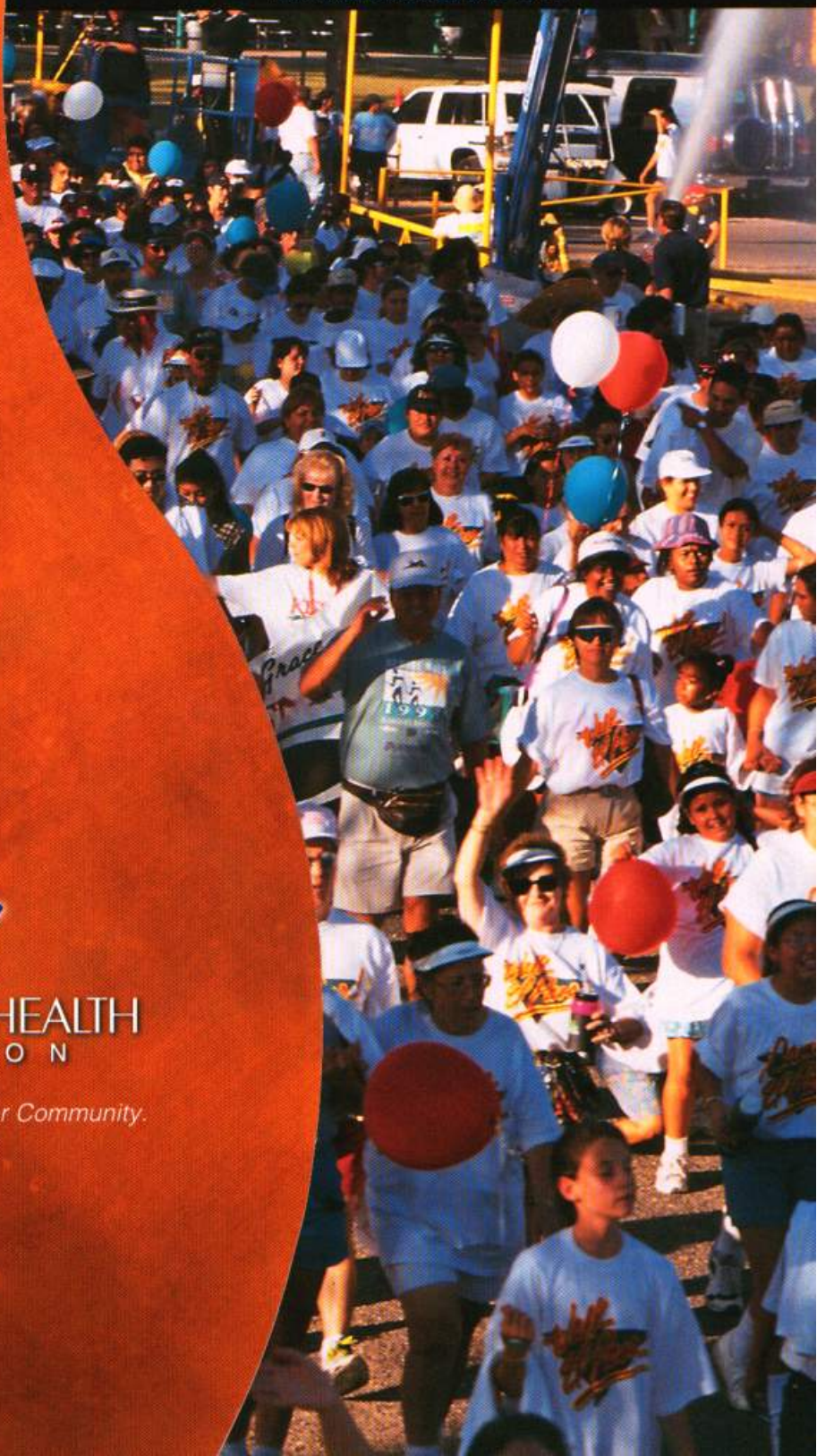




1998 ANNUAL REPORT



PASO DEL NORTE HEALTH
FOUNDATION

Better Health, Better Lives, A Better Community.

Paso del Norte Health Foundation

1998 BOARD OF DIRECTORS

Chairman of the Board

Jesse Alvarez

Vice-Chairman of the Board

Jacob S. Heydemann, M.D.

Allocations Committee Chairman

Margarita (Margie) Velez

Board Selection & Conflicts Committee Chairman

Dionicio (Don) Flores

Investment Committee Chairman

Robert E. Skov

Community & Public Affairs Committee Chairman

Adair Margo

Edmund Archuleta

Monsignor Arturo Bañuelas

Hughes Butterworth, Jr.

Jackson Curlin

Victor A. Diaz M.D.

Patricia Holland-Branch

Robert H. Hoy Jr.

W.L. (Woody) Hunt

Steve Lauterbach

Judge Patricia A. Macias

Joseph L. Motes M.D.

Sister Helen Santamaria, S.L.

W. Burney Warren

1998 STAFF

President	Ann G. Pauli
Program Officer	Blake Fry
Program Officer	Beatriz Vera
Program Associate	Tommy Tinajero
Financial Manager	Jim Johnson
Accountant/IS Manager	Gilbert Alvarado
Office Manager/	
Executive Assistant	Carolyn Miller
Administrative Assistant	Juanita Galaviz

CONSULTANTS

Communications	Cisa Rivera
Projects	Tony Chavez
Projects	Enrique Mata





PASO DEL NORTE HEALTH
FOUNDATION

Better Health. Better Lives. A Better Community.

