

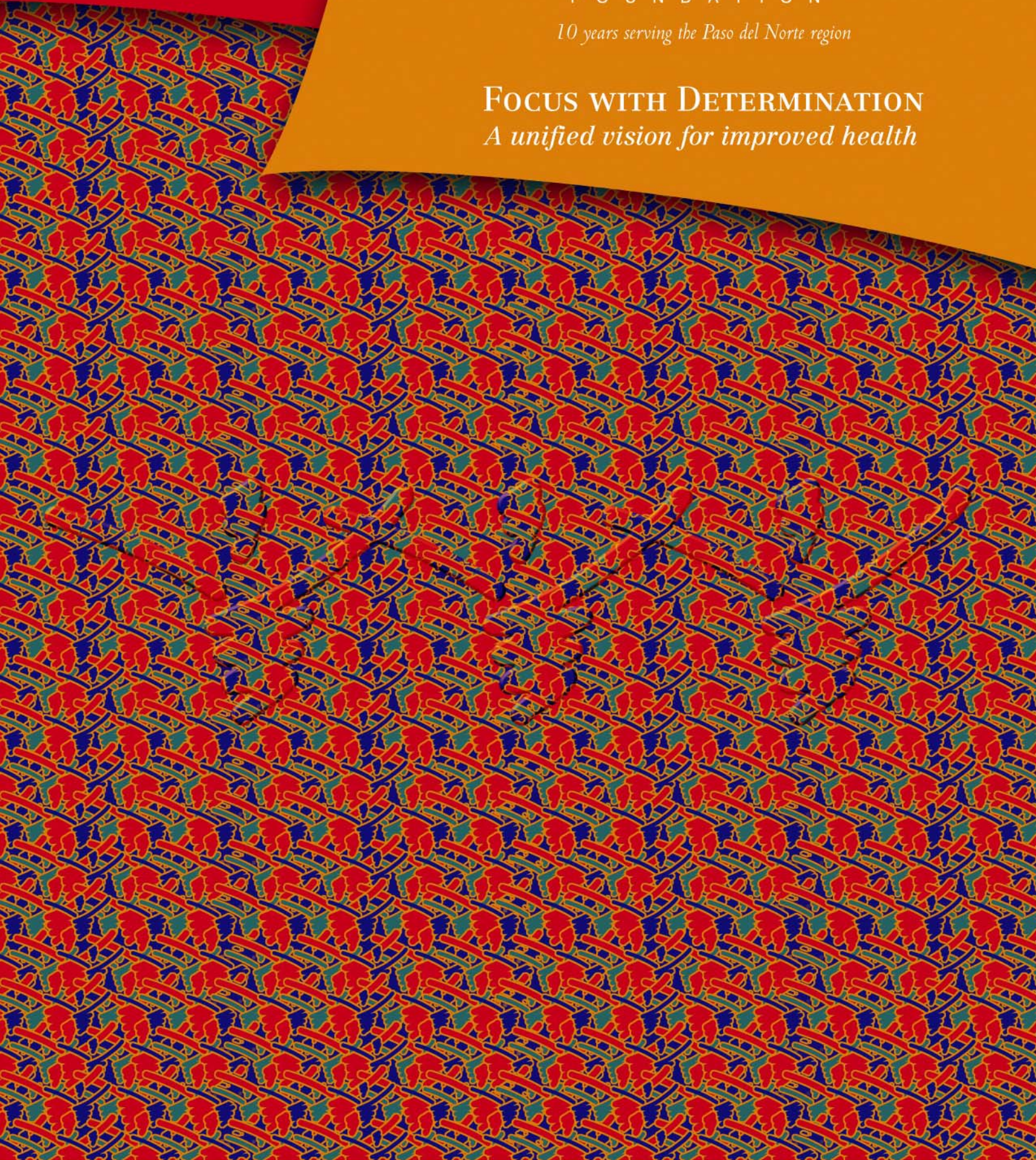
2005 ANNUAL REPORT



PASO DEL NORTE HEALTH
FOUNDATION

10 years serving the Paso del Norte region

FOCUS WITH DETERMINATION
A unified vision for improved health



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COVER THEME:

The deceptively simple concept of health may be unclear if all we perceive are individuals and lack focus upon connections among us. Thoughts we think, words we say, and actions we take impact not just our own health, but that of family, community, and environment. The cover of this year's annual report represents this complex interaction and challenges us to see an image of health beyond the individual. We, along with the world in which we live, are part of a whole picture of health - still in the making and able to be shaped. Therefore, focus with determination for a unified vision of improved health.



A DECADE OF WORKING TOGETHER FOR A HEALTHIER FUTURE OF THE PASO DEL NORTE REGION

Over the past 10 years, the Paso del Norte Health Foundation has been committed to effecting long-term improvements in the health status of the people living in the Paso del Norte region through education and prevention. From the time the first initiative was born, continued improvements have risen out of developing creative and proactive approaches that strengthen and leverage resources for improved quality of life. Ten years of experience have provided the tools to focus with determination on community health prevention and education interventions that work.

