



PASO DEL NORTE HEALTH FOUNDATION

Better Health, Better Lives, A Better Community.



1996 ANNUAL REPORT

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MESSAGE FROM THE PRESIDENT

We studied. We planned. We knew the challenge was great, but the promise was greater. 1996 was a year of accomplishment and focus. The Board and staff emerged from it with a clear direction and a unified vision, ready for the exciting task of making our dreams of a healthier community a reality.

Our first phase of development was identifying the health needs in the Foundation's service area, which includes five distinct localities spread out over two nations and three states. On the U.S. side of the border, El Paso, Texas, and Las Cruces, New Mexico, are among the five poorest metropolitan areas in the country. Our greatest challenge was to create a mission and a vision that would benefit the entire community of El Paso, Ciudad Juárez, and Southern New Mexico.

The experience of operating Providence Hospital taught us that using money for medical care would quickly exhaust the Foundation's resources. Research shows that prevention and education can dramatically improve community health, resulting in fewer health care dollars spent for medical services. For example, the incidence of diabetes is escalating in our community. If we can reverse this trend by addressing some of the underlying causes of this disease, our investment will reap tremendous benefits beyond mere monetary savings.

Under the expert leadership of Chairman of the Board W. L. Hunt, the staff and volunteer board developed a mission "to effect long-term improvement in the health status of the population of the greater El Paso region through education and prevention." The vision of the Foundation is for a region where people have the knowledge, resources, and environment they need to live healthier lives; where health problems are prevented, where there is access to primary care, and where people on both sides of the border live in clean, safe communities.

As part of the board and staff's planning and fiduciary responsibilities, they visited other health foundations, which shared both their successes and their failures. These more established foundations, through proven successes utilizing grass-roots efforts, confirmed the importance of prevention and education. The Board recognized that including community partners was essential to the Foundation's success in identifying practical solutions to regional health problems.

We also realized the importance of Foundation-initiated projects and programs, supported by scientific, community-based research. "The El Paso Health Report," due for release in February, 1997, is the first of this research. The report, produced with the help of the Centers for Disease Control and the Texas Department of Health, identified behavioral factors of the populations in the region which impact the health of our communities. This research will be the basis of the Foundation's first major grant programs beginning in 1997.

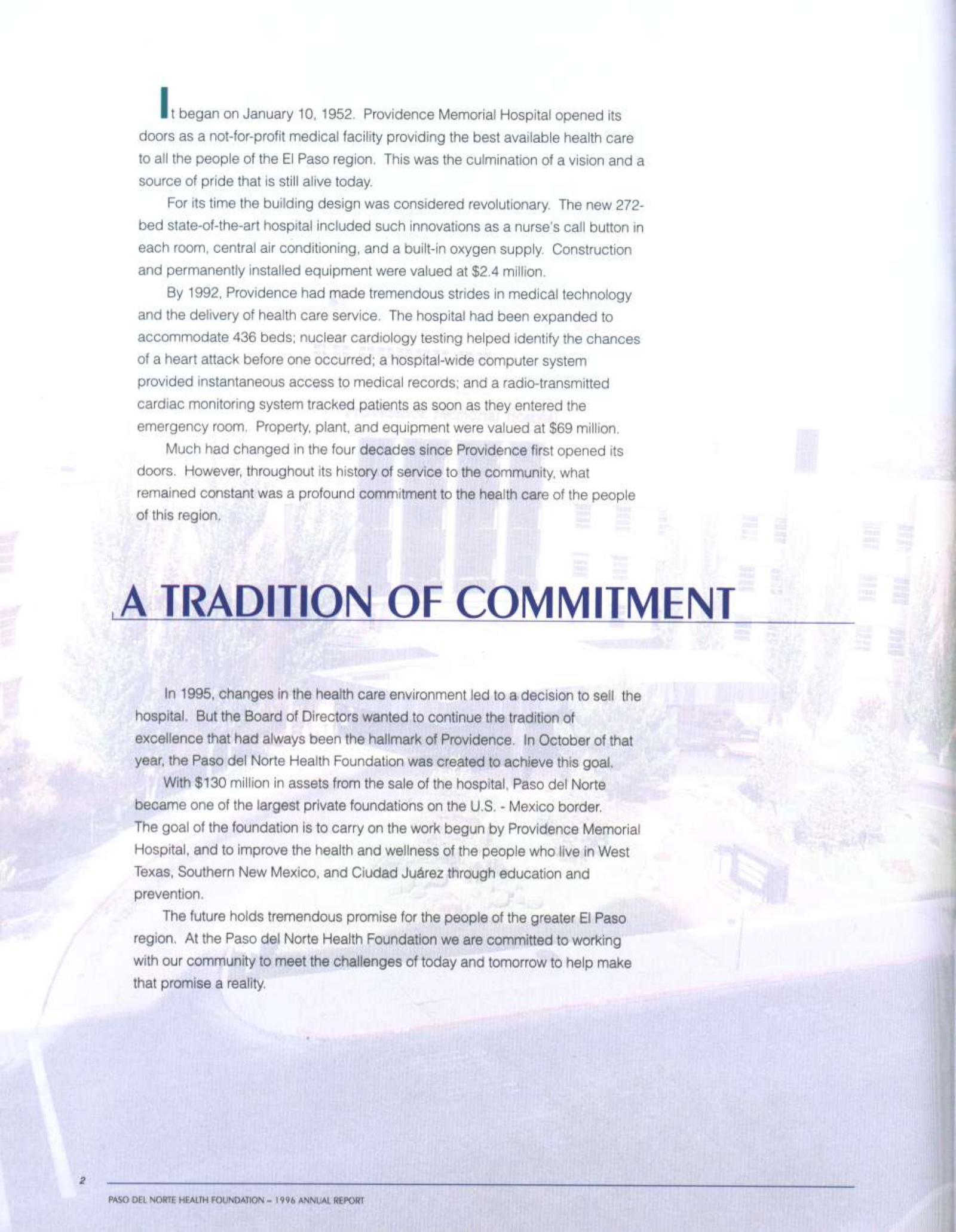
As we look towards the future, we applaud the efforts of all those who have participated in this crucial development phase. At the same time, we recognize that many challenges lie ahead. And we understand that the issues facing us will become increasingly complex. However, by adhering to our mission and our vision, we will, with our community partners, identify and achieve solutions that will help the people of the Paso del Norte region live longer, healthier lives.