Created on October 1, 1995

from the proceeds of the sale of
Providence Memorial Hospital to
Tenet Healthcare Corporation.

We serve the 2.2 million people
living in the Paso del Norte Region
of El Paso and Hudspeth counties in
far West Texas, Doña Ana and Otero
counties in Southern New Mexico and
Ciudad Juarez, Chihuahua in
Northern Mexico.

www.pdnhf.org

1100 N. Stanton, Ste. 510

El Paso, Tx 79902

(915) 544-7636

Fax (915) 544-7713

INDEX

MESSAGE FROM THE PRESIDENT	2
MISSION / VISION	3
GRANTS	4
HEALTHY PASO DEL NORTE	5
CATCH	6
WHEN WATER WORKS FOR HEALTH	7
WALK EL PASO	8
CLINIC HELP	9
EL PASO PREVENTION NETWORK	10
IT TAKES TWO	11
ACTION FOR YOUTH	12
CENTER FOR BORDER HEALTH RESEARCH	13
PROGRAMS	14
FINANCIALS	15

MESSAGE FROM THE PRESIDENT

As I reflect upon the work of the Paso del Norte Health Foundation this year, I am reminded of how we are affecting lives. I think of the husband and wife who left a Walk El Paso event and then thoughtfully returned to tell us what a difference the campaign was making in their lives. The husband was diagnosed with diabetes the year before and knew he needed to alter his lifestyle. They saw our TV commercials urging them to walk 20 minutes a day, three times a week and agreed it was a goal they could achieve together. Now they feel better and have increased the frequency and length of their walks.

I recall the elderly man from a colonia in Berino, New Mexico who is pictured on page 7. A 72 year-old World War II veteran living in a mobile home with his wife, two grandchildren and their young parents, he rose each dawn to fill plastic buckets with water from his neighbor's faucet. He warmed the water over an open fire and then carried it into his home to fill the bath tub. He repeated this process until each family member had bathed. Now, the family has a water connection made possible through our When Water Works for Health initiative.

Page 5 depicts a woman and her granddaughter crossing an open canal in Ciudad Juárez. They now benefit from the work of Programa Compañeros, one of our Healthy Paso del Norte groups who used our funding and in-kind contributions to replace this dangerous narrow foot path with a wide concrete bridge. These are examples of how the nine major initiatives detailed in this report as well as our smaller programs totaling nearly \$35 million can change lives.

This year we frequently forged new relationships between multiple stakeholders by making collaboration a condition of funding, uniting schools, businesses, churches and non-profits in a common cause. Our nearly 275 partnerships, reflect our effort to reach out across our diverse community and bring people together to affect lives through improved health.

We welcomed Monsignor Arturo Bañuelas and Jackson Curlin as our two newest boardmembers. Also, I am pleased to report that the Foundation's investment portfolio continued to experience healthy growth under the careful stewardship of our investment committee, despite the erratic market of '98.

While there remains much more to do, I offer my heartfelt thanks to all our partners, and our Board of Directors and staff for their contribution toward achieving our common goal of...Better Health, Better Lives, A Better Community.

Ann G. Pauli
Ann G. Pauli



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
GREATER EL PASO REGION
THROUGH EDUCATION
AND PREVENTION.

VISION

WE ENVISION A GREATER EL
PASO 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.

Across the country, established foundations are reviewing their effectiveness and restructuring the way they operate because they want to have a longer lasting effect on the communities they serve. We are one of a growing group of foundations who have moved away from the traditional approach to grant making to fully implement what is called a "proactive" grants program.

Traditional grant making hinges on the unsolicited grant proposal. A Foundation Board of Directors sets the priority areas, and proposals are usually developed within those guidelines but with little collaboration between the Foundation and the agency submitting the proposal.

We do not accept unsolicited grant proposals.

The hallmark of "proactive" grantmaking is a strong relationship between the Foundation and multiple collaborators. We recognize that good ideas come from everywhere: academic institutions, community-based organizations and individuals working in the trenches. Tapping into these varied sources allows us to ask a cross section of the community how we might develop initiatives that really work.

Another component of superior health prevention and education programs is sound research. We combine the need expressed by

the community with meaningful data to create initiatives with a scientific basis and whose success can be measured. Our applied research needs are met by the Center for Border Health Research.

Once an initiative has received board approval, we usually invite interested parties to a grants workshop where we explain our guidelines and request for proposal process. Proposals are returned to the Foundation for evaluation and those that have most successfully met our criteria, receive funding.

Frequently, we use collaboration between multiple stakeholders as a condition of funding. This unites a variety of groups in a common cause and creates a meaningful fellowship around the work that must be done.

If you have additional questions regarding how we make grants, please e-mail one of our program officers at www.pdnhf.org or call our offices at (915) 544-7636.





*Promoting Community
Participation in Health
and Development*

\$2.5 MILLION/3 YEARS

*Partners:
Chaparral Community
Health Council,
Programa Compañeros,
Project VIDA,
YMCA of Greater El Paso,
La Fe Clinic,
Centro Mujeres
de la Esperanza,
Tierra Madre,
Canutillo Independent
School District*

In 1997, the Foundation awarded three-year grants to nine diverse organizations to begin the Healthy Communities planning process promoted by the National Civic League and the World Health Organization. A key component of Healthy Communities is the establishment of Community Health Councils which enable residents to set the health and development priorities in their communities.