In an effort to serve the region in responsibly supporting education and prevention needs, the Foundation priority areas have been modified. The priority areas are: Encouraging Physical Activity and Balanced Nutrition; Reducing Risky Behaviors; Promoting Clean and Safe Environments; and Building Capacity. These action titles help to streamline efforts and build bridges among generations, communities, cities and nations. They also work in unison to ensure that individuals along the border have the knowledge, resources, and environment to live healthy lives.

In reflecting back on a decade of grantmaking, the Foundation has emphasized that it takes more than one individual or organization to bring about change. The achievements in improving health and quality of life have come through unified focus and the dedication of hundreds of partnering regional nonprofit organizations and institutions. Without their vision and leadership, the health improvement successes that have been developed would never have been achieved.

The intent of this annual report is to acknowledge our partners over the years and to provide the needed information that could be useful to future grant seekers and the community on how the Foundation partners help to improve the health of the region, now and into the future.

MESSAGE FROM THE PRESIDENT

Happy 10th Anniversary to all of us. It seems almost impossible to realize that about ten years ago we had our first Behavioral Risk Factor Survey to assist in determining the priority health areas that needed to be addressed in our region. Through the survey, many health concerns surfaced. Frequently, these concerns were determined to be caused by our own behavior. Our population was living a sedentary lifestyle with poor eating habits; too much alcohol was consumed; smoking rates were not as high as in the state levels of Texas and New Mexico, but they were still high enough; and there were growing rates of chronic diseases.

Our children were also showing negative health signs from the lack of physical activity and poor eating habits both in schools and at home. While our initial focus was on changes in behavior, there was also a need to look at other health issues in the region. Problems such as a lack of water and waste water hookups, pesticides in the home, and capacity building (empowering communities to address their health needs and concerns) were a few of the areas that needed our attention.

In the last ten years the Paso del Norte Health Foundation has committed over \$95 million in grants to deal with the region's health issues, but it takes more than our funding to impact change. Through the work of our partners, changes have occurred. While funding is very important, the partnerships that have been created bring passion for change and the commitment for a healthy region both now and in the future.

Behavioral and environment changes have taken place and our health has improved for both our children and adults, but there still is much work to be done. While our priority areas remain the focus of our work, there is always room for modifications that are addressed by input from the region and the collaboration of our grantees. It is our mission and determination to carry on a unified vision that provides the right tools, communication, and focus to improve the overall health of the region. Because of these efforts, the past ten years have assisted us in becoming better grantmakers for the region.

Today, we celebrate our tenth anniversary and look forward to many more anniversaries as we continue to work for a healthy Paso del Norte region.



Ann G. Pauli

Ann G. Pauli, President and CEO of
the Paso del Norte Health Foundation

Mission

The mission of the Paso del Norte Health Foundation is to effect long-term improvements in the health status of the population in the Paso del Norte region through education and prevention.

Vision

The Foundation envisions a Paso del Norte region where all people have the knowledge, resources, and environment they need to live healthy lives; where health problems are prevented, and there is access to primary care; where people on both sides of the border live in clean, safe environments with fresh air, potable water, and the proper disposal of waste.

History

It began on January 10, 1952. Providence Memorial Hospital opened its doors as a not-for-profit medical facility providing the best available health care to all the people of the El Paso region.

In 1995, changes in the health care environment led to a decision to sell the hospital. But the Board of Directors wanted to continue the tradition of excellence that had always been the hallmark of Providence; therefore, on October 1, 1995 the Paso del Norte Health Foundation (PdNHF) was created to achieve this goal.

With \$130 million in assets from the sale of the hospital, the Foundation became one of the largest private foundations on the U.S. - Mexico border. The goal of the Foundation was to carry on the work begun by Providence Memorial Hospital and to improve the health and wellness of the 2.2 million people living in the Paso del Norte region through education and prevention. This region represents areas of west Texas, southern New Mexico, and northern Mexico - El Paso and Hudspeth Counties, Texas, Doña Ana and Otero Counties, New Mexico, Ciudad Juárez, Chihuahua.

WEB SITE

The Paso del Norte Health Foundation's web site is one of the easiest, most accessible tools to find the latest information regarding the Foundation. This bilingual site features information on the funded initiatives, upcoming activities, and a variety of helpful tips regarding health and wellness. Visit the web site at www.pdnhf.org.

HEALTH PRIORITIES BRING CLARITY TO ADDRESSING HEALTH ISSUES IN THE REGION

ENCOURAGING PHYSICAL ACTIVITY AND BALANCED NUTRITION

The ability to understand and take action to maintain physically active routines and balanced eating habits is integral to a healthy lifestyle.

In response to current chronic disease epidemics that plague our region, the Foundation is funding model and innovative approaches to promote physical activity and nutrition.

With the strength of family and culture our initiatives lead the change toward good health.

