. We provide primary care, acute hospital care, surgery care, and rehabilitative sports medicine and physical therapy services as well as a Women's Health Clinic, a Rural Health Clinic, and a Surgical Specialties Clinic to ensure that the community's need for care is met. Our system employs 10 physicians and 13 mid-levels from ever-expanding specialties that include internal medicine, cardiology, Ob/Gyn, orthopedics, general surgery, urology and a fully staffed and technologically equipped Emergency Department. THS also provides a number of grant- and hospital-funded community benefit programs that serve a wide array of area residents at no or low cost. These include:</p> <ul style="list-style-type: none"> - Medicaid Enrollment provides Community Health Workers, including bilingual CHW's, who currently assist uninsured people to access Centennial Care as well as outreach. - Health Exchange Enrollment provides outreach and enrollment by certified Healthcare Guides in the new Health Insurance Exchange. - Diabetes Management provides disease management strategies for pre-diabetics and people living with Type I & II diabetes. - Nutrition Counseling provides multi-faceted counseling for patients facing chronic disease and obesity. - Prescription Assistance provides emergency and ongoing assistance for patients unable to pay for their medications. - Medication Therapy Management improves medication safety and effectiveness for anyone on prescription medications. - Taos Alive is a coalition targeted at preventing youth substance abuse via environmental strategies such as media awareness campaigns and local policy change. - Underage Drinking Prevention provides alcohol literacy education to Taos County elementary, middle, and high school students along with media literacy camps during the summer. - Overdose Prevention provides prevention strategies to community members at-risk for opiate overdose. - Tobacco Use Prevention and Control provides cessation and prevention education for local youth, immigrant, LGBTQ and Native communities. - Cancer Support Services provides services for patients and families living with cancer. - SANE (Sexual Assault Nurse Examiner) serves victims of sexual assault with confidential exams and referrals. - First Steps Home Visiting provides support and referrals for first-time families with children ages 0-3. - Taos Loves Kids Parenting Classes provide training for caregivers of children ages 0-5. - Kids First! supports the mental and physical health of Peasco Valley families of children 0-10. - The Anti-Coagulation Clinic monitors and adjusts drug therapy for people who suffer cardiovascular disease and are at risk for blood clots. - Disaster Preparedness works with community partners and hospital staff to prepare the healthcare system community for county-wide public health emergencies of all types.

Form and Line Reference	Explanation
part i, line 7	total bad debt expense removed from the denominator prior to the percentage calculation = \$5,854,284 the information for line 7e through 7i was derived from information in the general ledger and other financial data related specifically to the various types of community benefits

Form and Line Reference	Explanation
part iii, line 3	the amount of bad debt expense estimated to be attributable to patients eligible under the organization's financial assistance policy was calculated based on experience and community/industry knowledge applied to various financial classes the largest financial class was self-pay, which was estimated at 60% that may have been eligible if paperwork would have been completed and submitted

Schedule I
(Form 990)

Department of the Treasury
Internal Revenue Service

Name of the organization
Taos Health Systems Inc

Grants and Other Assistance to Organizations,
Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.
▶ Attach to Form 990

▶ Information about Schedule I (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public
Inspection

Employer identification number
85-0289839

Part I

General Information on Grants and Assistance

1

Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance?

☒ Yes ☐ No

2

Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II

Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21, for any recipient that received more than \$5,000. Part II can be duplicated if additional space is needed.

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance

2

Enter total number of section 501(c)(3) and government organizations listed in the line 1 table

▶

3

Enter total number of other organizations listed in the line 1 table

▶

Part III

Grants and Other Assistance to Individuals in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 22.
Part III can be duplicated if additional space is needed.

(a)Type of grant or assistance	(b)Number of recipients	(c)Amount of cash grant	(d)Amount of non-cash assistance	(e)Method of valuation (book, FMV, appraisal, other)	(f)Description of non-cash assistance
(1) SCHOLARSHIPS	31	33,000			

Part IV

Supplemental Information. Provide the information required in Part I, line 2, Part III, column (b), and any other additional information.

Return Reference	Explanation
PROCEDURES FOR MONITORING GRANTS FUNDS	PART I, LINE 2 HIGH SCHOOL SENIORS COMPLETE APPLICATIONS WHICH ARE REVIEWED BY A COMMITTEE OF TAOS HEALTH SYSTEMS, INC AND OTHER COMMUNITY MEMBERS AFTER AWARD, THE STUDENTS MUST SHOW SATISFACTORY PROGRESS EACH SEMESTER TO BE PAID THE AWARD

Schedule J
(Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

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

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 23.
▶ Attach to Form 990. ▶ See separate instructions.

▶ Information about Schedule J (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Taos Health Systems Inc

Employer identification number
85-0289839

Part I

Questions Regarding Compensation

	Yes	No
<div><div>1a</div><div>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</div><div><div><div><input type="checkbox"/> First-class or charter travel</div><div><input type="checkbox"/> Travel for companions</div><div><input type="checkbox"/> Tax idemnification and gross-up payments</div><div><input type="checkbox"/> Discretionary spending account</div></div><div><div><input type="checkbox"/> Housing allowance or residence for personal use</div><div><input type="checkbox"/> Payments for business use of personal residence</div><div><input type="checkbox"/> Health or social club dues or initiation fees</div><div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div></div></div></div>		
<div><div>1b</div><div>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 of the expenses described above? If "No," complete Part III to explain</div></div>		
<div><div>2</div><div>Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all directors, trustees, officers, including the CEO/Executive Director, regarding the items checked in line 1a?</div></div>		
<div><div>3</div><div>Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director Check all that apply Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III</div><div><div><div><input type="checkbox"/> Compensation committee</div><div><input type="checkbox"/> Independent compensation consultant</div><div><input type="checkbox"/> Form 990 of other organizations</div></div><div><div><input type="checkbox"/> Written employment contract</div><div><input type="checkbox"/> Compensation survey or study</div><div><input type="checkbox"/> Approval by the board or compensation committee</div></div></div></div>		
<div><div>4</div><div>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</div></div>		
<div><div>4a</div><div>Receive a severance payment or change-of-control payment?</div></div>		No
<div><div>4b</div><div>Participate in, or receive payment from, a supplemental nonqualified retirement plan?</div></div>		No
<div><div>4c</div><div>Participate in, or receive payment from, an equity-based compensation arrangement?</div></div> <div>If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III</div>		No
<div><div></div><div>Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.</div></div>		
<div><div>5</div><div>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</div></div>		
<div><div>5a</div><div>The organization?</div></div>		No
<div><div>5b</div><div>Any related organization?</div></div> <div>If "Yes," to line 5a or 5b, describe in Part III</div>		No
<div><div>6</div><div>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</div></div>		
<div><div>6a</div><div>The organization?</div></div>		No
<div><div>6b</div><div>Any related organization?</div></div> <div>If "Yes," to line 6a or 6b, describe in Part III</div>		No
<div><div>7</div><div>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</div></div>		No
<div><div>8</div><div>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 Regulations section 53 4958-4(a)(3)? If "Yes," describe in Part III</div></div>		No
<div><div>9</div><div>If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?</div></div>		

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use duplicate copies if additional space is 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, applicable column (D) and (E) amounts for that individual.