ANN G. PAULI, PRESIDENT

A handwritten signature in black ink that reads "Ann G. Pauli". The signature is written in a cursive, flowing style.

Ann G. Pauli
President

An aerial photograph of a city, likely El Paso, showing a river, a bridge, and various buildings. The image is faded and serves as a background for the text.

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. This was the culmination of a vision and a source of pride that is still alive today.

For its time the building design was considered revolutionary. The new 272-bed state-of-the-art hospital included such innovations as a nurse's call button in each room, central air conditioning, and a built-in oxygen supply. Construction and permanently installed equipment were valued at \$2.4 million.

By 1992, Providence had made tremendous strides in medical technology and the delivery of health care service. The hospital had been expanded to accommodate 436 beds; nuclear cardiology testing helped identify the chances of a heart attack before one occurred; a hospital-wide computer system provided instantaneous access to medical records; and a radio-transmitted cardiac monitoring system tracked patients as soon as they entered the emergency room. Property, plant, and equipment were valued at \$69 million.

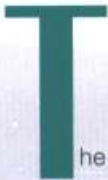
Much had changed in the four decades since Providence first opened its doors. However, throughout its history of service to the community, what remained constant was a profound commitment to the health care of the people of this region.

A TRADITION OF COMMITMENT

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. In October of that year, the Paso del Norte Health Foundation was created to achieve this goal.


With \$130 million in assets from the sale of the hospital, Paso del Norte became one of the largest private foundations on the U.S. - Mexico border. The goal of the foundation is to carry on the work begun by Providence Memorial Hospital, and to improve the health and wellness of the people who live in West Texas, Southern New Mexico, and Ciudad Juárez through education and prevention.

The future holds tremendous promise for the people of the greater El Paso region. At the Paso del Norte Health Foundation we are committed to working with our community to meet the challenges of today and tomorrow to help make that promise a reality.



he 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.

MISSION/VISION



e 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.

OUR GRANT-MAKING PHILOSOPHY

As a philanthropic organization, the Paso del Norte Health Foundation has focused its energy on helping those within the community who are most in need. We envision a greater El Paso region where all people, regardless of socio-economic status, have the knowledge, resources, and environment they need to live healthy lives. To achieve this vision the Foundation has developed a creative, proactive approach to improving the long-term health of the community. Not only is this strategy new to the El Paso region, but also it is unique among health foundations throughout the country. Our guiding principles are education and prevention, which are the most cost-effective ways of improving the health of people who have little or no medical coverage. This will be accomplished through a combined program of grant-making, partnerships, and leveraging of the Foundation's resources.