"CATCH utilized a coordinated effort of classroom health instruction, physical education, the school cafeteria, and the family to develop healthy habits and attitudes in children. Program success is due to all the efforts and commitment made by the ESC-Region 19 CATCH Team, administrators, teachers, parents, but especially the students. By coordinating our efforts, we have impacted the future of school health and ultimately the health and well-being of children and community. The impact upon children in elementary schools and their families will carry forward into middle and high schools, especially if partnerships and advocacy efforts continue with legislators, educators, and funding sources."

Norma Aros
Project Manager, CATCH
(Coordinated Approach to Child Health)

HEALTH PRIORITIES BRING CLARITY TO ADDRESSING HEALTH ISSUES IN THE REGION

PROMOTING A CLEAN AND SAFE ENVIRONMENT

Clean air and water are just two of the many factors associated with improving the quality of life of individuals living in the Paso del Norte region. The Foundation seeks to assist area residents in recognizing and reducing environmental risks and the promotion of behavior change that will reduce exposure in their homes and surrounding areas.

"Partnering with the Foundation over the past decade on complex issues such as clean water developed fruitful results. Areas once deemed to have the worst sanitation and potable water issues in the country now have safe access to water and sewage systems. This might not have been possible without the cooperative partnership developed with support from the Foundation."

*Ed Archuleta,
General Manager,
Public Service Board and Board Chair of the
Paso del Norte Health Foundation*

"Handwashing may sound like a simple habit that everyone is assumed to do regularly, but actual practice is far from reality. Children are learning and teaching others the importance of washing their hands through the Foundation's 'Hooray for Hands!' Handwashing Training Program."