(A) Name and Title		(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 as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) JACK GARLAND BOARD MEMBER/CHIEF OF STAFF	(i)	245,450	0	3,093	0	4,944	253,487	0
	(ii)	0	0	0	0	0	0	
(2) MARY ANNA ABEYTA CHIEF CLINICAL OFFICER	(i)	158,723	0	2,941	2,500	3,093	167,257	
	(ii)	0	0	0	0	0	0	
(3) ALDEN COCKBURN PHYSICIAN	(i)	342,805	0	5,334	2,500	6,587	357,226	
	(ii)	0	0	0	0	0	0	
(4) SHANTI MOHLING PHYSICIAN	(i)	272,747	0	3,140	2,500	18,481	296,869	
	(ii)	0	0	0	0	0	0	
(5) STEPHEN CETRULO PHYSICIAN	(i)	255,150	0	0	0	0	255,150	
	(ii)	0	0	0	0	0	0	
(6) TIM MOORE PHYSICIAN	(i)	245,084	0	1,584	2,500	19,698	268,866	
	(ii)	0	0	0	0	0	0	
(7) JULIET LABRECHE PHYSICIAN	(i)	210,184	0	9,428	2,500	20,077	242,189	
	(ii)	0	0	0	0	0	0	

Part IIISupplemental Information

Provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II
Also complete this part for any additional information

Return Reference	Explanation
EXECUTIVE COMPENSATION	schedule j, part 1, question 3 THE CEO AND CFO OF TAOS HEALTH SYSTEMS, INC ARE EMPLOYED BY QUORUM HEALTH RESOURCES LLC, A MANAGEMENT COMPANY, AND RECEIVE NO COMPENSATION FROM THE ORGANIZATION THE AMOUNTS LISTED BELOW ARE THE COMPENSATION PROVIDED BY QUORUM HEALTH RESOURCES LLC TO THE CEO AND CFO FOR THEIR SERVICES TO TAOS HEALTH SYSTEMS, INC CEO BASE COMPENSATION \$260,000 OTHER REPORTABLE COMPENSATION/RETIREMENT COMPENSATION/NONTAXABLE BENEFITS \$ 76,213 CFO BASE COMPENSATION \$134,979 OTHER REPORTABLE COMPENSATION/RETIREMENT COMPENSATION/NONTAXABLE BENEFITS \$ 34,825

Schedule L
(Form 990 or 990-EZ)

Transactions with Interested Persons

OMB No 1545-0047

2013

Open to Public Inspection

▶ Complete if the organization answered "Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V, line 38a or 40b.

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

▶ Information about Schedule L (Form 990 or 990-EZ) and its instructions is at www.irs.gov/form990.

Name of the organization
Taos Health Systems Inc

Employer identification number
85-0289839

Part I Excess Benefit Transactions (section 501(c)(3) and section 501(c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

1	(a) Name of disqualified person	(b) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected?	
				Yes	No

2 Enter the amount of tax incurred by organization managers or disqualified persons during the year under section 4958 ▶ \$

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization ▶ \$

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990-EZ, Part V, line 38a, or Form 990, Part IV, line 26, or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22

(a) Name of interested person	(b) Relationship with organization	(c) Purpose of loan	(d) Loan to or from the organization?		(e) Original principal amount	(f) Balance due	(g) In default?		(h) Approved by board or committee?	(i) Written agreement?	
			To	From			Yes	No		Yes	No
(1) JULIET LABRECHE	HIGHEST COMPENSATED	STUDENT LOAN		X	26,500	26,500		No	Yes	Yes	
Total ▶ \$						26,500					

Part III Grants or Assistance Benefitting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of assistance	(d) Type of assistance	(e) Purpose of assistance

Part IV Business Transactions Involving Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No

Part V Supplemental Information

Provide additional information for responses to questions on Schedule L (see instructions)

Return Reference	Explanation
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SCHEDULE M
(Form 990)

Department of the Treasury
Internal Revenue Service

Noncash Contributions

▶Complete if the organizations answered "Yes" on Form 990, Part IV, lines 29 or 30.
▶ Attach to Form 990.

▶Information about Schedule M (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Taos Health Systems Inc

Employer identification number
85-0289839

Part I Types of Property

	(a) Check if applicable	(b) Number of contributions or items contributed	(c) Noncash contribution amounts reported on Form 990, Part VIII, line 1g	(d) Method of determining noncash contribution amounts
1 Art—Works of art	X	1	12,500	OPINION OF EXPERTS
2 Art—Historical treasures				
3 Art—Fractional interests				
4 Books and publications				
5 Clothing and household goods				
6 Cars and other vehicles				
7 Boats and planes				
8 Intellectual property				
9 Securities—Publicly traded				
10 Securities—Closely held stock				
11 Securities—Partnership, LLC, or trust interests				
12 Securities—Miscellaneous				
13 Qualified conservation contribution—Historic structures				
14 Qualified conservation contribution—Other				
15 Real estate—Residential				
16 Real estate—Commercial				
17 Real estate—Other				
18 Collectibles				
19 Food inventory				
20 Drugs and medical supplies				
21 Taxidermy				
22 Historical artifacts				
23 Scientific specimens				
24 Archeological artifacts				
25 Other ▶ ()				
26 Other ▶()				
27 Other ▶()				
28 Other ▶ ()				
29 Number of Forms 8283 received by the organization during the tax year for contributions for which the organization completed Form 8283, Part IV, Donee Acknowledgement			29	
30a During the year, did the organization receive by contribution any property reported in Part I, lines 1 through 28, that it must hold for at least three years from the date of the initial contribution, and which is not required to be used for exempt purposes for the entire holding period?				Yes No
b If "Yes," describe the arrangement in Part II				
31 Does the organization have a gift acceptance policy that requires the review of any non-standard contributions?				Yes No
32a Does the organization hire or use third parties or related organizations to solicit, process, or sell noncash contributions?				No
b If "Yes," describe in Part II				
33 If the organization did not report an amount in column (c) for a type of property for which column (a) is checked, describe in Part II				

Part III

Supplemental Information. Provide the information required by Part I, lines 30b, 32b, and 33, and whether the organization is reporting in Part I, column (b), the number of contributions, the number of items received, or a combination of both. Also complete this part for any additional information.

