

PART I

DIRECTOR'S COMMENTS

**DIRECTOR'S COMMENTS
ON THE FINANCIAL STATEMENTS OF
THE PAN AMERICAN HEALTH ORGANIZATION
FOR THE YEAR ENDING 31 DECEMBER 2006**

Overview

During 2006 the Pan American Health Organization (PAHO) mobilized significantly greater financial resources which contributed to the Organization strengthening its cooperation in public health with the countries of the Americas. The Organization was able to provide a better response to countries' needs and promote Health for All, while tackling the unfinished agenda, protecting achievements, and facing new challenges. The Organization's total funding reached \$537.0 million, \$164.9 million greater than 2004, and the highest level of income for the Organization in any one year. This increased income resulted from (1) the payment of Member States' quota arrearages, (2) the greater mobilization of voluntary contributions for public health, and (3) the procurement of essential public health vaccines and supplies on behalf of the Member States.

The most striking increase in financial resources occurred in the Organization's procurement activities on behalf of Member States which grew from a cumulative total of \$140.2 million in 2004 to \$229.3 million in 2006 for the Organization's three procurement funds. Through extensive international bidding, PAHO is able to purchase vaccines, public health supplies and equipment, and publications on behalf of Member States, government and international institutions at affordable prices.

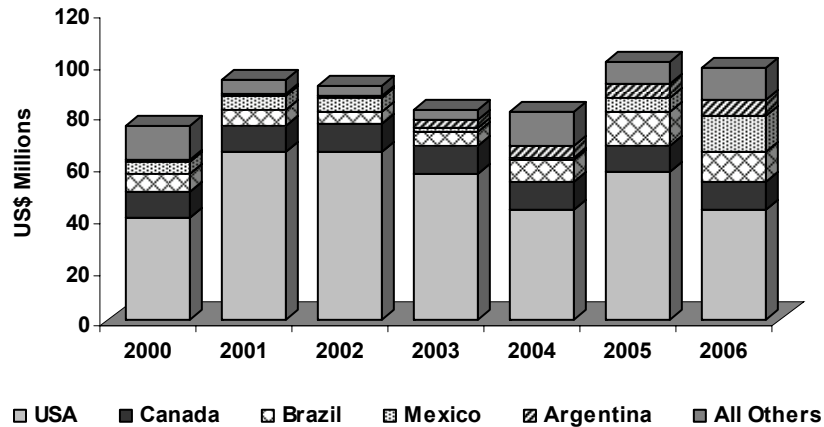
Funding for vaccine and syringe procurement, processed through the Revolving Fund for the Expanded Program on Immunization, established by the 25th Directing Council in 1977, increased from \$130.8 million in 2004 to \$198.6 million in 2006. During the same period, funding for the purchases of medical supplies (i.e., HIV/AIDS diagnostic kits, etc.), medical equipment, and publications, processed through the Advances from Governments and Institutions Fund, increased to \$18.5 million.

Furthermore, the Regional Revolving Fund for Strategic Public Health Supplies, which was created in 1999 in order to facilitate the procurement of strategic public health supplies at lower, more stable prices, increase availability of strategic supplies, and create greater planning capacity for procuring and distributing products, received \$12.2 million for the purchase of these strategic supplies.

Regular Program Budget: Financing

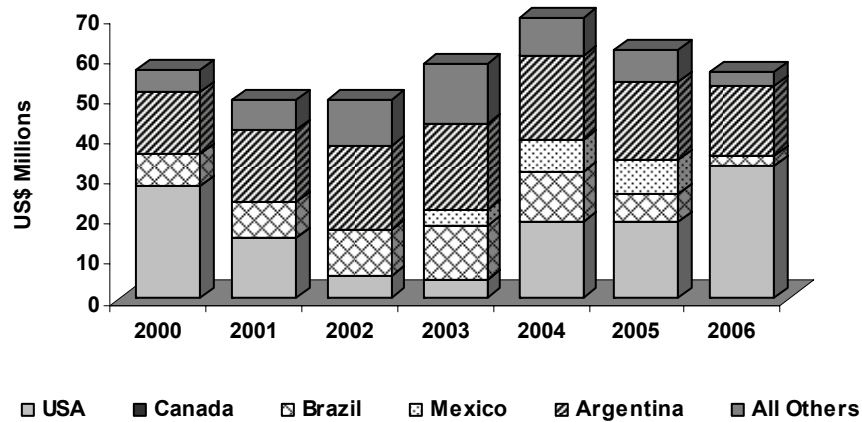
The Organization's Regular Program Budget is financed by two components: (1) the Member States' assessed quota contributions and (2) miscellaneous income. The receipts of current and prior years' quota assessments in 2006 totaled \$50.2 million and \$47.0 million, respectively. The rate of collection of current year assessments for 2006 was 55%, compared with 55% and 54% for the years 2005 and 2004, respectively. Twenty-two Member States paid their current year's contribution in full, seven Member States paid it in part, and ten made no payments toward their 2006 assessed contribution.