The Board of Directors and Staff are committed to identifying grant-making opportunities that specifically address the health and wellness issues of the community. To focus on these opportunities, we produced "The El Paso Health Report," the first comprehensive, scientific health survey for the entire population of El Paso County. Based on this study, we will initiate the grant-making process by soliciting proposals from qualified individuals and organizations. Requests for funding must be supported by community-based research that demonstrates that the proposal meets the Foundation's goals.

Better Health, Better Lives, A Better Community.

The Foundation will work in partnership with individuals and organizations that can help develop programs that will achieve measurable, sustainable, practical solutions to regional health problems. This will involve interactive community efforts at the grass-roots level, as well as collaboration with other foundations and institutions. It will also provide the opportunity for local people and organizations to take a greater responsibility in solving local health problems.



Meeting the health and wellness needs of the broad-based population in the El Paso-Juárez region is an enormous undertaking. Where resources are limited, and the need is so great, effective use of available money is critical.

By leveraging the Foundation's support with other sources of funding, and by creating linkages with individuals and organizations with health-related experience and knowledge, we can make better, more effective use of our resources.

The Foundation will provide the leadership and expertise necessary to ensure that our sponsorship remains relevant and responsible to the needs of the community.

THE FOUNDATION IN ACTION

The Foundation has adopted a proactive agenda that promises to impact the health of our community well into the future. Through the **Healthy Paso del Norte Initiative**, we intend to fund the creation of nine Community Health Councils, which will utilize the Healthy Communities approach to organizing and planning health and wellness programs. The Healthy Communities model, developed by the World Health Organization, is now in use in cities and communities throughout the U.S. and Texas as a mechanism for linking public, private, and non-profit sectors to address the underlying causes of poor health. It provides a methodology for analyzing the needs and resources of a community, developing alliances with community partners, and implementing effective plans of action.

With funding and technical assistance from the Foundation, the Community Health Councils will spend their first year assessing the needs of the El Paso region, creating a shared vision of a healthier community, setting achievable goals, and formulating plans. During the second and third years, we will provide some support for implementing strategies that are developed through this process. Current plans call for additional councils to be added in the next two years.

The **Border LEAN Initiative** is intended to provide a comprehensive approach to health and fitness through four distinct programs:

CATCH (Child and Adolescent Trial for Cardiovascular Health) promotes healthy eating habits and increased exercise levels in elementary school children. The CATCH program was selected by the Foundation's volunteer coalition of physical education and nutrition professionals to help children reduce the risk of future heart disease.

Little LEAN is a daycare-based program developed with the participation of pre-school experts; it is designed to promote healthy eating habits and encourage more physical activity in children from birth to four years old.

Miles to Mars was conceived by University of Texas at El Paso professor Dr. Garland O'Quinn. Dr. O'Quinn noted that NASA's quest to reach Mars by the year 2020 meant that today's elementary school children will be among the astronauts of tomorrow. Miles to Mars will engage children's natural curiosity about space and focuses on nutritional education and physical activity in the context of a fun, activity-driven program. Beginning in the Fall of 1998, kids will earn "miles" by participating in specific activities and by eating Miles to Mars approved foods.



Restaurants: Rx for a Region will be a volunteer coalition of restaurant owners, chefs, and food professionals, including Park Kerr, noted culinary expert and owner of the El Paso Chile Company. Our border community is recognized as the Mexican Food Capital of the World. This program encourages restaurants to modify and "re-invent" their most popular dishes to create more healthy and nutritious interpretations of local cuisine.

The Promoting Physical Activity Initiative will involve at least 14 community partners in an effort to encourage fitness through programs targeted at families and low-income communities. The Foundation will award grants of up to \$15,000 to promote innovative and creative ways of encouraging people with traditionally sedentary lifestyles to exercise more and take part in other wellness activities.

One-year planning grants have been designated for community-based initiatives that address **Youth Alcohol and Tobacco Use, Teen Pregnancy Prevention, and Preventive Health Screening Promotion.** In addition, the Foundation will research and identify agencies, organizations, and other resources that can help improve our approach to early childhood development. In light of new research on brain development from birth to age three, as well as interest from the White House, we will also probably begin work on an Early Childhood Development Initiative.

In our continuing effort to produce current, health-related information, we intend to move towards the creation of an institute for generating meaningful research relevant to our community. This will enable the Foundation to provide leadership in identifying opportunities and developing solutions for the specific needs of the people of the Paso del Norte region.

