

Paso del Norte Foundation

Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2017

Paso del Norte Foundation

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Independent Auditors' Report

To the Board of Directors of
Paso del Norte Foundation:

We have audited the accompanying financial statements of Paso del Norte Foundation (PDNF), which comprise the statement of financial position as of December 31, 2017 and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements.

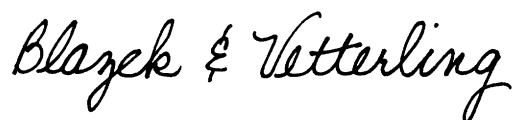
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance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

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PDNF as of December 31, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



August 16, 2018

Paso del Norte Foundation

Statement of Financial Position as of December 31, 2017

ASSETS

Cash	\$ 1,516,604
Receivable from Paso del Norte Health Foundation (<i>Note 2</i>)	1,504,569
Pledges receivable (<i>Note 3</i>)	307,523
Investment pool held by Paso del Norte Health Foundation (<i>Note 4</i>)	3,724,664
Other assets	<u>32,451</u>
TOTAL ASSETS	<u>\$ 7,085,811</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 28,567
Annuity payable (<i>Note 5</i>)	<u>68,086</u>
Total liabilities	<u>96,653</u>
Commitments (<i>Note 9</i>)	
Net assets:	
Unrestricted (<i>Note 6</i>)	4,536,806
Temporarily restricted (<i>Note 7</i>)	<u>2,452,352</u>
Total net assets	<u>6,989,158</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,085,811</u>

See accompanying notes to financial statements.

Paso del Norte Foundation

Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 2,920,191	\$ 258,476	\$ 3,178,667
Support from Paso del Norte Health Foundation (Note 2)	411,499	2,264,138	2,675,637
Change in fair value of investment pool held by Paso del Norte Health Foundation (Note 4)	253,575	–	253,575
Other income	<u>3,744</u>	<u>–</u>	<u>3,744</u>
Total revenue	3,589,009	2,522,614	6,111,623
Net assets released from restrictions:			
Program expenditures	<u>197,331</u>	<u>(197,331)</u>	<u>–</u>
Total	<u>3,786,340</u>	<u>2,325,283</u>	<u>6,111,623</u>
EXPENSES:			
Program expenses:			
Grants awarded	969,796	–	969,796
Program management	<u>165,311</u>	<u>–</u>	<u>165,311</u>
Total program expenses	1,135,107	–	1,135,107
Management and general	168,853	–	168,853
Fundraising	<u>41,910</u>	<u>–</u>	<u>41,910</u>
Total expenses	<u>1,345,870</u>	<u>–</u>	<u>1,345,870</u>
CHANGES IN NET ASSETS	2,440,470	2,325,283	4,765,753
Net assets, beginning of year	<u>2,096,336</u>	<u>127,069</u>	<u>2,223,405</u>
Net assets, end of year	<u>\$ 4,536,806</u>	<u>\$ 2,452,352</u>	<u>\$ 6,989,158</u>

See accompanying notes to financial statements.

Paso del Norte Foundation

Statement of Functional Expenses for the year ended December 31, 2017

	<u>PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Grants	\$ 969,796	\$ –	\$ –	\$ 969,796
Salaries and related benefits	133,563	119,317	39,585	292,465
Professional fees	10,652	33,818	–	44,470
Telephone and technology	7,931	3,066	–	10,997
Occupancy	4,569	3,729	1,026	9,324
Other	<u>8,596</u>	<u>8,923</u>	<u>1,299</u>	<u>18,818</u>
Total expenses	<u>\$ 1,135,107</u>	<u>\$ 168,853</u>	<u>\$ 41,910</u>	<u>\$ 1,345,870</u>

See accompanying notes to financial statements.

Paso del Norte Foundation

Statement of Cash Flows for the year ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ 4,765,753
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Change in fair value of investment pool held by Paso del Norte Health Foundation	(253,575)
Changes in operating assets and liabilities:	
Receivable from Paso del Norte Health Foundation	(1,504,569)
Pledges receivable	(94,356)
Other assets	7,527
Accounts payable and accrued expenses	(112)
Annuity payable	<u>68,086</u>
Net cash provided by operating activities	<u>2,988,754</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of interest in investment pool held by Paso del Norte Health Foundation	(2,392,225)
Redemptions of interest in investment pool held by Paso del Norte Health Foundation	<u>118,649</u>
Net cash used by investing activities	<u>(2,273,576)</u>

NET CHANGE IN CASH	715,178
Cash, beginning of year	<u>801,426</u>
Cash, end of year	<u>\$ 1,516,604</u>

See accompanying notes to financial statements.