Quota Contributions Collected



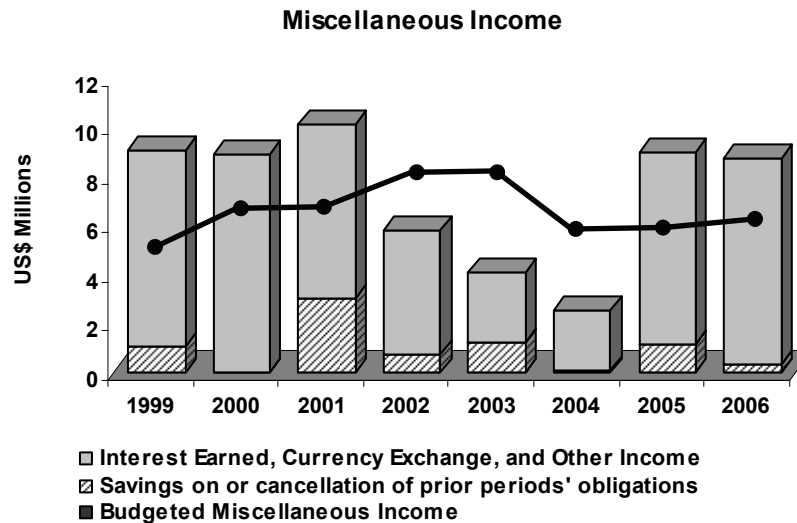
Total unpaid assessed contributions, including amounts due for previous financial periods, decreased to \$56.2 million from \$61.7 million on 31 December 2005 and \$69.8 on 31 December 2004. Within this figure, long-term arrears stand at \$4.9 million. Each year the Delegates to the Directing Council or the Pan American Sanitary Conference review at length the financial circumstances of those Member States who are in arrears in their quota payments and subject to Article 6.B of the PAHO Constitution. As of 1 January 2007, there were five Member States subject to Article 6.B, which is similar to last year. The Organization is in continual communication with the respective Member States to assist them in resolving these longstanding arrears through deferred payment plans and the payment of quota assessments in local currency.

Quota Contributions Due



Miscellaneous income, which includes the interest earned on the Organization's investments, the gains and losses on currency conversions, savings on prior periods' obligations, and other income, is a significant funding component of the Regular Program Budget and supplements the level of the Member States' quota assessments. For 2006-2007, the Organization budgeted \$14.5 million in miscellaneous income, of which \$7.2 million was projected for 2006. The actual amount realized for the year 2006 was \$8.8 million which reflects \$8.9 million in interest

earned on the Organization's funds, a loss of \$787,600 on currency exchange, a savings of \$285,300 in cancellation of prior periods' obligations, and the receipt of \$421,600 in other income.



Regular Program Budget: Implementation

The expenditures for the Regular Program Budget's activities in support of promotion of international health programs reached \$89.8 million against a total budget for PAHO's Regular Program Budget activities of \$93.9 million resulting in an overall financial implementation rate of 95.6%. The significant Regular Program Budget expenditure categories are shown below, in millions of United States dollars:

Staff: salaries and entitlements	\$ 55.5
Consultants, local and short-term staff	10.6
Staff duty travel	3.2
Contractual services	4.2
Seminars and courses	3.6
Information technology	2.5
General operating expenses	5.6
Supplies and equipment	1.5
Other costs	3.1
Total Regular Program Budget Expenditure	<u>\$ 89.8</u>

The most significant expenditure category for the implementation of international health programs is personnel costs, which reflect PAHO's commitment to strengthening cooperation in public health. The Organization is able to provide a better response to countries' needs and promote Health for All, and to support equity in health, reduce risks, fight disease, and improve the quality and prolong the lives of the peoples of the Americas. The expenditures for duty travel, contractual services, seminars and courses, information technology, general operating expenses, and supplies and equipment contribute to this commitment.