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.
▶ Information about Schedule O (Form 990 or 990-EZ) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Taos Health Systems Inc

Employer identification number
85-0289839

990 Schedule O, Supplemental Information

Return Reference	Explanation
CHANGES TO HOW PROGRAM SERVICES ARE CONDUCTED	
DELEGATION OF CONTROL TO A MANAGEMENT COMPANY OR OTHER PERSON	FORM 990, PART VI, QUESTION 3 ORGANIZATION CONTRACTED WITH QUORUM HEALTH RESOURCES (QHR) TO PROVIDE MANAGEMENT SERVICES. THE CEO AND CFO POSITIONS ARE EMPLOYED BY QHR IN EXECUTION OF THIS CONTRACT.
PROCESS TO REVIEW THE FORM 990	FORM 990, PART VI, QUESTION 11B RETURN IS COMPLETED BY AN INDEPENDENT ACCOUNT FIRM WHICH FORWARDING COMPLETED RETURN TO CEO AND CFO FOR REVIEW TO DETERMINE COMPLETENESS AND ACCURACY. ONCE APPROVED BY BOTH THE CEO AND CFO, A COPY IS PROVIDED TO THE BOARD OF DIRECTORS FOR REVIEW. THE BOARD OF DIRECTORS APPROVES THE FINAL COPY WHICH IS THEN FILED.
PROCESS FOR MONITORING COMPLIANCE WITH CONFLICT OF INTEREST POLICY	FORM 990, PART VI, QUESTION 12C THE COMPLIANCE COMMITTEE MONITORS AND ENFORCES THE CONFLICT OF INTEREST POLICY. BOARD OF DIRECTORS MEMBERS, SENIOR LEADERS, DIRECTORS AND KEY EMPLOYEES MUST COMPLETE A CONFLICT OF INTEREST STATEMENT ANNUALLY. IN THE EVENT OF A CONFLICT OF INTEREST, THE BODY TO WHICH SUCH CONFLICT OF INTEREST DISCLOSURE IS MADE SHALL DETERMINE, BY MAJORITY VOTE, WHETHER THE DISCLOSURE REQUIRES THAT NON-VOTING AND NON-PARTICIPATION PROVISIONS MUST BE OBSERVED. THE MINUTES OF ANY MEETING WHERE A CONFLICT OF INTEREST IS NOTED SHALL REFLECT THE DISCLOSURE MADE, THE VOTE THEREON AND, WHERE APPLICABLE, THE ABSTENTION FROM VOTING AND PARTICIPATION, AND WHETHER A QUORUM WAS PRESENT.
REVIEW OF CEO OR TOP MGMT OFFICIAL COMPENSATION	FORM 990, PART VI, QUESTION 15A THE CEO OF TAOS HEALTH SYSTEMS, INC. IS EMPLOYED BY QUORUM HEALTH RESOURCES LLC, A MANAGEMENT COMPANY, AND RECEIVES NO COMPENSATION FROM THE ORGANIZATION.
REVIEW OF OTHER OFFICER OR KEY EMPLOYEES COMPENSATION	FORM 990, PART VI, QUESTION 15B QHR PARTICIPATED IN A FORMAL SURVEY THROUGH AN OUTSIDE 3RD PARTY FIRM IN LATE 2013, COMPLETED BY QHR HUMAN RESOURCES. ANNUAL REVIEW OF NATIONAL AND REGIONAL SALARY SURVEYED WITH SALARY RANGES WERE ESTABLISHED AND ADJUSTED ACCORDINGLY.
OTHER CHANGES IN NET ASSETS	form 990, PART XI, LINE 9 ART CONTRIBUTION NOT RECORDED FOR FINANCIAL STATEMENT PURPOSES (12,500)
undertake any significant program services not listed on prior year	form 990, part iii, question 2 effective june 1, 2013, taos health systems, inc became the sole owner in taos sports medicine services, llc. The organization previously held a majority interest in this subsidiary.
FORM 990 PART IX LINE 11G	DESCRIPTION CONTRACT LABOR TOTAL FEES 2403068
FORM 990 PART IX LINE 11G	DESCRIPTION PURCHASED SERVICES - OTHER TOTAL FEES 2290315
FORM 990 PART IX LINE 11G	DESCRIPTION PURCHASED SERVICES - MEDICAL TOTAL FEES 1812671
FORM 990 PART IX LINE 11G	DESCRIPTION PROFESSIONAL FEES - PHYSICIAN TOTAL FEES 2740034

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" on Form 990, Part IV, line 33, 34, 35b, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.
▶ Information about Schedule R (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Taos Health Systems Inc

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 (if applicable) 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 ROAD TAOS, NM 87571 27-4259044	CLINIC	NM	2,902,019	500,347	THS INC
(2) TAOS SPORTS MEDICINE SERVICES 1398 WEIMER RD TAOS, NM 87571 85-0473650	P/T AND O/T	NM	1,291,312	392,138	THS INC

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 entity?	
						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) Disproportionate 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	

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	(i) Section 512 (b)(13) controlled entity?	
								Yes	No

Part V

Transactions With Related Organizations

Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35b, or 36.

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

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 or **(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** Dividends from related organization(s)
- g** Sale of assets to related organization(s)
- h** Purchase of assets from related organization(s)
- i** Exchange of assets with related organization(s)
- j** Lease of facilities, equipment, or other assets to related organization(s)

- k** Lease of facilities, equipment, or other assets from related organization(s)
- l** Performance of services or membership or fundraising solicitations for related organization(s)
- m** Performance of services or membership or fundraising solicitations by related organization(s)
- n** Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)
- o** Sharing of paid employees with related organization(s)

- p** Reimbursement paid to related organization(s) for expenses
- q** Reimbursement paid by related organization(s) for expenses

- r** Other transfer of cash or property to related organization(s)
- s** Other transfer of cash or property from related organization(s)

	Yes	No
1a		
1b		
1c		
1d		
1e		
1f		
1g		
1h		
1i		
1j		
1k		
1l		
1m		
1n		
1o		
1p		
1q		
1r		
1s		

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 related organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved

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

Provide additional information for responses to questions on Schedule R (see instructions)

Return Reference	Explanation
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Taos Health Systems, Inc.