*Cora Chavira
Hooray for Hands Coordinator,
YWCA Paso del Norte Region*



HEALTH PRIORITIES BRING CLARITY TO ADDRESSING HEALTH ISSUES IN THE REGION

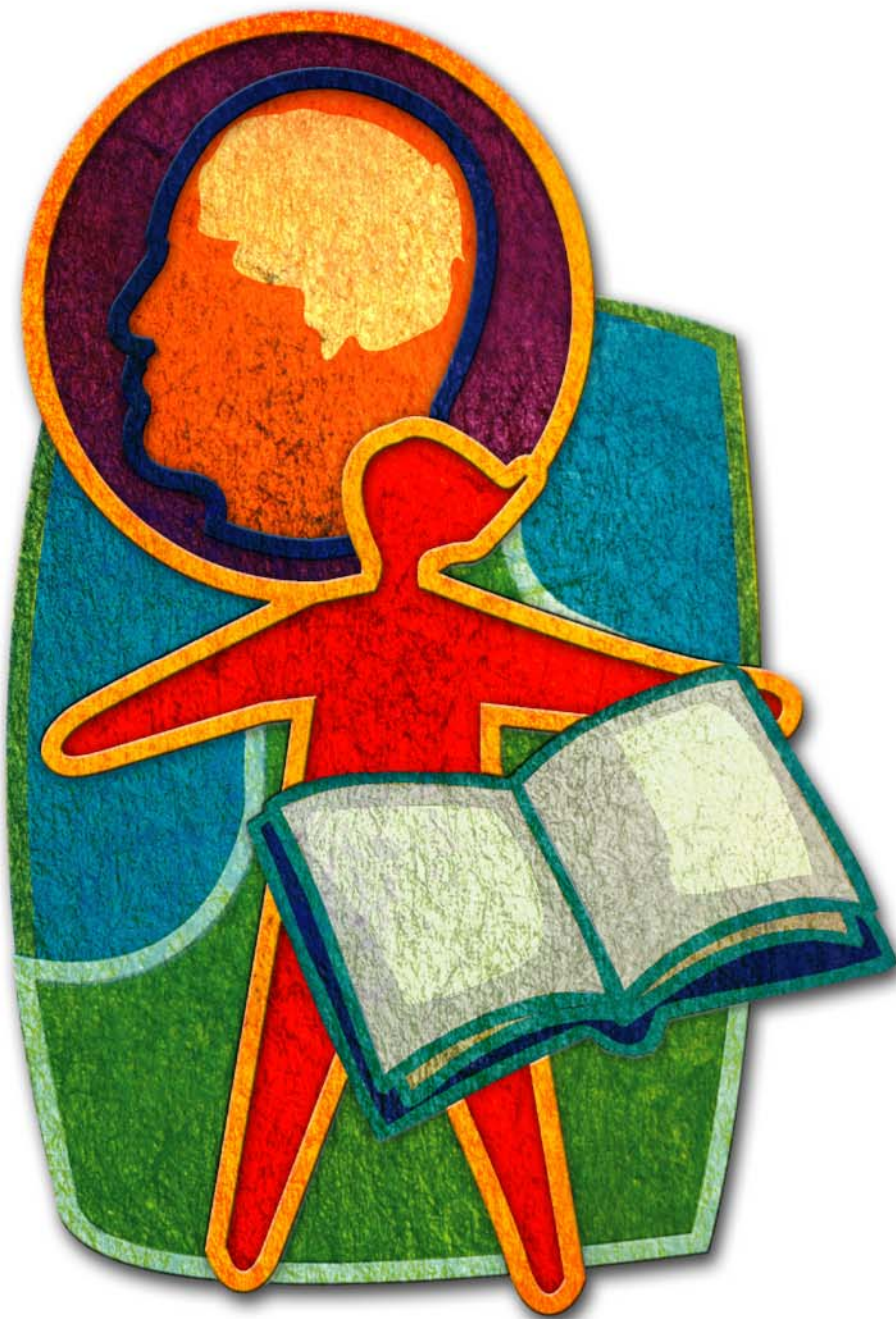
REDUCING RISKY BEHAVIORS

The reasons why people engage in behaviors that are threatening to their health and quality of life are complex and difficult to address. Many causes of death related to illness and injury can be traced back to risky behaviors such as smoking.

The Foundation continues to explore best practices and innovative interventions to educate people in the region on the dangers of engaging in risky behaviors.

"The Smoke-Free Coalition has played an important part in coordinating resources and advocacy efforts. The group's focus helped to improve several communities by aggressively implementing smoking cessation programs and promoting clean indoor air ordinances. Without the Foundation's vision, this kind of community health improvement might have been decades away."

Darlaine Gibson
Executive Director,
American Cancer Society – El Paso Metro



HEALTH PRIORITIES BRING CLARITY TO ADDRESSING ISSUES HEALTH IN THE REGION

BUILDING CAPACITY

The foundation views Building Capacity as working with organizations and individuals to do more and to do it better.

The power of Building Capacity is that it develops assets and enables community members to design effective and appropriate strategies to improve health.

"The research grants the University of Texas at El Paso (UTEP) has received through the Center for Border Health Research have provided the preliminary results and framework that pave the way to explore larger research grant opportunities."

Leslie Schulz, PhD
Dean,
College of Health Sciences -
University of Texas at El Paso



"Capacity Building is an essential part of every successful organization. Organizations that dedicate time to "capacity building" are more likely to have healthier assets and stronger organizations than those organizations that do not. Capacity Building is the process of enhancing one's activities so that the organization maximizes effectiveness and impact."

Frank R. Lopez
Executive Director,
Nonprofit Enterprise Center

DEVELOPING COMMUNICATION

The Foundation staff is committed to developing alliances with regional organizations based on the guidance set forth by the board. Initiatives are a means of communicating and identifying where Foundation resources can assist in maximizing efforts to improve the health of the region.

“Developing unique initiative identities provides pathways to empower stakeholders and convene community leaders on a specific health topic. These identities also help grantees align their programming efforts toward a unified goal, allowing them to overcome barriers and share successes in ways that strengthen community networks.”

Dwayne Aboud, M.D.
Board Chairman
Paso del Norte Health Foundation

DEFINING THE TERMS

Initiative – An initiative has been defined as the power or ability to begin or to follow through energetically with a plan or task. The Foundation uses the term to communicate a health position or focus area integral to the long-term health improvements of the region. Funding opportunities are related to the promotion of health wellness and education in the areas that pertain to Encouraging Physical Activity and Balanced Nutrition; Reducing Risky Behaviors; Promoting Clean and Safe Environments; and Building Capacity.

Program – A program has been defined as a system of services, opportunities, or projects, usually designed to meet a social need, and the purposeful alignment and utilization of resources to achieve a defined goal. Funded programs serve to support efforts related to Foundation initiatives. A program may be disease/problem or health focused. In most instances, the Foundation does not design or implement programs.

Nonprofit organizations or other eligible agencies, such as schools or churches, propose the program design. If funded, the organization/agency implements the program within the community. Funded programs will assist in furthering the

goals of one or more initiatives. Grantee programs may be innovative, which proposes novel approaches, or a best practice model that is time tested. Further, grantee programs may work toward systemic changes, providing direct prevention services, leverage or maximize other resources, or support education efforts to promote policy change for improved health.

- **Major Initiative**
A long-term position from the Foundation designed to guide activity and related funding.
- **Grantee Program**
A purposeful system of interventions designed and implemented by Foundation grantees to achieve a stated goal under an initiative.
- **Program Intervention**
An activity, such as a class, media campaign, etc. that is part of a grantee program.
- **Intervention Method**
A delivery approach within an intervention, such as role modeling, lecture, guided practice, that is designed to enhance outcomes.

FUNDING OPPORTUNITIES

The Foundation does not accept unsolicited grant proposals. However, when launching a new initiative, a grant workshop will be hosted for nonprofit organizations to better understand the purpose of the initiative and how to respond to the request for proposals.

Program officers are always available to discuss ideas for future initiatives and they welcome suggestions from regional organizations. For more information about upcoming grant workshops, please call the Paso del Norte Health Foundation at (915) 544-7636 or visit our web site at www.pdnhf.org.