Paso del Norte Foundation

Notes to Financial Statements for the year ended December 31, 2017

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Paso del Norte Foundation, formerly known as the Paso del Norte Charitable Foundation (PDNF), was formed in 2013 as a Texas nonprofit public charity located in El Paso, Texas to support the philanthropic goals of individuals, corporations, foundations, and nonprofit organizations to improve health, education, economic development, and quality of life in the Paso del Norte region. The PDNF manages supporting organizations, donor-advised funds, designated funds, and scholarship funds, including long-term endowment funds, to support the interests of donors and the needs of nonprofit organizations and charitable causes in the region. In 2017, the majority of the Board of Directors of the PDNF were current and former board members of the PdNHF.

Affiliated organizations – The Paso del Norte Health Foundation (PdNHF), a Texas nonprofit private foundation located in El Paso, Texas, was organized in 1995 following the sale of certain assets of Providence Memorial Hospital (the Hospital). The mission of the PdNHF is to lead, leverage, and invest in initiatives, programs, and policies that promote health and prevent disease in the Paso del Norte region. The PdNHF provides grants to programs and is engaged in activities that provide charitable assistance, training, and educational support for the promotion of physical and mental health, principally for the benefit of the general population of El Paso, Texas, and the surrounding region. On June 1, 2018, the PdNHF revised its organizational documents to become a supporting organization of the PDNF. The PdNHF filed with the Internal Revenue Service to request a change in its tax status to a supporting organization as described in §509(a)(3) of the Internal Revenue Code, effective January 1, 2019.

The Fundacion Paso del Norte para la Salud y Bienestar, A. C. (Fundacion), a not-for-profit civil association in the City of Juarez, Chihuahua, Mexico, was formed in 2015 to inspire and grow philanthropic giving and advance partnerships and initiatives to improve health and well-being in Ciudad Juarez. The Fundacion was created by the PdNHF, is supported by the PDNF and the PdNHF, and has a self-perpetuating board of directors.

Federal income tax status – The PDNF is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code) and is classified as a public charity under §170(b)(1)(A)(vi).

Cash concentration – Deposits are maintained in three financial institutions and may, at times, exceed the federally insured limit per depositor per institution. The PDNF reviews the financial stability of financial institutions in which it maintains deposits.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted, if material, to the present value of their estimated future cash flows.

Investment pool held by Paso del Norte Health Foundation is reported at the fair value of the PDNF's share of underlying pooled investments.

Net asset classification – Contributions, investment return, and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets include those net assets that are free of donor-imposed restrictions and are subject to the PDNF's variance power and includes all investment income and appreciation not subject to donor-

imposed restrictions. Variance power provides the PDNF's Board of Directors with the ability to modify donor stipulations that are no longer possible or practical or are undesirable in the performance of its public functions. Unrestricted net assets are designated by charitable purpose as follows:

- *Donor advised* – Fund holder annually recommends grants to specific qualified charities.
- *Designated* – Fund holder designates specific eligible organizations to receive charitable grants and charitable related expenses in the fund agreement.
- *Scholarship* – Fund holder recommends an academic focus for the scholarship fund and eligibility criteria (including financial need, academic merit, geographic residence, and/or community service). The PDNF provides oversight and administrative support of the scholarship process and manages due diligence.
- *Undesignated* – Donor provides the PDNF with ongoing operational support to meet changing needs across the region, giving the PDNF the flexibility to respond quickly to emerging community needs and shifting priorities.

Temporarily restricted net assets include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Grants awarded are recognized as expense when the PDNF approves an unconditional commitment to a grant recipient. Commitments made but not yet funded are reported as grants payable.

Functional allocation of expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification of expenses by function. Certain expenses have been allocated among program management and supporting services. Expenses are allocated on the basis of estimated time and effort and include occupancy, salaries and benefits, and payroll taxes.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The PDNF is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – SUPPORT FROM PASO DEL NORTE HEALTH FOUNDATION

The PdNHF routinely provides operating support for the PDNF. During 2017, the PDNF recognized approximately \$392,000 of support from the PdNHF. Additionally, during 2017, the PdNHF provided a grant of \$2.25 million for the Playa Drain Trail project (see Note 9). At December 31, 2017, approximately \$1,500,000 remains outstanding on this commitment by the PdNHF.