On September 19, 1998, the Paso del Norte Health Foundation awarded a total of \$828,504 to implement action plans drawn up in the previous year by communities and sponsoring organizations, which also provided in-kind contributions in excess of \$1.6 million.

Encouraged to think of health as embracing quality of life, communities began implementing action plans that promote health through parenting and family support, recreational and youth activities,

tutoring and cultural arts. Also, environmental education and advocacy, public safety, pride and beautification, and physical improvements to parks such as fitness trails and basketball courts.

Community Health Councils continue to generate volunteerism, cultivate civic leadership, build local problem-solving capacity, and celebrate diversity. In the third year, community projects will evaluate their progress, build on successes, and continue to implement their plans and strive for sustainability.



The Child and Adolescent Trial for Cardiovascular Health (CATCH) is a community effort to promote long term health among children in our region. This year, 30,000 third, fourth and fifth graders in 40 schools participated. Each school receives an \$8,500 grant to purchase PE equipment and classroom, family and cafeteria teaching materials. Training and technical support for PE, cafeteria and classroom staff are also included.

CATCH was field tested by U.T. Houston School of Public Health

researchers on 5,000 third grade students at four sites in the U.S. It included the Eat Smart program for school cafeterias which provides tasty meals lower in total fat, saturated fat and sodium. CATCH PE helps physical education professionals increase the amount of enjoyable activity offered during PE class. The CATCH classroom activities target psychosocial factors and skills development affecting eating behaviors and activity patterns. Finally, the CATCH home curriculum successfully involves parents.

Next year, the CATCH program will add 30 new schools and will pursue additional community support.



Promoting healthy
eating and exercise
habits in elementary
school children

\$1.4 MILLION/4 YEARS

Partners:
Region 19 Education
Service Center
Association for Kinesensory Teaching

**Ysleta Independent School
District**

Cadwallader	East Point
Eastwood Knolls	Glen Cove
Mission Valley	Parkland
Pasodale	Pebble Hills
Presa	South Loop
Thomas Manor	Ysleta Elementary

**El Paso Independent School
District**

Alta Vista	Crosby
Dr. L. A. Nixon	Fannin
Hawkins	Highland
Johnson	Lindbergh
Milam	Putnam
Schuster	

**Socorro Independent
School District**

Myrtle Cooper	Vista del Sol
Horizon Heights	Helen Ball
Sierra Vista	Benito Martinez
O'Shea Keleher	

Las Cruces Public Schools

Tombaugh	Mesilla Park
University Hills	Doña Ana
Loma Heights	

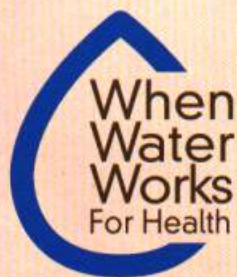
Canutillo Independent School District
Deanna Davenport Jose H. Damian

Tornillo Independent School District
Tornillo Elementary

San Elizario Independent School District
San Elizario Elementary

Gadsden Independent School District
Riverside Elementary





**Connecting Families to
Water and Wastewater
Services and Promoting
Water, Sanitation and
Health Education
in the Colonias**

\$1.7 MILLION/2 YEARS

Technical Advisors:
**Center for
Environmental Resource
Management at
University of Texas
at El Paso and U.T.
Houston HSC School
of Public Health
at El Paso**

Partners:
**Amigos de la
Fundación Mascareñas,
AYUDA, EPISO,
Ben Archer Health
Center, Club de la
Amistad, Doña Ana
Mutual Domestic Water
Consumer Association,
Border Environmental
Health Coalition,
Organización Popular
Independiente,
Desarrollo Juvenil del
Norte, Border
Waterworks, C.A.S.A.**

Eleven regional organizations will receive funding for water projects that include septic tanks, water tanks, connections to water service and wastewater hook-ups in the colonias. Along the Rio Grande River from Hatch, New Mexico, south towards Tornillo, Texas, many residents living in rural developments are without basic water services. No clean water supply and a lack of indoor plumbing puts the residents of these communities at a much higher risk for many infectious diseases such as Hepatitis A and Shigellosis. This effort represents the largest ever contribution to an environmental program by a private foundation in our region.

In addition, the Paso del Norte Health Foundation Board of Directors approved an additional \$100,000 for the filming of a documentary titled, "When Water Works for Health". The documentary will tell the stories of numerous families living in the colonias without water and other basic services. It will also document how this initiative helps people help themselves by teaching residents how to acquire needed materials and develop innovative solutions to problems associated with a lack of water and wastewater services.