INITIATIVES

A Smoke Free Paso del Norte

The American Cancer Society and other agencies in the Paso del Norte region work to reduce smoking. Top priorities include reaching kids, making cessation programs widely available, and promoting smoke-free environments. The initiative also strives to reduce the smoking rate among youth, pregnant women, people living with small children, and those who lack the resources to provide for their own wellness.

Action for Youth

Action for Youth (AY) builds community capacity for neighborhood transformation to promote adolescent health. AY supports the strengthening and building of “developmental assets,” essential building blocks that protect youth and foster healthier life outcomes. AY features the development of “Action for Youth Partnerships” in El Paso, southern New Mexico and Ciudad Juárez, Mexico. Partnerships are actively sought within the education, business, faith, non-profit, parent and youth sectors.

After School – KidFit

After School - KidFit is designed to implement healthy after-school activities and to involve parents in promoting health in the home. These principles focus on knowledge, attitudes, self-efficiency, and behaviors of elementary school-aged children regarding nutrition and physical activity.

Ageless Health

The Ageless Health Initiative is designed to develop or expand volunteer-based projects to support the promotion of independent healthy living and the prevention of isolation for persons 60 years of age and older in the Paso del Norte region, and to effect attitudinal change about aging.

Begin at Birth!

The goals of Begin at Birth Initiative are to 1) improve the health of children birth to three years old while eliminating health disparities and 2) improve practices, policies, and environments within the early childhood community and families. This year, a major focus was reducing stress on families with small children.

Bike/Walk Paths

The Bike/Walk Paths plan is designed to leverage with City, County, and State to build safer areas to exercise.

Border Diabetes

The Border Diabetes Initiative is designed to increase the awareness of diabetes risk factors and provide prevention education to reduce the impact of diabetes in El Paso, Doña Ana and Otero Counties, and Ciudad Juárez, Mexico. The initiative has three components: implementation, design and analysis of diabetes prevalence and behavioral research; educational interventions; and public awareness.

Center for Border Health Research

The purpose of the Center for Border Health Research is to ensure a sound, well-defined research agenda and enhance efforts to pursue that agenda leading to improvements in the health status of the Paso del Norte community. To support the health research needs of the region, the Center facilitates and monitors the awarding of academic research grants, sponsors educational seminars and forums for the development of research capacity, and collaborations among health research stakeholders, conducts research, and shares informational resources.

Healthy Communities

Healthy Communities is a grassroots initiative that addresses health through community-based groups and their stakeholders. Using a broad definition of health, the root causes of illness are identified and targeted, including social and economic factors that impact health. Community-based councils use a mix of approaches and techniques to achieve their goals, including coalition building, conflict resolution, consensus building, asset mapping, and continued support for the development of community assets.

Healthy Homes and Handwashing

The Healthy Homes Initiative addresses household environmental health risks related to such problems as indoor asthma triggers; inadequate water, sanitation and hygiene; trash handling and management; use of pesticides; lead poisoning; and hazardous household chemicals. The Handwashing program teaches pre-school children in day care settings how to properly wash their hands for protection from communicable diseases and environmental contamination, with the intent of establishing life-long hygiene habits.

Health Literacy

This initiative was developed to assist with the growing concern related to health literacy. Health literacy is defined as the degree that individuals can obtain, process, and understand health information and services so as to make good health decisions. Nearly half of Americans struggle to understand or act on health information. The purpose of this initiative is to identify, inventory, and replicate best practice models, communication tools, and effective programs for the advancement of health literacy relevant to the Paso del Norte region.

Qué Sabrosa Vida

Qué Sabrosa Vida is designed to affect the short and long-term health status of the general population of the Paso del Norte region through the promotion of healthier eating habits and the development of tools and skills to sustain positive behavior changes. The goal of the program is to increase awareness of a lifestyle that includes healthy nutrition and physical activity, while maintaining the rich tradition and cultural aspects of the Mexican-American border diet.

Step It Up Initiative

The Step It Up Initiative is a fully bilingual program designed to improve the health status of the adult residents of the Paso del Norte region by providing the resources, information, guidance, and opportunities for individuals to adopt a physically active life style. Step It Up is designed to increase physical activity among the regional adult population who is considering or making plans to become physically active and reinforce continued physical activity among those who already are active.

Two Should Know

The purpose of this initiative is to effect long-term improvements in public health by improving sexual health through education and prevention among regional residents. The initiative helps grantees create and implement effective and imaginative programs emphasizing sexual health for the reduction of poor health outcomes, such as sexually transmitted diseases (STDs), unintended pregnancies, and sexual violence/abuse as well as for the promotion of good emotional and social health outcomes.