GEOGRAPHIC SERVICE AREA

The purpose of the Paso del Norte Health Foundation is to promote wellness and prevent sickness among the 1.8 million people living in El Paso and Hudspeth counties in West Texas, Doña Ana and Otero counties in Southern New Mexico, and Ciudad Juárez in Chihuahua, México. The necessity of developing creative ways of dealing with health and wellness issues is obvious:

- El Paso is among the five poorest metropolitan areas in the United States, with an average per capita income of \$12,500 per year.
- Average unemployment in El Paso is over 10%.
- More than 1 in 10 El Pasoans live in colonias that have substandard housing, insufficient roads and drainage, and limited access to potable water and waste water disposal systems.
- 42% of El Pasoans have no health insurance, compared to 17% nationally and 22% in the state of Texas.
- 76.3% of El Paso's population has only a high school education or equivalent.
- The average income in Ciudad Juárez is only \$900 per year.
- Juárez is the fourth largest city in México, yet it has no waste water treatment system, resulting in large amounts of raw sewage being deposited in the Rio Grande.
- Nearly half of the combined population of El Paso-Juárez is under the age of 30, and the fastest growing age group is from birth to four years.



1996 BOARD OF DIRECTORS

EXECUTIVE COMMITTEE MEMBERS

The members of the Board of Directors of the Paso del Norte Health Foundation represent the unique diversity of our region, and they bring a wide variety of experiences and talents to the leadership of our organization. What unites them is a shared vision of a healthier El Paso. As volunteers in the task of achieving that vision, they symbolize the generosity which has always been part of our community spirit, and which is so critical to the success of our Foundation.



W.L. (Woody) Hunt,
Chairman of the Board

- Chairman of the Board & CEO, Hunt Building Corporation
- President, Cimarron Foundation
- Member, UTEP Development Board; Governor's Business Council; M.D. Anderson Hospital Board of Visitors; Claremont Graduate School Board of Visitors
- Board of Directors, Texas Commerce Bank - El Paso; Texas Commerce Bank - Houston



Edmund G. (Ed) Archuleta,
Vice Chairman of the Board

- General Manager, El Paso Water Utilities Public Service Board
- Board of Directors, United Way; Candlelighters of El Paso; Rotary Club of El Paso; American Waterworks Association Research Foundation, El Paso Symphony Orchestra



Jesus A. (Jesse) Alvarez,
Community & Public Affairs Committee Chairman

- CEO, Expert Refrigeration and Expert Builders
- Past Chairman, El Paso Hispanic Chamber of Commerce
- Executive Board, Greater El Paso Chamber of Commerce
- Chairman, Norwest Bank Citizens Advisory Committee
- Board of Directors, El Paso International Airport; Better Business Bureau; Columbia Medical Center East; El Paso Builders Association; Hispanic Chamber ED Foundation; Ronald McDonald House
- Past Chairman, Unite El Paso
- Community Board, Norwest Bank
- Past Member of Board of Directors, United Way
- Member, Rotary Club of El Paso



Jacob S. Heydemann, M.D.,
Allocations Committee Chairman

- Orthopedic Surgeon, El Paso Orthopedic Surgery Group
- Founder/Member, Border Children's Health Center Board of Directors
- Director, FEMAP (Mexican Federation of Private Health and Community Development Association)



W. Burney Warren,
Investments Committee Chairman
• Past President and Director (Retired), El Paso Natural Gas Company



Olga (Cookie) Mapula,
Board Selection and Conflicts Committee Chairman

- President, TCG (Technology & Communications Gateway, Inc.)
- Chair, Board of Trustees, El Paso Community College
- Board of Directors, El Paso Hispanic Chamber of Commerce
- Member, Executive Forum
- Volunteer, Mothers Against Drunk Driving
- Fellow, National Hispana Leadership Institute



Robert H. Hoy, Jr.,
Immediate Past Chairman

- Partner, Hoy-Fox Automotive Group
- 1996-1997 Chairman, Texas Automobile Dealers Association
- Past Chairman, Board of Directors, Providence Memorial Hospital; Board of Managers, Thomason General Hospital; Texas Motor Vehicle Commission
- (1969-71) Member, El Paso City Council
- Member, UTEP Development Board
- Past Member, Texas Tech Medical School Foundation

Leadership

BOARD OF DIRECTORS



Hughes Butterworth, Jr.,
Board Member

- CEO, Lawyers Title of El Paso, Inc.
- Volunteer, UTEP Development Board
- Member Rotary Club; El Paso Foreign Trade Association; National Council of Christians & Jews; St. Francis Episcopal Church