**Mobilizing the
Sedentary Population
to begin a Simple
Walking Program**

\$2.5 MILLION/5 YEARS

**Partner:
YMCA of
Greater El Paso**

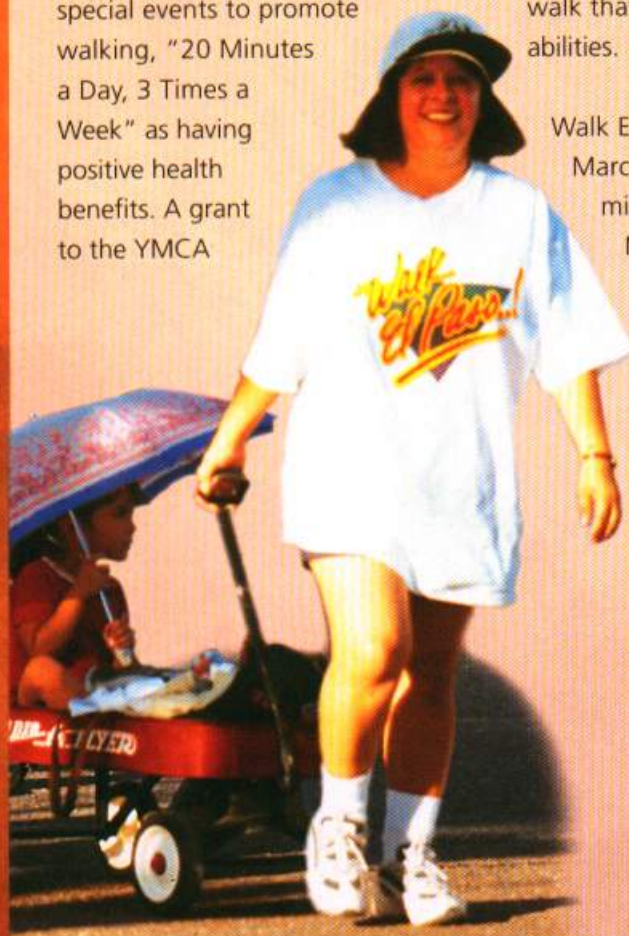
The 1996 El Paso Health Report indicated that 75 percent of El Paso adults don't get enough exercise. While many studies show that exercise combined with wise food choices reduces the risk of chronic diseases like diabetes and heart disease, it appeared that El Paso was not following the national trend toward developing a more active lifestyle.

In response, Walk El Paso was launched on June 15, 1998, with an inspirational kick-off and media campaign that used television, radio, billboards, direct mail and special events to promote walking, "20 Minutes a Day, 3 Times a Week" as having positive health benefits. A grant to the YMCA

of Greater El Paso produced a network of walking groups and a series of 18 special events throughout the city. During the four month effort, 10,000 callers requested free walking kits and the Mariachi Mile featured 7,000 walkers.

Held on September 27, 1998, at Ascarate Park in El Paso, the Mariachi Mile celebrated a combination of regional culture and physical activity as student mariachi groups posted every quarter mile, serenaded passing walkers. Professional mariachi groups performed from a stage after the non-competitive walk that included all ages and abilities.

Walk El Paso 1999 will begin March 17th and conclude in mid-October. The Mariachi Mile will take place in September at Ascarate Park and 10,000 participants are expected. The slogan for Walk El Paso 1999 is "Join the Movement" and will focus on encouraging walkers to recruit a friend or family member to start a walking program, too.





Clinic HELP

**Providing Clinic-based
Health Education and
Lifestyle Change Programs**

\$3 MILLION/4 YEARS

Technical Advisors:
*University of Texas at
El Paso College of
Health Sciences,
University of Texas at
Houston HSC School of
Public Health at El Paso,
New Mexico
Department of Health,
New Mexico State
University*

Partners:
*El Paso: Centro de
Salud La Fe, Inc.,
Centro San Vicente,
Project VIDA,
UTEP/Community
Partnership,
Texas Tech Health
Sciences Center,
Baptist Clinic*

*Southern New Mexico:
Ben Archer Rural
Health Center and
La Clinica de Familia, Inc.*

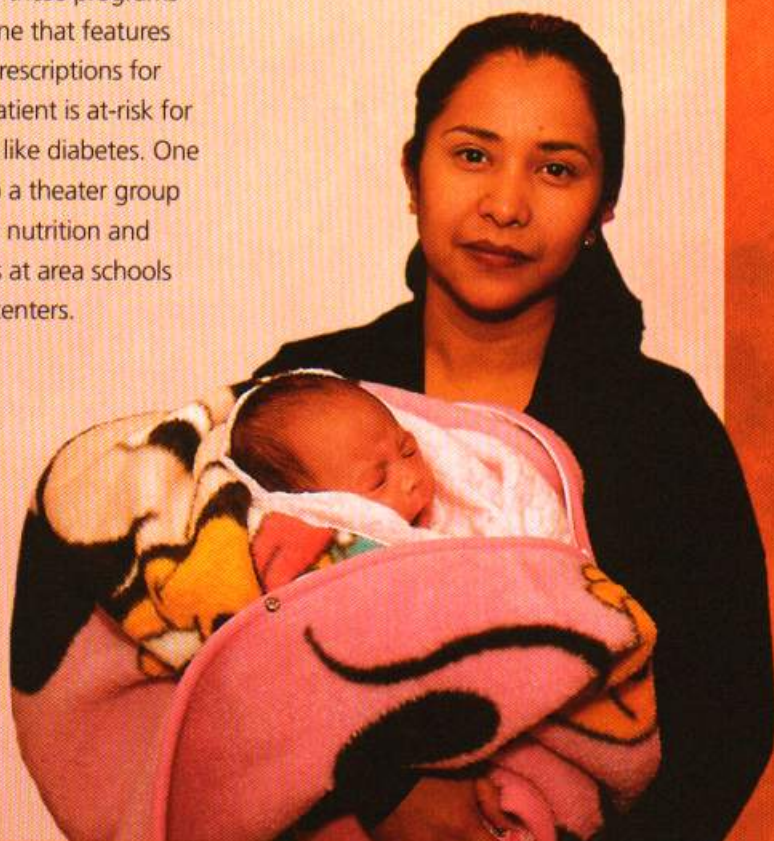
*Ciudad Juárez:
Hospital de la Familia
(FEMAP).*

Launched in 1997, the Clinic HELP (Health Education and Lifestyle Promotion) initiative is intended to enhance health education programs offered by regional non-governmental indigent health clinics. Clinic HELP provides nine clinics with the resources necessary to support high-quality health education and lifestyle change programs that focus on behaviors like diet, exercise, stress management and tobacco use.