Independent Auditor's Report and Consolidated Financial Statements

May 31, 2014 and 2013

Taos Health Systems, Inc.
May 31, 2014 and 2013

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Consolidating Statement of Operations Information for 2014	28
Consolidating Statement of Changes in Net Assets Information for 2014	30

Independent Auditor's Report on Consolidated Financial Statements and Supplementary Information

Board of Directors
Taos Health Systems, Inc
Taos, New Mexico

We have audited the accompanying consolidated financial statements of Taos Health Systems, Inc., which comprise the balance sheet as of May 31, 2014, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Taos Health Systems, Inc

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taos Health Systems, Inc as of May 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Prior Year Audited by Other Auditors

The 2013 consolidated financial statements were audited by other auditors and their report thereon, dated October 22, 2013, expressed an unmodified opinion

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2014 consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

Denver, Colorado
October 10, 2014

Taos Health Systems, Inc.
Consolidated Balance Sheets
May 31, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash and cash equivalents	\$ 1,652,096	\$ 1,424,603
Short-term investments	323,808	321,307
Patient accounts receivable, net of allowance, 2014 - \$2,237,928 and 2013 - \$3,342,152	5,977,775	6,891,200
Estimated amounts due from third-party payers	302,142	670,896
Supplies	1,394,846	1,602,440
Other receivables	714,524	2,037,147
Prepaid expenses and other	844,655	1,236,838
	<hr/>	<hr/>
Total current assets	11,209,846	14,184,431
	<hr/>	<hr/>
Notes Receivable		
Physician receivables	25,000	25,000
	<hr/>	<hr/>
Assets Limited as to Use		
Internally designated	2,212,630	2,503,551
	<hr/>	<hr/>
Investments		
Investment in equity investee	53,134	25,232
	<hr/>	<hr/>
Property and Equipment, at Cost		
Land and land improvements	2,487,338	2,487,338
Buildings and leasehold improvements	17,106,502	16,609,505
Equipment	24,017,098	24,178,388
Construction in progress	783,248	1,078,226
	<hr/>	<hr/>
	44,394,186	44,353,457
Less accumulated depreciation	(25,983,282)	(23,942,914)
	<hr/>	<hr/>
	18,410,904	20,410,543
	<hr/>	<hr/>
Other Assets		
Other	13,249	18,249
	<hr/>	<hr/>
	13,249	18,249
	<hr/>	<hr/>
Total assets	<u>\$ 31,924,763</u>	<u>\$ 37,167,006</u>

Taos Health Systems, Inc.
Consolidated Balance Sheets (Continued)
May 31, 2014 and 2013

Liabilities and Net Assets

	2014	2013
Current Liabilities		
Line of credit	\$ 508,430	\$ 401,139
Accounts payable	5,098,750	3,722,633
Accrued expenses	2,133,611	2,277,172
Estimated amounts due to third-party payers	748,222	-
Current portion of capital lease obligations and notes payable	256,613	347,204
	<hr/>	<hr/>
Total current liabilities	8,745,626	6,748,148
Long-term Debt	<hr/>	<hr/>
	430,758	537,278
	<hr/>	<hr/>
Total liabilities	9,176,384	7,285,426
	<hr/>	<hr/>
Net Assets		
Unrestricted	21,877,570	28,774,081
Temporarily restricted	870,809	949,807
	<hr/>	<hr/>
Total Holy Cross Hospital and subsidiary net assets	22,748,379	29,723,888
Noncontrolling interest in TSM subsidiary	<hr/>	<hr/>
	-	157,692
	<hr/>	<hr/>
Total net assets	22,748,379	29,881,580
	<hr/>	<hr/>
Total liabilities and net assets	<u><u>\$ 31,924,763</u></u>	<u><u>\$ 37,167,006</u></u>

Taos Health Systems, Inc.
Consolidated Statements of Operations
Years Ended May 31, 2014 and 2013

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 49,386,143	\$ 54,786,246
Provision for uncollectible accounts	5,854,284	5,580,660
Net patient service revenue less provision for uncollectible accounts	43,531,859	49,205,586
Other revenue	4,167,662	2,517,198
Net assets released from restriction used for operations	954,696	385,524
Total unrestricted revenues, gains and other support	48,654,217	52,108,308
Expenses and Losses		
Salaries and wages	23,468,628	25,062,665
Supplies and maintenance	7,048,835	7,039,747
Purchased services	6,935,657	7,183,436
Payroll taxes and benefits	4,931,648	4,751,659
Other	2,205,111	2,075,712
Professional fees	2,740,034	2,912,222
Depreciation and amortization	2,560,042	2,865,103
Repairs and maintenance	1,378,262	1,441,924
Management fees	1,102,369	1,093,225
Insurance	1,298,483	1,298,547
Leases and rentals	1,327,698	1,224,689
Telephone and utilities	836,877	853,119
Travel, meals and entertainment	86,484	83,748
Interest	46,301	77,338
Total expenses and losses	55,966,429	57,963,134
Operating Loss	(7,312,212)	(5,854,826)

Taos Health Systems, Inc.
Consolidated Statements of Operations (Continued)
Years Ended May 31, 2014 and 2013

	2014	2013
Other Income (Expense)		
Investment return	278,291	736,771
Loss on disposition of assets	(55,857)	-
Other income (expense)	10,800	(8,021)
	<u>233,234</u>	<u>728,750</u>
Total other income (expense)		
	<u>233,234</u>	<u>728,750</u>
Deficiency of Revenues Over Expenses	(7,078,978)	(5,126,076)
Net Unrealized Gains (Losses) on Assets Limited as to Use Other Than Trading Securities	55,487	(38,827)
Net Assets Released from Restriction	108,788	101,531
Gain on Noncontrolling Interest Dissolution	18,192	-
	<u>18,192</u>	<u>-</u>
Decrease in Unrestricted Net Assets	(6,896,511)	(5,063,372)
Noncontrolling Interest in TSM Subsidiary Net Income	-	(1,318)
	<u>-</u>	<u>(1,318)</u>
Decrease in Unrestricted Net Assets Attributed to Holy Cross Hospital and Subsidiaries	<u>\$ (6,896,511)</u>	<u>\$ (5,064,690)</u>

Taos Health Systems, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended May 31, 2014 and 2013

	2014	2013
Unrestricted Net Assets		
Unrestricted net assets, beginning of year	\$ 28,774,081	\$ 33,838,771
Deficiency of revenues over expenses	(7,078,978)	(5,126,076)
Net unrealized gains (losses) on assets limited as to use other than trading securities	55,487	(38,827)
Net assets released from restrictions	108,788	101,531
Noncontrolling interests in TSM subsidiary net income	-	(1,318)
Loss on noncontrolling dissolution	18,192	-
	<u>(6,896,511)</u>	<u>(5,064,690)</u>
Decrease in unrestricted net assets		
	<u>21,877,570</u>	<u>28,774,081</u>
Unrestricted net assets, end of year		
Temporarily Restricted Net Assets		
Temporarily restricted net assets, beginning of year	949,807	1,026,518
Restricted grant and donations	984,486	410,344
Net assets released from restrictions	(1,063,484)	(487,055)
	<u>(78,998)</u>	<u>(76,711)</u>
Decrease in temporarily restricted net assets		
	<u>870,809</u>	<u>949,807</u>
Temporarily restricted net assets, end of year		
Noncontrolling Interest in TSM Subsidiary, Beginning of Year	157,692	156,374
Noncontrolling interest in TSM subsidiary net income	-	1,318
Redemption of membership units	(139,500)	-
Gain on redemption	(18,192)	-
	<u>(157,692)</u>	<u>1,318</u>
Decrease in noncontrolling interest in TSM subsidiary		
	<u>-</u>	<u>157,692</u>
Noncontrolling interest in TSM subsidiary, end of year		
Change in Net Assets	(7,133,201)	(5,140,083)
Net Assets, Beginning of Year	<u>29,881,580</u>	<u>35,021,663</u>
Net Assets, End of Year	<u>\$ 22,748,379</u>	<u>\$ 29,881,580</u>