Victor A. Diaz, M.D.,
Board Member

- General Surgeon
- 1994 Chief of Staff, Providence Memorial Hospital
- 1995 President, American Cancer Society - West Texas Division



George J. DiDonna, M.D.,
Board Member

- Cardiologist
- Past President, El Paso County Medical Society and American Heart Association El Paso Division
- Past Chief of Staff, Providence Memorial Hospital
- Past Chief of Staff, Sun Towers Hospital (Columbia Medical Center West)
- Selected as one of the *Best Doctors in America, Central Region 1996-97*
- Clinical Associate Professor of Medicine, Texas Tech Health Sciences Center - El Paso



Dionicio (Don) Flores,
Board Member

- Editor & Publisher, El Paso Times
- Board of Directors, United Way of El Paso County
- Volunteer, Freedom of Information Foundation of Texas; Accrediting Council on Education and Mass Communications; Quill and Scroll International Honorary Society for High School Journalists
- Past President, National Association of Hispanic Journalists



Patricia Holland-Branch,
Board Member

- President & Owner, HB/PZH Commercial Environments, Inc.
- 1994 Chairman of the Board, Greater El Paso Chamber of Commerce
- National Dealer Council, Office Furniture USA
- Community College Advisory Board
- ACCION of El Paso
- El Paso Branch, Federal Reserve Bank Board of Directors
- UTEP School of Business



Steve Lauterbach, Jr.,
Board Member

- President, Lauterbach, Borschow & Co., P.C.
- Board Member, Rio Grande Cancer Foundation
- Member, UTEP Business Advisory Council and UTEP Planned Giving Council



Adair Margo,
Board Member

- President, Adair Margo Gallery
- Board of Directors, FEMAP Foundation; Our Lady's Youth Center; Mid-America Arts Alliance
- Former Chair, Texas Commission on the Arts
- Past Board Member, The Junior League of El Paso; YWCA; Crime stoppers, El Paso Symphony Orchestra; Bridge Center for Contemporary Art
- Member, UTEP Business Advisory Council
- Board of Directors, Texas Commerce Bank - El Paso



Scott J. McLean,
Board Member

- Past Chairman of the Board & CEO, Texas Commerce Bank - El Paso
- 1996 Chairman, Greater El Paso Chamber of Commerce
- Capital Campaign Steering Committees: El Paso Shelter for Battered Women, Boys and Girls Club, YMCA, and YWCA
- Member, Corporate Advisory Board for the El Paso Hispanic Chamber of Commerce

BOARD OF DIRECTORS



Joseph L. Motes, M.D.,
Board Member

- General Surgeon
- Past Board Member, El Paso City-County Board of Health
- Past Chief of Staff & Chairman of the Department of Surgery, Providence Memorial Hospital, Sierra Medical Center, Sun Towers Hospital (now Columbia Medical Center-West)
- Past President, El Paso Surgical Society



Travis H. Petty,
Board Member

- Vice Chairman (Retired), Burlington Resources, Inc.
- Former Chairman & CEO, El Paso Natural Gas Company
- Board of Directors, Texas Commerce Bank - El Paso
- Member, M.D. Anderson Cancer Treatment Center Board of Visitors



Robert E. Skov,
Board Member

- Partner, Skov Farms
- Appointed to the U.S. Cotton Board by the Secretary of Agriculture
- Past Director, El Paso County Water Improvement District 1
- Past President & Chairman of the Board, El Paso Valley Cotton Association
- Volunteer, United Way; Toys for Tots; El Paso County Livestock Show and Rodeo
- Chairman of the Board, Montwood Bank
- Past Chairman and President of the Supima Association of America
- Member, UTEP Business Advisory Council and Development Board
- Major, U.S. Marine Corps (Retired)



Margarita (Margie) Velez,
Board Member

- Regional Director, U.S. Senator Phil Gramm
- Member, Norwest Bank Citizens Advisory Committee; Northeast Civic Leaders Council
- Board of Directors, Northeast YMCA; Cross-Cultural Ministries
- Author and Columnist