The clinics have selected programs and interventions suitable for the populations they serve. Most hired health education specialists and identified a variety of courses to offer. Each clinic has taken a unique approach to how these programs work including one that features doctors writing prescriptions for classes when a patient is at-risk for a chronic disease like diabetes. One clinic will develop a theater group to promote good nutrition and healthy behaviors at area schools and community centers.

An auxiliary component of Clinic HELP is the HELP Network, the largest regional organization of health education and promotion professionals in the region. The network provides one continuing education unit every month and a forum in which local health educators can maintain close communication.

In 1999, the clinics will continue to identify their educational priorities and will develop more programs to increase patient knowledge about prevention and disease management.

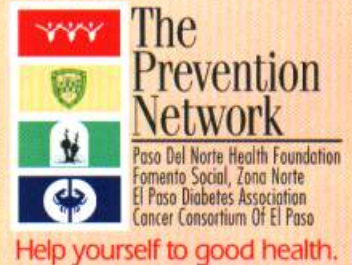


The El Paso Health Report showed 42 percent of Hispanic adults had a close relative with diagnosed diabetes; over a third of adults were obese; and one-fifth of Hispanic adults had a diagnosed chronic condition including heart disease, diabetes, cancer and high blood pressure. Use of preventive screenings, especially by adults with no health coverage and those with low educational achievement, was low compared to state and national rates.

This initiative provides screening and follow-up for adults 21 and over by utilizing print and electronic media, newsletters and local role models to encourage the use of regular preventive screenings.

The Cancer Consortium of El Paso coordinates The Prevention Network through 56 area health care providers, including the El Paso Diabetes Association and Fomento Social de Chihuahua Zona Norte. The network offers screenings and educational programs for agencies, schools, health fairs and work site throughout the region.

Integrating both state and local funding to offset the cost of the screenings helps meet the increased demand for these services.



**Educating High Risk
Adults about High Risk
Behaviors and
Screenings for
Chronic Diseases**

\$500,000/3 YEARS

Partners:
Cancer Consortium,
El Paso Diabetes
Association,
Thomason Hospital,
Fomento Social de
Chihuahua Zona Norte





**Empowering Teens to
Make Choices about
their Relationships that
Prevent Premature
Pregnancy**

\$1 MILLION/3 YEARS

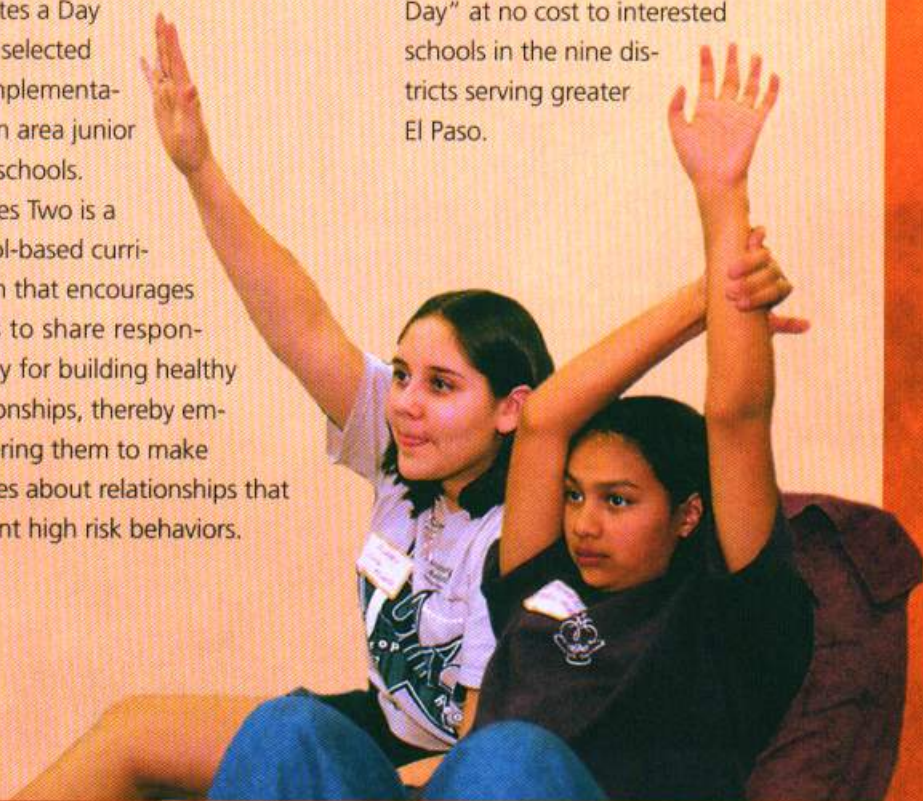
**Partner:
YWCA-
Paso Del Norte
Region**

A \$25,000 planning grant from the Paso del Norte Health Foundation to the YWCA in 1997 meant a community group could meet over a nine-month period to select a suitable teen pregnancy prevention program for the nine school districts serving the greater El Paso area. Almost two dozen models were reviewed by the group of professionals from all nine school districts, some health entities, law enforcement, media, social service agencies, and the faith community.