Taos Health Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended May 31, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	\$ (7,133.201)	\$ (5,140.083)
Items not requiring (providing) operating cash flows		
Provision for bad debts	5,854.284	5,580.660
Depreciation and amortization	2,560.042	2,865.103
Loss on sale of equipment	55.857	1.022
Net unrealized gains (losses) on assets limited as to use other than trading securities	(55.487)	38.827
Gain on sale of assets limited as to use	(238.180)	(694.627)
Forgiveness of and bad debt provision on physician loans	-	(25.000)
Loss (gain) on investment in equity investees	(27.902)	27.469
Changes in		
Patient accounts receivable	(4,940.859)	(4,772.234)
Other receivables	1,322.623	280.079
Inventories	207.594	40.568
Prepaid expenses	392.183	(67.474)
Other assets	5.000	5.000
Accounts payable	1,376.117	185.205
Accrued expenses	(143.561)	(748.595)
Deferred revenue	-	(104.291)
Net amounts due to (from) third-party payers	1,116.976	(1,107.643)
Net cash provided by (used in) operating activities	<u>351.486</u>	<u>(3,636.014)</u>
Investing Activities		
Purchase of property and equipment	(460.861)	(1,359.713)
Purchase of short-term investments	-	(2.203)
Proceeds from the sale of short-term investments	(2.501)	2,700.499
Proceeds from the sale of assets limited as to use	584.588	3,021.325
Purchase of assets limited as to use	<u>-</u>	<u>(1,320.676)</u>
Net cash provided by investing activities	<u>121.226</u>	<u>3,039.232</u>

Taos Health Systems, Inc.
Consolidated Statements of Cash Flows (Continued)
Years Ended May 31, 2014 and 2013

	2014	2013
Financing Activities		
Principal payments on long-term borrowings	(6,109)	(1,708,048)
Proceeds from issuance of long-term borrowings	-	918,705
Net borrowings on line of credit	107,291	-
Principal payments under capital lease obligations	(346,401)	(359,223)
	<u>(245,219)</u>	<u>(1,148,566)</u>
Net cash used in financing activities	<u>(245,219)</u>	<u>(1,148,566)</u>
Increase (Decrease) in Cash and Cash Equivalents	227,493	(1,745,348)
Cash and Cash Equivalents, Beginning of Year	<u>1,424,603</u>	<u>3,169,951</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,652,096</u></u>	<u><u>\$ 1,424,603</u></u>
Supplemental Cash Flows Information		
Cash payments for interest	<u><u>\$ 46,301</u></u>	<u><u>\$ 77,338</u></u>
Capital lease obligation incurred for property and equipment	<u><u>\$ 155,399</u></u>	<u><u>\$ -</u></u>

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Note 1: Nature of Organization and Summary of Significant Accounting Policies

Organization

Taos Health Systems, Inc. (the Organization), located in Taos, New Mexico, is a not-for-profit 29-bed acute care hospital along with specialty clinics as further described below. The Organization provides inpatient, outpatient, emergency care and clinical services for residents of Taos County and surrounding areas.

In 2008, the Organization 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. These affiliates, along with the Rural Health Clinic (RHC) in Peñasco, New Mexico, comprise the reporting entity Taos Professional Services (TPS). Effective June 1, 2013, the Organization became the sole owner in Taos Sports Medicine Services, LLC (TSM). The Organization previously held a majority interest in this subsidiary.

The Organization has a management agreement with Quorum Health Resources (Quorum), a healthcare management company, to supervise and direct the daily operations of the Organization. The agreement expires in April 30, 2016. Management fees were \$1,173,836 and \$1,174,945 in 2014 and 2013, respectively. The Organization was provided other services by Quorum outside of the management agreement, which approximated \$0 and \$82,000 in 2014 and 2013, respectively. Fees for the other services provided by Quorum are included in the caption purchased services in the accompanying statements of operations.

Principles of Consolidation

The consolidated financial statements include the accounts of Holy Cross Hospital (the Hospital), TPS and TSM. All material intercompany accounts and transactions have been eliminated in consolidation. The outside investor's noncontrolling interest in TSM is included in the Organization's financial statements as a noncontrolling interest in subsidiary as of May 31, 2013. Effective June 1, 2013, TSM became a wholly owned subsidiary.

Use of Estimates

The preparation of the consolidated 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.

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At May 31, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At May 31, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$2,080,000.

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 Organization has not experienced any losses in such accounts.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. The investment in equity investee is reported on the equity method of accounting. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

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 Directors (the Board) for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
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For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts for self-pay patients decreased from 70% of self-pay accounts receivable at May 31, 2013, to 67% of self-pay accounts receivable at May 31, 2014. In addition, the Organization write-offs decreased approximately \$600,000 from approximately \$7.6 million for the year ended May 31, 2013 to approximately \$7.0 million for the year ended May 31, 2014. Both decreases were the result of Medicaid expansion. The decrease in write-offs was also due in part from the reduction in overall revenue.

Supplies

The Organization states supply inventories at cost, determined using the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Assets are capitalized if the cost is greater than \$2,000. 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.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	3 - 40 years
Equipment	3 - 10 years

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended May 31, 2014 and 2013.

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Investment Accounted for Under the Equity Method

The Organization has a 50% ownership interest in Taos Community Health Plan, 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 Organization's share of undistributed earnings or losses of this entity.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net amounts realizable from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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 Organization 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 Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The Organization's direct and indirect costs for services furnished under its charity care policy aggregated approximately \$777,000 and \$1,124,000 in 2014 and 2013, respectively.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

The taxable income of TSM, if any, is reported to the individual members for inclusion in the member's tax return.