Jack C. Vowell,
Board Member

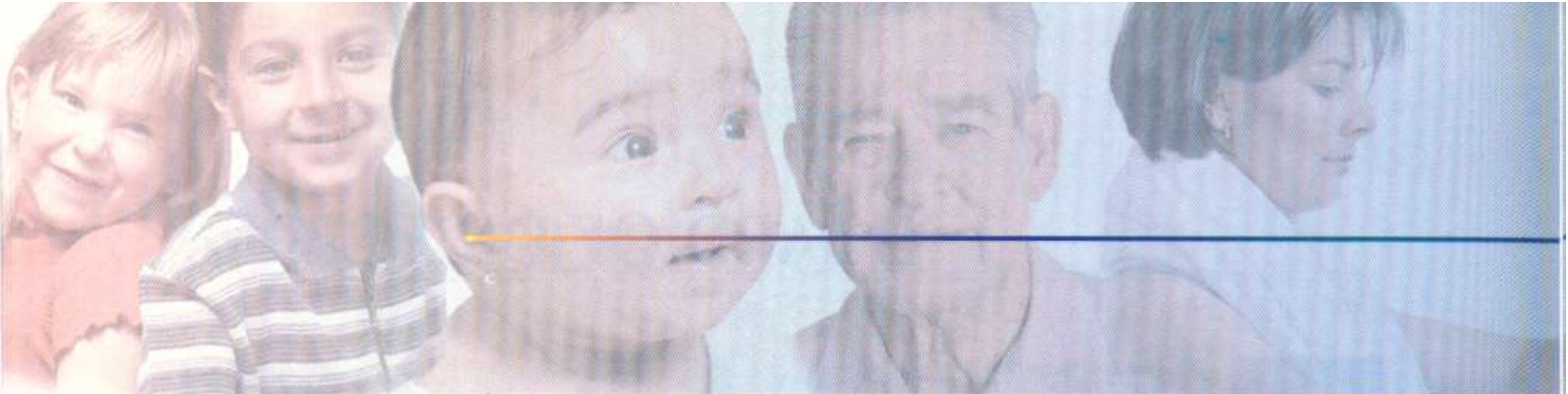
- Former Member, Texas State Legislature



Robert V. Wingo,
Board Member

- President and CEO, Sanders, Wingo, Galvan & Morton Advertising
- Board of Directors, SunWest Bank; University of Texas at El Paso; Miner Foundation; El Paso Chamber of Commerce; El Paso Club; Sun Bowl Association
- Chairman of Communications, UTEP Legacy Campaign
- House of Cornelius Orphanage; Sunturians; Advertising Federation of El Paso; UTEP Athletic Program; Youth Enrichment Seminar

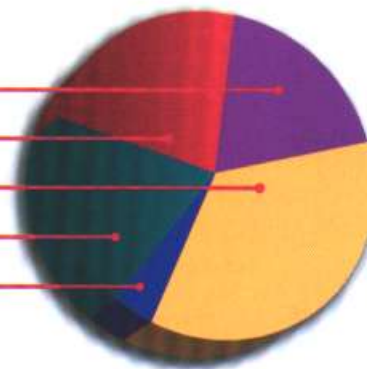
Leadership



GENERAL HEALTH STATUS

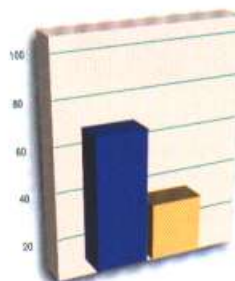
"Would you say in general your health is excellent, very good, good, fair, or poor?"

EXCELLENT:	19%
VERY GOOD:	23%
GOOD:	36%
FAIR:	19%
POOR:	4%



HEALTH COVERAGE

"Do you have any kind of health care coverage, including health insurance, prepaid plans such as HMO's, or government plans such as Medicare or military coverage?"

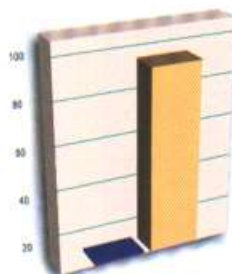


● YES: 68%
● NO: 32%

CHRONIC DISEASES DIABETES

"Have you ever been told by a doctor that you have diabetes?"

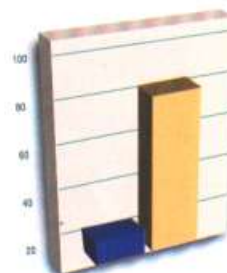
● YES: 7%
● NO: 93%



HYPERTENSION

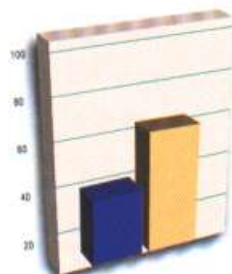
"Have you ever been told by a doctor, nurse or other health professional, that you have high blood pressure?"