P ROGRAMS

CATCH

The Coordinated Approach to Child Health (CATCH) is a school based program that applies a coordinated effort of classroom health instruction, physical education, the school cafeteria and the family to develop healthy habits and attitudes in children. The successful introduction of CATCH to the schools in the El Paso/Las Cruces area provides an effective, transferable model for program implementation. Dietary and physical activity habits are established very early in life. Healthy eating and physical activity are important life skills that help children grow and develop to their optimal potential.

Herbal Safety

The Herbal Safety Initiative is designed to develop an extensive educational program for both health care providers and the general public to assist in the promotion of prudent herbal product use in the Paso del Norte region.

HOT (Health Oriented Themes) Projects

HOT Projects provides financial assistance to regional universities for the purpose of helping students complete projects that focus on themes promoting good health. Grants for HOT Projects encourage innovative activities within the various academic programs to stimulate health promotion on the border.

Medical Student Fund

The Medical Student Funding initiative is a grant/loan program that aims at improving the doctor/patient ratio in El Paso and its surrounding area. The loan encourages capable, yet financially unable, students from the Paso del Norte region to attend the Texas legislative approved four-year medical school in El Paso. Upon completion of the program, students that remain and establish their practice or work in a health-related field in the region will have their loans forgiven over a five-year period. Additional funding will be required from the community to emphasize the strong level of support for the medical school.

BOARD OF DIRECTORS 2005-2006

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Program Officer

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Program Officer

Juanita Galaviz
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Elizabeth Barrera
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Marisol Montoya
Program Associate

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Communications Manager

Angela Plaza
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Sylvia Soto
Office Manager/Executive Assistant

Amanda Crews
Operations Assistant

Veronica Rios
Administrative Assistant

PASO DEL NORTE HEALTH FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

FINANCIALS

PASO DEL NORTE HEALTH FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Paso del Norte Health Foundation

We have audited the accompanying statements of financial position of Paso del Norte Health Foundation (a nonprofit organization) as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paso del Norte Health Foundation as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dunbar, Broadbush, Gibson LLP

Dunbar, Broadbush, Gibson LLP

El Paso, Texas
March 13, 2006

ASSETS	2005	2004
Current assets		
Cash	\$ 98,442	\$ 285,740
Other current assets	42,983	92,750
Total current assets	141,425	378,490
Investments	196,395,197	191,353,219
Property and equipment, net of \$ 571,613 and \$544,035 accumulated depreciation	35,076	51,157
Other assets	244,012	241,333
Total noncurrent assets	196,674,285	191,645,709
Total assets	\$ 196,815,710	\$ 192,024,199

LIABILITIES AND NET ASSETS	2005	2004
Current liabilities		
Accounts payable and accrued liabilities	\$ 288,567	\$ 191,135
Grants payable	9,159,934	8,359,503
Total current liabilities	9,448,501	8,550,638
Noncurrent Liabilities		
Long term grants payable	16,616,574	15,620,303
Accrued general and professional liabilities	8,206,265	8,247,367
Deferred tax liability	566,006	491,371
Total noncurrent liabilities	25,388,845	24,359,041
Net assets		
Unrestricted	161,755,111	158,891,267
Temporarily restricted	223,253	223,253
Total net assets	161,978,364	159,114,520
Total liabilities and net assets	\$ 196,815,710	\$ 192,024,199

The accompanying notes are an integral part of this statement.

PASO DEL NORTE HEALTH FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Income		
Investment income	\$ 5,492,296	\$ 5,734,000
Other income	347,824	578,026
Net assets released from restrictions	-	-
Less: investment expense	(1,015,789)	(811,931)
Total revenues	4,824,331	5,500,095
Program costs and administrative expenses		
Major initiatives	10,439,076	4,537,523
Program development	116	4,397
Total program expense	10,439,192	4,541,920
Administrative expense	499,122	472,260
Net income/(loss) over program and administrative expenses	(6,113,983)	485,915
Other changes to net assets, net of related federal excise tax		
Net realized gain (losses) on investments	5,455,282	1,792,926
Net unrealized gains on investments	3,731,768	12,585,486
Provision for excise tax - current	(134,588)	(124,235)
Provision for excise tax - deferred	(74,635)	(491,371)
Change in net assets - unrestricted	2,863,844	14,248,721
Change in temporarily restricted net assets		
Contributions	-	1,000
Change in net assets	2,863,844	14,249,721
Net assets, beginning of year	159,114,520	144,864,799
Net assets, end of year	\$ 161,978,364	\$ 159,114,520

The accompanying notes are an integral part of this statement.