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Deficiency of Revenues Over Expenses

The consolidated statements of operations includes deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency 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)

Self Insurance

The Organization has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to income when incurred. The Organization has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$85,000.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

In fiscal year 2012 and 2013, the Organization completed the first-year and second-year requirements under the Medicaid program and had recorded revenue of approximately \$1,900,000. Subsequent to receiving payment, Medicaid completed an audit of EHR, resulting in a refund of \$748,000. Medicare year one began in fiscal year 2013, which \$95,000 of revenue had been recorded. The Organization has recognized the incentive payment revenue received for qualified EHR technology expenditures during the period in which management was reasonably assured meaningful use was achieved and the earnings process was complete.

Reclassifications

Certain 2013 financial information has been reclassified to conform to the 2014 presentation. These reclassifications did not affect the excess of revenues over expenses, total assets, total liabilities or total net assets.

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued

Note 2: Net Patient Service Revenue

Arrangements with Third-party Payers

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the consolidated statements of operations as a component of net patient service revenue.

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payers 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 are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary.

Medicaid Inpatient and outpatient services rendered to Medicaid program beneficiaries through October 31, 2010 were reimbursed under a cost reimbursement methodology. The Organization was reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization 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 outpatient 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.

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended May 31, 2014 and 2013, respectively, was approximately

	2014	2013
Medicare	\$ 16,339,529	\$ 13,696,562
Medicaid	6,933,552	7,122,212
Other third-party payers	22,580,914	23,185,892
Self-pay	3,532,148	10,781,580
	<u> </u>	<u> </u>
Total	<u><u>\$ 49,386,143</u></u>	<u><u>\$ 54,786,246</u></u>

Note 3: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements, including Medicare and Medicaid. The mix of net receivables from patients and third-party payers at May 31 is

	2014	2013
Medicare	26%	20%
Medicaid	13%	9%
Other third-party payers	40%	46%
Self-pay	21%	25%
	<u> </u>	<u> </u>
	<u><u>100%</u></u>	<u><u>100%</u></u>

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use at May 31 include

	2014	2013
Cash and cash equivalents	\$ 107.649	\$ 388.264
Equity securities	1,437,530	1,449,794
Mutual funds	537,968	537,380
Corporate bonds	101,750	99,875
	<u>2,184,897</u>	<u>2,475,313</u>
Internally designated for nursing scholarships certificates of deposit	<u>27,733</u>	<u>28,238</u>
Total assets limited as to use	<u><u>\$ 2,212,630</u></u>	<u><u>\$ 2,503,551</u></u>

Investments

Short-term investments at May 31 include

	2014	2013
Certificates of deposit	\$ 301,345	\$ 300,842
Taos Community Foundation	<u>22,463</u>	<u>20,465</u>
	<u><u>\$ 323,808</u></u>	<u><u>\$ 321,307</u></u>

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Investment Income

Total investment return is comprised of the following

	2014	2013
Interest and dividend income	\$ 66,402	\$ 119,585
Realized gains	<u>171,778</u>	<u>617,186</u>
	238,180	736,771
Net unrealized gains (losses)	<u>55,487</u>	<u>(38,827)</u>
	<u><u>\$ 293,667</u></u>	<u><u>\$ 697,944</u></u>

Note 5: Investment in and Advances to Equity Investee

The following table provided a condensed income statement and balance sheet of the PHO as of and for the years ended May 31

	2014	2013
Condensed income statement information		
Operating revenues	<u>\$ 134,040</u>	<u>\$ 147,316</u>
Net loss	<u>\$ (23,314)</u>	<u>\$ (54,563)</u>
The Hospital's equity in net loss of affiliate	<u>\$ (11,657)</u>	<u>\$ (27,469)</u>
Condensed balance sheet information		
Total assets	\$ 25,950	\$ 50,619
Liabilities	<u>913</u>	<u>155</u>
Equity	<u>25,037</u>	<u>50,464</u>
Total liabilities and equity	<u><u>\$ 25,950</u></u>	<u><u>\$ 50,619</u></u>
The Hospital's equity in net assets of affiliate	<u><u>\$ 12,519</u></u>	<u><u>\$ 25,232</u></u>

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Note 6: Line of Credit

The Organization has a \$5 million revolving line of credit. At May 31, 2014 and 2013, there was \$508,430 and \$401,139, respectively, borrowed against this line. The line is collateralized by substantially all of the Organization's assets limited as to use investments and is payable on demand. Revolving credit agreement bears interest at LIBOR plus 1.75%.

Note 7: Long-term Debt

Long-term debt consisted of the following at May 31:

	2014	2013
Note payable, bank (A)	\$ -	\$ 6,190
Capital lease obligations (B)	687,371	878,292
	687,371	884,482
Less current maturities	256,613	347,204
	<u>\$ 430,758</u>	<u>\$ 537,278</u>

- (A) During 2007, the Organization 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. Note was paid in full during 2014.
- (B) Capital leases agreements have varying rates of imputed interest from 4.4% to 7.7%, due through April 1, 2019, collateralized by property and equipment. The Organization 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 consolidated financial statements.

	2014	2013
Equipment	\$ 1,626,546	\$ 2,006,147
Less accumulated depreciation	1,035,633	1,192,594
	<u>\$ 590,913</u>	<u>\$ 813,553</u>

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

The maturities of the capital lease obligation for each of the five years subsequent to May 31, 2014 and the aggregate amount thereafter are shown below

Fiscal Year Ending May 31,	Lease Obligations
2015	\$ 298,306
2016	298,306
2017	52,944
2018	49,534
2019	43,367
	<hr/>
	742,457
Less amount representing interest	55,086
	<hr/>
Present value of future minimum lease payments	687,371
Less current maturities	256,613
	<hr/>
Noncurrent portion	\$ 430,758
	<hr/>

Note 8: Pension Plan

In June 1998, a collective bargaining agreement was entered into by the Organization 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 (the Plan) was established under Section 403(b) of the Internal Revenue Code as of that same date. Effective April 1, 2012, an amended collective bargaining agreement was entered into by the aforementioned parties.

Under the agreement as amended, the Organization agreed to continue to maintain a qualified, long-term, tax-deferred savings plan. Effective January 1, 2013, for employees earning less than \$35,250 annually, the Organization will match dollar-for-dollar, the employee's contribution to the Plan up to \$705 annually. For employees earning more than \$35,250 annually and who contribute at least \$705, the Organization will match dollar-for-dollar the employee's contribution up to 2.0% of the employee's annual compensation, not to exceed \$2,500 annually. Only employees eighteen (18) years of age or older qualify. Members of the Plan will be vested in the Plan on a five (5) year graduated schedule, but fully vested no later than the employee's sixty-fifth (65th) birthday. The Organization will appoint a plan administrator, prepare and distribute summary plan descriptions, and assist the plan administrator in distributing reports to individual participants no less frequently than annually, and pay all direct administrative costs to operate the Plan.