● YES: 20%
● NO: 80%



"Has anyone in your family ever been told by a doctor that they have diabetes? Include your grandparents, brothers and sisters, but not yourself."

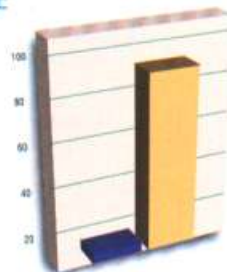
● YES: 39%
● NO: 61%



CARDIOVASCULAR DISEASE

"Have you ever been told by a doctor, nurse or other health professional, that you have heart problems?"

● YES: 9%
● NO: 91%



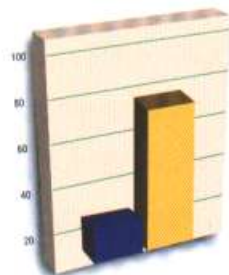
el paso

HEALTH REPORT

LACK OF EXERCISE

"Do you engage in exercise for at least 30 minutes, three times a week?"

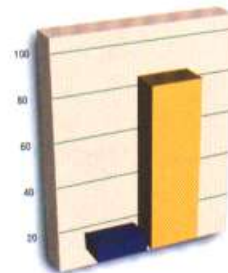
● YES: 25%
● NO: 75%



DRINKING BINGE DRINKERS

Adults who report having more than 5 drinks on one occasion in the past 30 days.

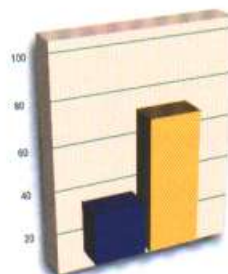
● YES: 18%
● NO: 82%



OVERWEIGHT

Body Mass Index (BMI) calculated using self-reported weight and height.

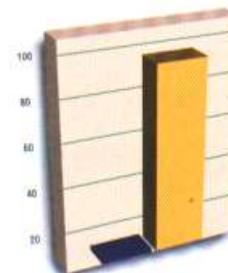
● YES: 33%
● NO: 67%



CHRONIC DRINKERS

Adults who report having more than 60 drinks in the past 30 days.

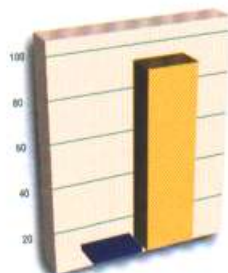
● YES: 5%
● NO: 95%



NUTRITION

Consumes five or more fruits & vegetables a day.

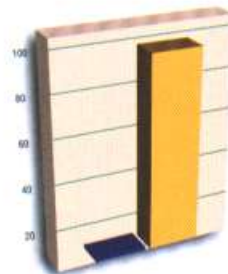
● YES: 7%
● NO: 93%



DRINKING AND DRIVING

Adults who report they have driven in the past month after having too much to drink.

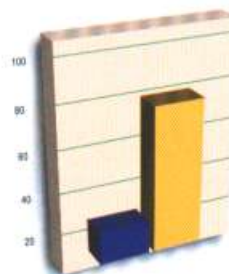
● YES: 3%
● NO: 97%



SMOKING

Smoked 100 cigarettes in lifetime and currently smokes.

● YES: 22%
● NO: 78%



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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 Texas nonprofit corporation) as of December 31, 1996, and the related statements of activities, changes in net assets and cash flows for the year 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, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Arthur Andersen LLP

Dallas, Texas,

May 20, 1997

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1996

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 8,853,593
Short-term investments	618,704
Patient accounts receivable, net	873,888
Other receivables	37,591
Prepaid expenses	5,461

Total current assets	10,389,237
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PROPERTY AND EQUIPMENT, net	263,603
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NOTES RECEIVABLE, net	145,027
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INVESTMENTS	167,275,473
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Total assets	\$178,073,340
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 243,363
Accrued liabilities	2,728,341
Due to third-party payors	3,132,185

Total current liabilities	6,103,889
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NONCURRENT LIABILITIES:

Accrued professional liabilities	15,873,468
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COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted	135,916,458
Unrestricted-board designated	18,873,468
Temporarily restricted	1,306,057

Total net assets	156,095,983
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Total liabilities and net assets	\$178,073,340
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The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 1996

REVENUES:

Investment income	\$ 6,169,900
Net assets released from restrictions	615,785
Interest income	19,397
Other income	93,397
Gain on sale of property, plant, and equipment	1,953,650
Net realized gain on investment securities	3,690,160
Net unrealized gain on investment securities	16,125,238
<hr/>	
Total revenues	28,667,527

EXPENSES:

General and administrative expense	1,158,640
Investment fees	845,416
Programs expense	59,399
<hr/>	
Total expenses	2,063,455

INCREASE IN NET ASSETS FROM CONTINUING OPERATIONS	26,604,072
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DISCONTINUED OPERATIONS:

Gain from operations of discontinued hospital	6,439,513
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INCREASE IN UNRESTRICTED NET ASSETS	33,043,585
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DECREASE IN TEMPORARILY RESTRICTED NET ASSETS:

Contributions	14,340
Realized investment income	152,478
Net assets released from restrictions	(615,785)

DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(448,967)
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INCREASE IN NET ASSETS	32,594,618
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NET ASSETS, beginning of year	123,501,365
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NET ASSETS, end of year	\$156,095,983
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The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 1996

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in assets	\$32,594,617
Adjustments to reconcile change in net assets to net cash provided by operating activities-	
Depreciation	54,596
Gain on sale of property, plant, and equipment	(1,953,650)
Decrease in net patient accounts receivable	4,330,441
Decrease in prepaid expenses	52,076
Decrease in other assets	646,803
Decrease in accounts payable	(2,743,371)
Decrease in accrued liabilities	(1,154,044)
Decrease in other liabilities	(3,486,823)
<hr/> Net cash provided by operating activities	<hr/> 28,340,645

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of property, plant, and equipment	5,450,000
Purchases of property, plant and equipment	(231,504)
Purchase of investments	(38,453,073)
<hr/> Net cash used in investing activities	<hr/> (33,234,577)

NET DECREASE IN CASH AND CASH EQUIVALENTS (4,893,932)

CASH AND CASH EQUIVALENTS, beginning of year 13,747,525

CASH AND CASH EQUIVALENTS, end of year \$ 8,853,593

The accompanying notes are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996**

1. ORGANIZATION:

General

Paso del Norte Health Foundation (the "Foundation") 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.

Prior to September 29, 1995, the Foundation operated as Providence Memorial Hospital (the "Hospital"), a licensed acute care facility in El Paso, Texas. The Hospital was organized as a Texas nonprofit corporation exempt from federal income taxes pursuant to Section 501(c)(3) of the IRC. On September 29, 1995, the Hospital sold its general acute care assets to Tenet Hospitals Limited for approximately \$103,872,000 (the "Sale") and restated its articles of incorporation and corporate bylaws to reflect its revised organizational and operational purposes, as described above, and to change the name of the corporation to Paso del Norte Health Foundation.

Tax-Exempt Status

In connection with the sale of the Hospital, the Foundation received a ruling from the Internal Revenue Service (the IRS):

- 1) that confirms that after the sale the Foundation continued to be exempt from federal income tax under section 501(c)(3) of the Code;
- 2) that as of the date of the sale the Foundation became a public charity under section 509(a)(2) of the Code; and
- 3) that the Foundation can reasonably be expected to meet the requirements of section 509(a)(2) of the Code until such time as it ceases to satisfy the tests for qualification under that section.

Management anticipates that it will at least be able to remain a public charity under section 509(a)(2) through 1999. After the Foundation ceases to be a public charity under section 509(a)(2), it will become a private foundation under section 509(a) of the Code.

2. SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments with original maturities of less than three months. At December 31, 1996, cash and cash equivalents consisted of the following:

Cash in bank	\$ 879,798
Cash equivalents	7,973,795
Total	\$8,853,593

Patient Accounts Receivable

Patient accounts receivable are presented net of an allowance for uncollectible accounts of approximately \$10,492,000.

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. Renewals and replacements that improve or extend the lives of the assets are capitalized. Upon sale or retirement, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in operations. The property and equipment presented on the statement of financial position is comprised of major movable equipment and is presented net of accumulated depreciation.

Notes Receivable

Notes receivable represent notes from physicians and are presented net of allowances of \$38,680.

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. Actual results could differ from those estimates.

3. DISCONTINUED OPERATIONS:

As discussed in Note 1, the general acute care assets of the Hospital were sold on September 29, 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.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Foundation's financial statements are in accordance with Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments." Cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of those instruments.

5. RETIREMENT FUND:

The Hospital-sponsored Providence Memorial Hospital Retirement and Savings Plan (the "Plan"), a defined contribution plan that covered employees of the Hospital. The Plan was terminated on the date of the sale of the Hospital; however, the final distribution of Plan assets has not been made.

6. COMMITMENTS AND CONTINGENCIES:

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, 1996, 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 3%) and are included in accrued 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, 1996, 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. Foundation 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.