The PDNF and the PdNHF share certain expenses for the joint use of facilities. The PdNHF provides accounting, human resource services, and office space to the PDNF. During 2017, the PDNF reimbursed the PdNHF approximately \$17,000 and has recognized in-kind revenue and expenses of approximately \$16,000 for these services. Additionally, the PdNHF provides health and dental insurance for the PDNF's employees. The PDNF reimbursed the PdNHF approximately \$32,000 for these costs during 2017.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable at December 31, 2017 are expected to be collected as follows:

Within one year	\$ 269,473
In one to five years	<u>38,050</u>
Total pledges receivable	<u>\$ 307,523</u>

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The PDNF's investments are held by the PdNHF. The PDNF owns an undivided, proportionate share of the total pooled investments in the PdNHF. The PDNF's share of the pool is available at their request. Investment returns are allocated based upon their relative share of the underlying assets. The investments are managed by investment management advisors.

The PDNF's share of the investment pool held by the PdNHF was invested at December 31, 2017 approximately as follows:

Common trust funds	71%
Partnerships	24%
Global equity hedge fund	<u>5%</u>
Total	<u>100%</u>

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Fair Value Measurements

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would

be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date. The types of investments included in Level 1 are securities traded and valued based upon a public exchange.
- *Level 2* – Inputs are quoted prices in nonactive markets or in active markets for similar assets or liabilities, or inputs which are either directly or indirectly observable with observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investment pool held by the PdNHF	\$ —	\$ 3,724,664	\$ —	\$ 3,724,664
Total assets measured at fair value	<u>\$ 0</u>	<u>\$ 3,724,664</u>	<u>\$ 0</u>	<u>\$ 3,724,664</u>

Investment pool held by the PdNHF is valued at the PdNHF’s share of the net value of the pool. Common trust funds are valued at net asset value as determined by the issuer or investment manager based upon the fair value of the underlying securities. Partnerships are valued using the net asset value per share (or its equivalent) as a practical expedient to determine fair value of investments in partnerships that do not have a readily determinable fair value. These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the PDNF believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Change in Fair Value of Investment Pool

The PDNF’s proportionate share of the investment return of the pool for the year ended December 31, 2017 consists of the following:

Partnership and common trust fund income	\$ 173,016
Net realized gain on investments	47,070
Net unrealized gain on investments	31,354
Dividend income	8,135
Investment management fees	<u>(6,000)</u>
Change in fair value of investment pool held by the PdNHF	<u>\$ 253,575</u>

NOTE 5 – CHARITABLE GIFT ANNUITIES

The PDNF has entered into a charitable gift annuity agreement whereby it has accepted assets and will provide distributions to the annuity beneficiary at a rate of 2.6% of the asset annually until the death of the beneficiary. Assets invested to meet the obligation under this charitable gift annuity totaled approximately \$200,000 at December 31, 2017 and are reported in the statement of financial position with the investment pool held by the PdNHF.

NOTE 6 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

Donor advised	\$ 2,157,240
Designated	1,716,270
Scholarship	225,260
Undesignated	<u>438,036</u>
Total unrestricted net assets	<u>\$ 4,536,806</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 are available for the following purposes:

Playa Drain Trail	\$ 2,250,000
Fundacion	<u>202,352</u>
Total temporarily restricted net assets	<u>\$ 2,452,352</u>

NOTE 8 – CONTRIBUTIONS

During 2016, the PDNF received a conditional 5-year matching gift of up to \$1,000,000 to support Fundacion. Payments from this gift will be received periodically as funds are raised and received by Fundacion. As of December 31, 2017, \$335,000 of this matching gift has been recognized. The PDNF will recognize the remaining contribution when the conditions are substantially met.

In 2017, the PDNF received contributions from more than 2,500 donors. Three donors accounted for 79% of total contributions, including a major gift to a new donor-advised fund.

NOTE 9 – COMMITMENTS

The PDNF has entered into agreements for the design and construction of a 3.4-mile segment of the Playa Drain Trail project in partnership with the PdNHF, the City of El Paso and El Paso Water. Outstanding commitments under these agreements total approximately \$2.23 million at December 31, 2017. The PdNHF has contributed \$2.25 million to the PDNF for this project.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 16, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.