PASO DEL NORTE HEALTH FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Cash flows from operating activities:		
Increase in net assets	\$ 2,863,844	\$ 14,249,721
Adjustments needed to derive cash flow provided (used) by operations:		
Depreciation	27,578	35,720
Other current assets	49,767	10,247
Other assets	(2,679)	(4,789)
Accrued liabilities and accounts payable	97,433	(101,116)
Grants payable	1,796,702	(4,560,992)
Other liabilities	(41,102)	(21,650)
Deferred tax liability	74,635	491,371
Realized loss (gain) on investments	(5,455,282)	(1,792,926)
Unrealized loss (gain) on investment securities	(3,731,768)	(12,585,486)
Net cash used by operating activities	(4,320,872)	(4,279,900)
Cash flows from investing activities		
Purchases of property, plant and equipment	(11,498)	(23,935)
Sale and maturity of investments, net of purchases	4,145,072	4,335,142
Net cash provided by investing activities	4,133,574	4,311,207
Net increase/(decrease) in cash and cash equivalents	(187,298)	31,307
Cash, beginning of year	285,740	254,433
Cash, end of year	\$ 98,442	\$ 285,740
Supplemental disclosure of cash flow information:		
Cash paid for federal excise taxes	\$ 134,588	\$ 124,235

The accompanying notes are an integral part of this statement.

PASO DEL NORTE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Paso del Norte Health Foundation (the "Foundation") was organized in September 1995 following the sale of certain assets of Providence Memorial Hospital (the "Hospital") in El Paso, Texas and is organized and operated exclusively for charitable, educational, and scientific purposes as defined under Section 509(a)(2) of the U.S. Internal Revenue Code of 1986 (IRC) and is recognized as exempt from federal income tax under Section 501(c)(3) of the IRC. The Foundation's activities include, but are not limited to, the operation of programs to provide charitable assistance, training, and educational support for the promotion of general physical and mental health, principally for the benefit of the general population of the El Paso, Texas, region.

Effective January 1, 2001, the Foundation became a private non-operating foundation under section 509(a) of the code. Therefore, the foundation is subject to excise tax on net investment income and potential excise tax on undistributed income. In addition, the Foundation is subject to deferred taxes. Deferred taxes are recognized for differences between the bases of assets and liabilities for financial statement and tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

The Foundation observes SFAS No. 116, "Accounting for Contributions Received and Contributions Made," and SFAS No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 116 generally requires that unconditional contributions, pledged or received, be recognized as revenue in the period received. Not-for-profit organizations must distinguish between contributions received that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. SFAS No. 117 requires classification of an organization's net assets and its revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The Foundation does not have any permanently restricted net assets; therefore, the entire net asset balance is classified as unrestricted or temporarily restricted. Temporarily restricted net assets represent donor restricted contributions to be used for certain health care and other specified programs by the Foundation.

The Foundation adheres to Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures About Fair Value of Financial Instruments." This statement requires entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value.

The Foundation follows SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." SFAS No. 124 requires that investments with readily determinable fair values, as defined, be reported in the statement of financial position at fair value with any realized or unrealized gains and losses reported in the statement of activities and changes in net assets.

Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all cash in bank checking accounts and investments in highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair market value. Management monitors market conditions which impact these investments.

Property and equipment

All assets acquired with a value of \$500 or greater are recorded property and equipment and are recorded at cost. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are depreciated over the lesser of the estimated useful life or lease term.

Grants

Grants are charged against operations when they are authorized by the Board of Directors. Payments may not necessarily occur in the same fiscal year as their authorization, in which case the amounts are accrued as long term liabilities and discounted over the payment term.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The estimated fair value amounts of cash, investments, notes receivable and payables approximate their carrying amounts and have been determined by the Foundation using available market information and appropriate valuation methodologies. However, considerable judgement is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Foundation could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair values of investments are based on quoted market prices or are estimated using quoted market price or dealer quotes for similar securities. Limited partnership values are estimated using private valuations of the securities or properties held in those partnerships. The carrying amount of these items and of the payables and accrued liabilities are a reasonable estimate of their fair value.

2. CASH

Cash consists of cash on hand and on deposit with federally insured financial institutions.

At December 31, 2005 and 2004, cash consisted of the following:

	2005	2004
Cash on hand	\$ 300	\$ 300
Cash on deposit	98,142	285,440
Total	\$ 98,442	\$ 285,740
Balance per bank statements	\$ 937,452	\$ 1,214,406
FDIC coverage	100,000	100,000
Uninsured balance	\$ 837,452	\$ 1,114,406

3. INVESTMENTS

Investments at December 31, 2005 consisted of the following:

	Cost	Carrying Value
Cash and cash equivalent investment fund	\$ 23,523	\$ 23,523
Government and corporate obligations	46,773,437	44,176,595
Equity securities	112,751,676	143,228,164
Real estate capital	5,036,359	5,565,650
Limited partnerships	3,509,904	3,401,265
Total	\$ 168,094,899	\$ 196,395,197

Investments at December 31, 2004 consisted of the following:

	Cost	Carrying Value
Cash and cash equivalent investment fund	\$ 43,277	\$ 43,277
Government and corporate obligations	55,260,738	53,155,883
Equity securities	107,632,838	134,512,914
Limited partnerships	3,847,835	3,641,145
Total	\$ 166,784,688	\$ 191,353,219

4. EXCISE, DEFERRED TAX AND DISTRIBUTION REQUIREMENTS

The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. In accordance with the provisions of the Tax Reform Act of 1969, the Foundation is subject to an excise tax on net investment income, including realized gains as defined in the Act. In addition, the Foundation is subject to deferred taxes related primarily to differences between the bases of certain assets (investments) for financial and tax reporting.