The It Takes Two program, which Thomason Hospital had been piloting since 1996 on a grant from the Texas Department of Health, and How to be Successful in 10 Minutes a Day were selected for implementation in area junior high schools. It Takes Two is a school-based curriculum that encourages teens to share responsibility for building healthy relationships, thereby empowering them to make choices about relationships that prevent high risk behaviors.

It Takes Two is conducted over three class sessions and focuses on sharing the responsibility for healthy romantic relationships with male/female presentation teams. Skits such as "G.I. Joe™ and Barbie™ go on a Date", helps teens recognize stereotypes, and "The Price is Right" gives teens a realistic, yet fun look at the true cost of having a baby. These presentations are designed to teach and entertain while stressing abstinence, as the only guarantee of safe sex. The program can be adapted to both abstinence-based and abstinence-only curriculum requirements.

The YWCA-Paso del Norte Region will offer "It Takes Two" and "How to be Successful in 10 Minutes a Day" at no cost to interested schools in the nine districts serving greater El Paso.



Action for Youth aims to prevent high risk behaviors among youth ages 12-18, such as drug, alcohol and tobacco use, and promotes the development of healthy youth. The Action for Youth community partnerships represent more than 200 schools, nonprofit organizations, businesses and churches that will work with youth and parents in 11 selected communities. Using the Search Institute's 40 developmental assets for youth, they will coordinate, enhance, and create programs in four priority areas:

- Parenting education for parents of youth
- Mentoring programs where adults serve as positive role models for youth
- Life skills, character education and values development programs

- Physical, creative, and community service activities for youth

The emphasis will be to encourage and improve existing activities rather than to develop new programs. A key goal is to make more effective use of existing resources. Together the partnerships plan to reach nearly 82,000 youth throughout the region.

In 1999, the UTEP Social Work Program will provide technical assistance and support to each partnership as they work toward achieving their objectives.

A regional parent and youth council will be established to provide a forum for parents and youth to voice their concerns and issues, and to assist in developing a regional media campaign promoting youth as assets to our community.

Action for Youth

**Building Assets to
Enable Youth to Live
Healthier Lives**

\$12 MILLION/6 YEARS

**Technical Advisors:
UTEP Social Work Program**

Partners:
*League of Empowered
Anthony Partnership,
Canutillo Community
Action for Students and
Adults, Sunset Heights
Partnership, Ysleta Area
Action for Youth Group,
Eastside Youth
Connection, Tornillo,
Fabens and Clint
Collaborative,
Northeast Teen
N.E.T.W.O.R.K.,
Southern Doña Ana
County Acción Para
La Iniciativa de los
Jovenes y sus Padres,
Northern Doña Ana
County Youth Initiative,
Otero County Youth
Empowerment
Association and Juarenses
por una Juventud Sana.*





CENTER
FOR BORDER
HEALTH
RESEARCH

**Ensuring a Well-
Coordinated Regional
Research Agenda leads to
Improved Border Health**

\$9 MILLION/5 YEARS

Partners:

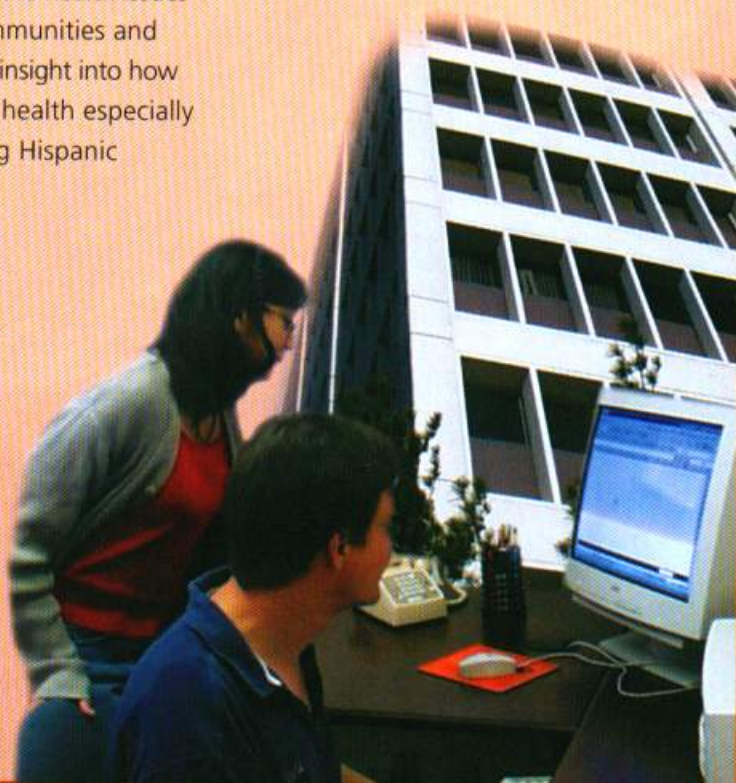
**UTEP, Texas Tech Health
Sciences Center-
El Paso, U.T. Houston
Health Sciences Center
School of Public Health
at El Paso, El Paso
Community College**

Sound research is the basis upon which superior health prevention and education programs are designed. Unfortunately, we found that very little useful information about health in Hispanic populations existed when we began to prioritize our Foundation work in 1996. So, we decided to either generate our own research like the El Paso Health Report, or form partnerships with institutions already recognized for their research capabilities.