All employees, whether represented by the bargaining unit or not, who meet the eligibility requirements are eligible to participate and receive the contributions as noted above.

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Note 9: Operating Leases

The Organization has entered into a lease arrangement with the county of Taos, New Mexico requiring a 10-year rent prepayment and the purchase a new ambulance every two years on a calendar year basis. The current estimated cost of the ambulance payable in calendar year 2014 is \$140,000. This amount is amortized over a two year period and recorded as rent expense. This cost is re-evaluated every two year period.

The Organization has various operating leases for buildings and equipment. Total expense approximated \$1,327,698 in 2014 and \$1,224,689 in 2013 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, 2014 which have initial or remaining lease terms in excess of one year.

2015	\$ 494,970
2016	343,582
2017	207,420
2018	203,595
2019	203,595
Later years	<u>373,982</u>
Total minimum lease payments	<u><u>\$ 1,827,144</u></u>

Note 10: Commitments and Contingencies

Labor Agreements

At May 31, 2014, 308 of the Organization's 415 employees and at May 31, 2013, 300 of the Organization's 432 employees work under collective bargaining agreements. The current collective bargaining agreement is set to expire on May 30, 2015. Management intends to begin renegotiations during calendar year 2014.

Employee Health Insurance

The Organization 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 Organization's claims liability is limited to \$85,000 per employee per plan year. As of May 31, 2014 and 2013, the Organization accrued employee insurance claims of \$401,504 and \$298,409, respectively, which are included in accounts payable in the accompanying consolidated balance sheets.

Stop-loss premiums and claims payments totaling \$2,193,862 and \$1,906,798 were expended during the years ended May 31, 2014 and 2013, respectively, and are included in the employee benefits expense in the accompanying consolidated statements of operations.

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Professional Liability Insurance

The Organization purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Organization also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon the Organization's claims experience, an accrual had been made for the Organization's estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, amounting to approximately \$1,415,000 as of May 31, 2014 and 2013. It is reasonably possible that this estimate could change materially in the near term.

Workers' Compensation Insurance

The Organization 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 Organization expensed approximately \$294,000 and \$299,000 in workers' compensation premiums during 2014 and 2013, respectively. Such amounts are included in employee benefits expense in the accompanying consolidated statements of operations.

Cost Report Settlements

The Organization's Medicare cost reports have been final settled for fiscal years through May 31, 2010, and Medicaid cost reports have been final settled for fiscal years through May 31, 2011. In management's opinion, the estimated third-party settlement receivable of \$116,163 and \$245,496 at May 31, 2014 and May 31, 2013, respectively, is currently management's best estimate of the remaining cost reports settlements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations.

Safety Net Care Pool

The Organization receives Sole Community Provider Funding to compensate the Organization 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 2014 and 2013, the Organization recognized Sole Community Provider Funding of \$4,353,784 and \$2,402,934, respectively. Such amounts are reported as other revenue in the accompanying consolidated financial statements. Management expects to receive a similar

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

amount of funding in fiscal year 2015 as in fiscal year 2014, however, funding in periods beyond calendar year-end 2014 is uncertain. This funding has been essential to the Organization's financial results and as a result of the decline in funding and uncertainty over future funding, management has implemented a variety of measures aimed at reducing costs and enhancing revenue.

Note 11: Functional Expense Classification

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

	<u>2014</u>	<u>2013</u>
Health care services	\$ 43,010,041	\$ 44,779,917
Management general	<u>12,956,388</u>	<u>13,183,217</u>
Total expenses	<u><u>\$ 55,966,429</u></u>	<u><u>\$ 57,963,134</u></u>

Note 12: 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:

- Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3** Unobservable inputs for the asset or liability.

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 Organization has no Level 3 investments. In addition, the Organization had no transfers between levels during the years ended May 31, 2014 and 2013.

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, 2014 and 2013.

Taos Health Systems, Inc.
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

Equity 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 Organization 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

The following table discloses by level the fair value hierarchy of the Organization's assets at fair value as of May 31, 2014 and 2013

2014				
Fair Value Measurements Using				
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 1,437,530	\$ 1,437,530	\$ -	\$ -
Mutual funds	537,968	537,968	-	-
Corporate bonds	101,750	-	101,750	-

2013				
Fair Value Measurements Using				
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 1,449,794	\$ 1,449,794	\$ -	\$ -
Mutual funds	537,380	537,380	-	-
Corporate bonds	99,875	-	99,875	-

Supplementary Information

Taos Health Systems, Inc.
Consolidated Balance Sheet
May 31, 2014

Assets

	Taos Health Systems, Inc.	Taos Sports Medicine Services, LLC	Intercompany Eliminations	Consolidated
Current Assets				
Cash and cash equivalents	\$ 1,535,490	\$ 116,606	\$ -	\$ 1,652,096
Short-term investments	323,808	-	-	323,808
Patient accounts receivable, net	5,847,897	129,878	-	5,977,775
Estimated amounts due from third-party payers	302,142	-	-	302,142
Supplies	1,394,846	-	-	1,394,846
Other receivables	633,024	81,500	-	714,524
Prepaid expenses and other	838,627	6,028	-	844,655
	<u>10,875,834</u>	<u>334,012</u>	<u>-</u>	<u>11,209,846</u>
Notes Receivable				
Physician receivables	25,000	-	-	25,000
Assets Limited as to Use				
Internally designated	2,212,630	-	-	2,212,630
Investments				
Investment in equity investee	308,718	-	(255,584)	53,134
Property and Equipment, at Cost				
Land and land improvements	2,487,338	-	-	2,487,338
Buildings and leasehold improvements	16,738,562	367,940	-	17,106,502
Equipment	23,829,481	187,617	-	24,017,098
Construction in progress	783,248	-	-	783,248
	<u>43,838,629</u>	<u>555,557</u>	<u>-</u>	<u>44,394,186</u>
Less accumulated depreciation	<u>(25,472,602)</u>	<u>(510,680)</u>	<u>-</u>	<u>(25,983,282)</u>
	<u>18,366,027</u>	<u>44,877</u>	<u>-</u>	<u>18,410,904</u>
Other Assets				
Other	-	13,249	-	13,249
	<u>-</u>	<u>13,249</u>	<u>-</u>	<u>13,249</u>
Total assets	<u>\$ 31,788,209</u>	<u>392,138</u>	<u>\$ (255,584)</u>	<u>\$ 31,924,763</u>