The provision for taxes for the year ended December 31, 2005, consisted of the following:

Current tax	\$ 134,588
Deferred tax	74,635
Total provision for taxes	\$ 209,223

The deferred tax liability in the statement of financial position created from the above differences is reported on the accompanying statement of financial position at December 31, 2005 as follows:

Net deferred tax liability (non-current)	\$ 566,006
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The Foundation is required to make qualifying distributions (as defined in the Internal Revenue Code of 1986 IRC) equal to its minimum investment return, as adjusted (as defined in the IRC). Management believes that these distribution requirements will be met in the coming year.

5. PENSION PLAN

The Foundation established a Simplified Employee Pension Plan (the "SEP") under section 408(k) of the Code that covers all full time employees over the age of twenty-one (21). The Foundation contributes a percentage of employees' annual compensation to the SEP that is placed in an IRA plan with Aetna Life Insurance and Annuity Company. During 2005 and 2004, the Foundation contributed approximately \$117,802 and \$110,817, respectively, to the SEP. The Foundation also established a tax deferred annuity plan (the "Plan") under section 403(b) of the Code, with Aetna Life Insurance and Annuity Company. Eligible employees who wish to participate in the Plan may enter into a salary reduction agreement not to exceed the lesser of \$14,000 or one-sixth of compensation during any calendar year. During 2005 and 2004 employees contributed approximately \$52,681 and \$50,765, respectively, to the Plan.

6. GRANTS

The Foundation accrues the long-term portion of grants payable at their net present value. At December 31, 2005, the Foundation's short-term obligations totaled \$9,159,934. The accrued future obligations consisted of the following:

2007	\$ 8,470,230
2008	5,220,213
2009	3,085,094
2010	1,157,206
	17,932,743
Less discount to net present values	1,316,169
	\$ 16,616,574

7. COMMITMENTS AND CONTINGENCIES

Leases

The Foundation leases its primary facilities under operating leases that will expire in 2009. Both leases provide an option to renew for one period of thirty-six months. Future minimum annual lease payments are as follows:

2006	\$ 147,144
2007	148,320
2008	149,516
2009	57,341
	\$ 502,321

These financial statements include expense related to these leases for 2005 and 2004 in the amount of \$146,087 and \$130,915, respectively.

Malpractice and General Liability Insurance

The Hospital was self-insured for purposes of providing for comprehensive general and hospital malpractice liability risk. The Hospital had a claims-made excess coverage policy to supplement its self-insured insurance fund. The Foundation will continue to be responsible for the self-insured general liabilities and hospital malpractice risks of the Hospital relative to operations prior to the sale.

The Hospital and the Foundation may be involved in certain litigation arising in the ordinary course of business for services provided through September 29, 1995. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of settlement or litigation. Claims have been filed requesting damages in excess of the amount accrued for estimated malpractice costs. Additional claims may be asserted against the Foundation arising from services provided to patients through September 29, 1995. In the opinion of management, however, estimated malpractice and general liability costs accrued at December 31, 2005, are adequate to provide for potential losses resulting from pending or threatened litigation. These accruals include costs associated with known claims as well as those incurred but not reported (discounted at 8%) and are reported as accrued general and professional liabilities in the accompanying statement of financial position.

The Foundation contracted with MMI Risk Management Resources, Inc. to administer all of the general and hospital malpractice liability claims for Providence Memorial Hospital.

The Foundation continues to be self-insured for general liability claims against the Hospital for services provided through September 30, 1995. Accordingly, the Foundation purchased tail insurance coverage for a five-year period from American Continental Insurance Company. Their terms are \$2 million aggregate per case and \$4 million in total aggregate. After the total aggregate coverage was reached at the end of 1998, the carrier has assumed responsibility for all expenses and indemnity up to their \$15 million limit.

Employment Related Claims

During 1991, the Hospital began self-funding for the purpose of providing for claims for employment-related injuries. The Hospital established a reserve for known and unknown claims. Additional claims may be asserted against the Hospital from incidents occurring through September 29, 1995. In the opinion of management, however, estimated workers' injury costs accrued by the Foundation at December 31, 2005, are adequate to provide for potential losses resulting from pending or threatened claims.

8. RELATED PARTY

In 2000 the Board of the Foundation formed a separate nonprofit entity, Center for Border Health Research (CBHR). The Foundation's Board appointed the first Board of Directors of CBHR, but a majority of the replacements will be elected by their own Board. As the Foundation can not exercise control of this organization, the financial information of CBHR has not been consolidated in these statements.

The Foundation donates various administrative services to CBHR. During the years ended December 31, 2005 and 2004, CBHR received services valued at \$115,481 and \$154,209, respectively.