The Center for Border Health Research is an effort to bring together the major regional research institutions to initiate health research for the Paso del Norte region. The Center intends to promote a better understanding of the health issues affecting our communities and ultimately provide insight into how to achieve better health especially in our burgeoning Hispanic population.

Presently, the Center is using "white papers" as a basis for developing research priorities. The white papers take a subject area, like chronic diseases or adolescent health, and offer an in-depth look at the issue. The white paper provides a definition of the issue and details its importance to local, border, and international policy. It also includes the most important articles published on the subject matter and an exhaustive description of local projects related to the topic.

In 1999, 10 papers will be completed and presented to the public at the first Center for Border Health Research Conference and Symposium later this year.



Programs are a smaller part of our grantmaking. These are one-year commitments that enhance the ability of an organization to address a health issue that complements our current work.

Physical Activities in Healthy Communities \$540,000

This grant will fund a two-year physical activity promotion to encourage seniors, adults and families to engage in regular physical activity. This effort targets the communities served by our Healthy Paso del Norte Initiative partners.

Seat Belts & Car Seats \$30,000

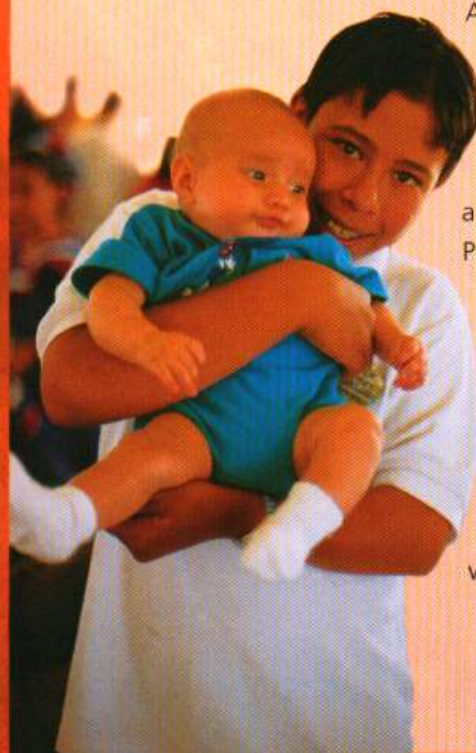
A portion of this grant was used by the Thomason Trauma Department to purchase child safety seats for their car seat loaner program and to conduct a National Standardized Child Passenger Training Class in El Paso. The "What's the Rule? Buckle Up!" seat belt media awareness campaign with the Thomason Trauma Department and McDonald's® during the first quarter of 1999 and Safe Communities planning retreat were included.

When Water Works for Health Documentary \$100,000

In an effort to visually document the Foundation's progress in getting colonia residents connected to water and wastewater services, this grant provides for a one-hour video production. The documentary will focus on solutions to the water problems faced by colonia residents and how community participation is changing the conditions in these rural communities.

Ciudad Juárez Student Curriculum and Teacher Training \$104,000

A 1997 planning grant from the Foundation identified the lack of a school-based drug, alcohol, and tobacco prevention curriculum in Ciudad Juárez. This joint effort by FEMAP and the Chihuahua State Educational Services System will result in the development of a prevention curriculum and a plan for implementation. It is anticipated that this curriculum could serve as a potential model for schools throughout Mexico.



INDEPENDENT AUDITOR'S REPORT

PASO DEL NORTE HEALTH FOUNDATION STATEMENT OF FINANCIAL POSITION DECEMBER 31, 1998 AND 1997

To the Board of Directors of
Paso del Norte Health Foundation

We have audited the accompanying statement of financial position of Paso del Norte Health Foundation (a nonprofit organization) as of December 31, 1998 and 1997, 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides 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, 1998 and 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Dubor, Brundage, Wiers LLP

El Paso, Texas
March 17, 1999

ASSETS	1998	1997
Current assets		
Cash	\$ 142,592	\$ 596,305
Other current assets	29,621	55,392
Total current assets	172,213	651,697
Investments	210,684,869	206,005,262
Notes receivable	-	22,591
Property and equipment, net	221,661	211,158
Other assets	547,162	526,940
Total noncurrent assets	211,453,692	206,765,951
Total assets	\$ 211,625,905	\$ 207,417,648

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued liabilities	\$ 273,592	\$ 93,858
Grants payable	4,688,295	2,641,538
Due to third-party payors	2,655,550	2,748,979
Total current liabilities	7,617,437	5,484,375
Noncurrent Liabilities		
Long term grants payable	16,306,095	5,260,000
Accrued general and professional liabilities	9,136,592	14,105,264
Total noncurrent liabilities	25,442,687	19,365,264
Net assets		
Unrestricted	178,170,279	182,141,910
Temporarily restricted	395,502	426,099
Total net assets	178,565,781	182,568,009
Total liabilities and net assets	\$ 211,625,905	\$ 207,417,648

The accompanying notes are an integral part of this statement.