Taos Health Systems, Inc.
Consolidated Balance Sheet (Continued)
May 31, 2014

Liabilities and Net Assets

	Taos Health Systems, Inc.	Taos Sports Medicine Services, LLC	Intercompany Eliminations	Consolidated
Current Liabilities				
Current maturities of long-term debt	\$ 508,430	\$ -	\$ -	\$ 508,430
Accounts payable	5,031,496	67,254	-	5,098,750
Accrued expenses	2,082,503	51,108	-	2,133,611
Estimated amounts due to third-party payers	748,222	-	-	748,222
Current portion of capital lease obligations	256,613	-	-	256,613
Total current liabilities	8,627,264	118,362	-	8,745,626
 Long-term Debt	 430,758	 -	 -	 430,758
Total liabilities	9,058,022	118,362	-	9,176,384
 Net Assets				
Unrestricted	21,859,378	273,776	(255,584)	21,877,570
Temporarily restricted	870,809	-	-	870,809
Total net assets	22,730,187	273,776	(255,584)	22,748,379
Total liabilities and net assets	\$ 31,788,209	\$ 392,138	\$ (255,584)	\$ 31,924,763

Taos Health Systems, Inc.
Consolidated Statement of Operations
Year Ended May 31, 2014

	Taos Health Systems Inc.	Taos Sports Medicine Services, LLC	Intercompany Eliminations	Noncontrolling Interest	Consolidated
Unrestricted Revenues, Gains and Other Support					
Net patient service revenue	\$ 48,039,129	\$ 1,347,014	\$ -	\$ -	\$ 49,386,143
Provision for uncollectible accounts	5,854,284	-	-	-	5,854,284
Net patient service revenue less provision for uncollectible accounts	42,184,845	1,347,014	-	-	43,531,859
Other revenue	4,239,129	-	(71,467)	-	4,167,662
Net assets released from restriction used for operations	954,696	-	-	-	954,696
Total unrestricted revenues, gains and other support	47,378,670	1,347,014	(71,467)	-	48,654,217
Expenses and Losses					
Salaries and wages	22,672,296	796,332	-	-	23,468,628
Supplies and maintenance	7,025,964	22,871	-	-	7,048,835
Purchased services and professional fees	6,855,710	79,947	-	-	6,935,657
Payroll taxes and benefits	4,931,648	-	-	-	4,931,648
Other	2,158,921	46,190	-	-	2,205,111
Professional fees	2,730,429	9,605	-	-	2,740,034
Depreciation and amortization	2,480,891	79,151	-	-	2,560,042
Repairs and maintenance	1,331,915	46,347	-	-	1,378,262
Management fees	1,102,369	71,467	(71,467)	-	1,102,369
Insurance	1,270,632	27,851	-	-	1,298,483
Leases and rentals	1,203,166	124,532	-	-	1,327,698
Telephone and utilities	811,022	25,855	-	-	836,877
Travel, meals and entertainment	86,484	-	-	-	86,484
Interest	45,026	1,275	-	-	46,301
Total expenses and losses	54,706,473	1,331,423	(71,467)	-	55,966,429
Operating Income (Loss)	(7,327,803)	15,591	-	-	(7,312,212)

Taos Health Systems, Inc.
Consolidated Statement of Operations (Continued)
Year Ended May 31, 2014

	Taos Health Systems Inc.	Taos Sports Medicine Services, LLC	Intercompany Eliminations	Noncontrolling Interest	Consolidated
Other Income (Expense)					
Investment return	238.180	-	40.111	-	278.291
Loss on disposition of assets	-	(55.857)	-	-	(55.857)
Other Income	10.645	155	-	-	10.800
	<u>248.825</u>	<u>(55.702)</u>	<u>40.111</u>	<u>-</u>	<u>233.234</u>
Total other income (expense)					
Deficiency of Revenues Over Expenses	(7,078.978)	(40.111)	40.111	-	(7,078.978)
Net Unrealized Gain on Assets Limited as to Use Other Than Trading Securities	55.487	-	-	-	55.487
Net Assets Released from Restriction	108.788	-	-	-	108.788
Gain on non-controlling interest dissolution	-	-	-	18.192	18.192
	<u>-</u>	<u>-</u>	<u>-</u>	<u>18.192</u>	<u>18.192</u>
Decrease in Unrestricted Net Assets	<u>\$ (6,914.703)</u>	<u>\$ (40.111)</u>	<u>\$ 40.111</u>	<u>\$ 18.192</u>	<u>\$ (6,896.511)</u>

Taos Health Systems, Inc.
Consolidated Statement of Changes in Net Assets
Year Ended May 31, 2014

	Taos Health Systems Inc	Taos Sports Medicine Services LLC	Total	Intercompany Eliminations	Noncontrolling Interest	Consolidated
Unrestricted Net Assets						
Unrestricted net assets, beginning of year	\$ 28,774,081	\$ 453,387	\$ 29,227,468	\$ (295,695)	\$ (157,692)	\$ 28,774,081
Deficiency of revenues over expenses	(7,078,978)	(40,111)	(7,119,089)	40,111	-	(7,078,978)
Net unrealized losses on assets limited as to use other than trading securities	55,487	-	55,487	-	-	55,487
Net assets released from restrictions	108,788	-	108,788	-	-	108,788
Gain on noncontrolling interest dissolution	-	-	-	-	18,192	18,192
Decrease in unrestricted net assets	(6,914,703)	(40,111)	(6,954,814)	40,111	18,192	(6,896,511)
Unrestricted net assets, end of year	21,859,378	413,276	22,272,654	(255,584)	(139,500)	21,877,570
Temporarily Restricted Net Assets						
Temporarily restricted net assets, beginning of year	949,807	-	949,807	-	-	949,807
Restricted grant and donations	984,486	-	984,486	-	-	984,486
Net assets released from restrictions	(1,063,484)	-	(1,063,484)	-	-	(1,063,484)
Decrease in temporarily restricted net assets	(78,998)	-	(78,998)	-	-	(78,998)
Temporarily restricted net assets, end of year	870,809	-	870,809	-	-	870,809
Noncontrolling Interest						
Noncontrolling interest beginning of year	-	-	-	-	157,692	157,692
Redemption of membership units	-	-	-	-	(139,500)	(139,500)
Gain on redemption	-	-	-	-	(18,192)	(18,192)
Decrease in noncontrolling interest	-	-	-	-	(157,692)	(157,692)
Noncontrolling interest in TSM subsidiary, end of year	-	-	-	-	-	-
Change in Net Assets	(6,993,701)	(40,111)	(7,033,812)	40,111	(139,500)	(7,133,201)
Taos Sports Medicine Equity						
Equity transactions	-	(139,500)	(139,500)	-	139,500	-
Net Assets, End of Year	<u>\$ 22,730,187</u>	<u>\$ 273,776</u>	<u>\$ 23,003,963</u>	<u>\$ (255,584)</u>	<u>\$ -</u>	<u>\$ 22,748,379</u>