PASO DEL NORTE HEALTH FOUNDATION STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
Revenues		
Investment income	\$ 7,015,589	\$ 7,419,842
Net realized gain on investments	17,293,361	19,928,625
Net assets released from restrictions	34,101	915,495
Other income	12,467	185,910
Total revenues	24,355,518	28,449,872
Expenses		
Program expense	16,951,769	9,021,417
General and administrative expense	1,000,657	1,009,742
Investment fees	1,004,800	890,222
Total expenses	18,957,226	10,921,381
Increase (Decrease) in net assets from continuing operations before net unrealized gains on investments	5,398,292	17,528,491
Net unrealized gain (loss) on investments	(9,983,552)	3,112,633
Discontinued operations		
Gain from operations of discontinued hospital	613,628	6,710,860
Increase (Decrease) in unrestricted net assets	(3,971,632)	27,351,984
Activity in temporarily restricted net assets		
Interest	1,505	26,722
Net realized/unrealized gain on investment securities	-	7,814
Contributions	2,000	1,000
Net assets released from restrictions	(34,101)	(915,495)
Decrease in temporarily restricted net assets	(30,596)	(879,959)
Increase (decrease) in net assets	(4,002,228)	26,472,025
Net assets, beginning of year	182,568,009	156,095,983
Net assets, end of year	\$178,565,781	\$182,568,008

The accompanying notes are an integral part of this statement.

PASO DEL NORTE HEALTH FOUNDATION STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (4,002,227)	\$ 26,472,026
Adjustments needed to derive cash flow provided (used) by operations:		
Depreciation	78,141	77,014
Accounts receivable & notes receivable	46,331	960,019
Prepaid expenses	686	(1,130)
Other assets	(20,222)	25,125
Accrued liabilities	86,865	-
Accounts payable and accrued liabilities	(560)	(2,877,876)
Grants payable	13,092,851	7,901,538
Other liabilities	(4,968,672)	(2,151,411)
Unrealized loss (gain) on investment securities	9,983,552	(3,112,632)
Net cash provided by operating activities	14,296,745	27,292,673
Cash flows from investing activities		
Purchases of property, plant and equipment	(88,644)	(24,569)
Increase in investments, net of sale	(14,661,814)	(30,522,042)
Net cash used in investing activities	(14,750,458)	(30,546,611)
Net decrease in cash and cash equivalents	(453,713)	(3,253,938)
Cash, beginning of year	596,305	3,850,243
Cash, end of year	\$142,592	\$596,305

The accompanying notes are an integral part of this statement.

PASO DEL NORTE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

General

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.

Tax-Exempt Status

In 1997 the Foundation received a ruling from the Internal Revenue Service (the "IRS") stating it was to be recognized as a public charity as described in section 509(a)(2) of the Internal Revenue Code (the "Code"). Management believes that it will continue to be able to meet the public charity qualification tests of section 509(a)(2) of the Code until the end of 1999. At that time the Foundation will become a private foundation under section 509(a) of the Code.

Basis of Presentation

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.

Investments

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

Property and equipment

Property and equipment 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 generally accepted accounting principles 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.

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, 1998 and 1997, cash consisted of the following:

	1998	1997
Cash on hand	\$ 300	\$ 300
Cash on deposit	142,292	596,005
Total	<u>\$ 142,592</u>	<u>\$ 596,305</u>
Balance per bank statements	\$ 477,069	\$ 724,274
FDIC coverage	129,260	215,857
Uninsured balance	<u>\$ 347,809</u>	<u>\$ 508,417</u>

3. INVESTMENTS

Investments at December 31, 1998 consisted of the following:

	Cost	Carrying Value
Cash investment fund	\$ 9,820,047	\$ 9,820,047
Government and corporate obligations	63,247,406	66,498,850
Equity securities	124,745,729	133,774,412
Limited partnerships	580,000	591,560
Total	<u>\$ 198,393,182</u>	<u>\$ 210,684,869</u>

Investments at December 31, 1997 consisted of the following:

	Cost	Carrying Value
Cash investment fund	\$ 5,003,350	5,003,350
Government and corporate obligations	71,515,573	72,952,595
Equity securities	105,901,664	127,874,245
Limited partnerships	180,000	175,072
Total	<u>\$182,600,587</u>	<u>\$206,005,262</u>

4. 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 1998, the Foundation contributed approximately \$29,400 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 \$10,000 or one-sixth of compensation during any calendar year. During 1998 employees contributed approximately \$39,200 to the Plan.

5. DISCONTINUED OPERATIONS

As discussed in Note 1, certain assets of the Hospital were sold in September 1995. An adjustment to the original estimate of the gain on discontinued operations of the Hospital is reported in the accompanying statement of activities and changes in net assets.

6. COMMITMENTS AND CONTINGENCIES

Leases

The Foundation leases its primary facilities under an operating lease that will expire in 2001. Additional space was leased in 1998 under another operating lease that will also expire in 2001. Both leases provide an option to renew for a period of thirty-six months. Future minimum annual lease payments are as follows:

1999	\$ 122,280
2000	122,280
2001	40,761
	<u>\$ 285,321</u>

These financial statements include expense related to these leases for 1998 and 1997 in the amount of \$48,490 and \$24,867, 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, 1998, 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 is reached, the carrier will assume responsibility up to \$15 million.

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, 1998, are adequate to provide for potential losses resulting from pending or threatened claims.

Third-Party Cost Reports

Certain allowances for losses are provided each year for disputed items related to certain third-party reimbursements claimed in the Hospital cost reports. Management believes that allowances for losses have been provided to the extent necessary and that its assessment of contingencies is reasonable. To the extent that the resolution of contingencies results in amounts that vary from management's estimates, future earnings will be charged or credited.

7. RECLASSIFICATIONS

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.