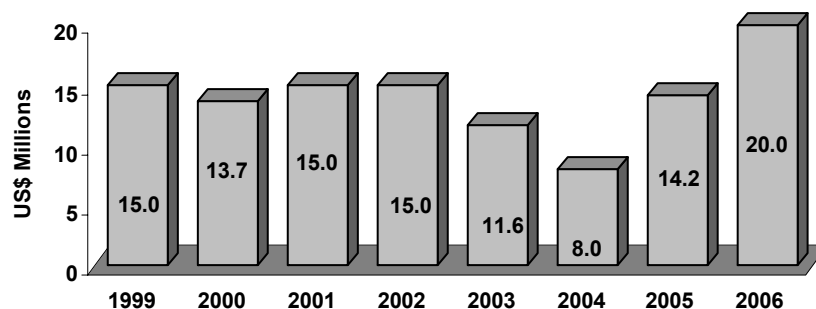
After expenditures of \$89.8 million for international health programs, savings on or cancellation of prior periods' obligations and project adjustments, the Organization ended the first year of the 2006-2007 biennium with an excess of income over expenditure of \$11.1 million in the Regular Program Budget.

Regular Program Budget: Financial Highlights

	<u>Budget</u>	<u>Actual</u>
Quota Income		
- Current Assessment	91.8	50.2
- Prior Years' Quotas	-	47.0
- Deduction: Tax Equalization	<u>(5.1)</u>	<u>(5.1)</u>
- Net Quota Payments	86.7	92.1
Miscellaneous Income	<u>7.2</u>	<u>8.8</u>
Total Net Income	93.9	100.9
Expenditures: International Health Programs	<u>(93.9)</u>	<u>(89.8)</u>
Excess of Income over Expenditure	<u>-</u>	<u>11.1</u>

Working Capital Fund

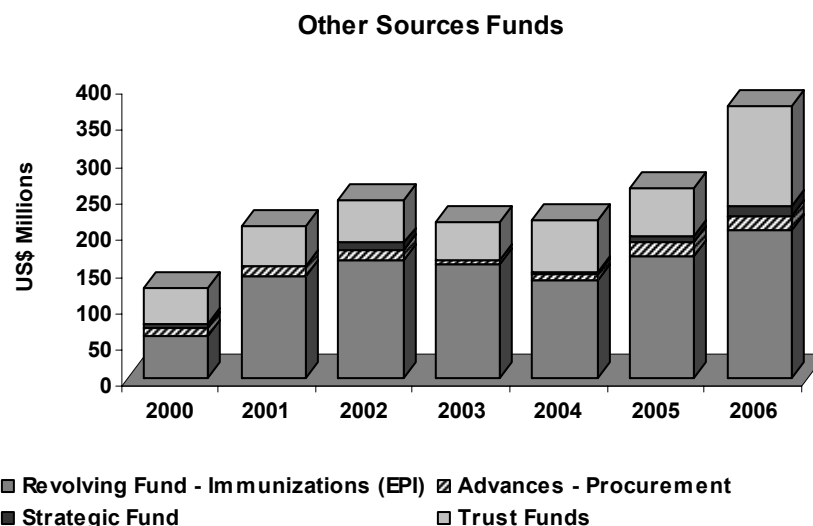
The Organization's Working Capital Fund is fully-funded at \$20 million, including the guarantee of the PALTEX program textbook loan. An additional \$5.3 million is available to cover contractual commitments of the Organization as of 31 December 2006.

Level Of Working Capital Fund**Regular Program Budget: WHO Allocation and Other Sources Funds from WHO**

During 2006 the Pan American Health Organization received \$35.9 million in Regular Program Budget Allocation from the World Health Organization (WHO) in order to fund the international health programs established by the World Health Assembly for the Region of the Americas. In addition, the Organization received and implemented \$16.3 million in Other Sources funds from WHO. In comparison, during 2004, the Organization received \$32.4 million in Regular Program Budget Allocation and \$7.8 million in Other Sources funds from WHO. Therefore, the total funding received from WHO increased by \$12.0 million to \$52.2 million.

PAHO's Trust Funds and Procurement on Behalf of Member States

The increased financial resources for public health in the Region were mobilized through bilateral actions, strategic alliances and partnerships, the adoption of a programmatic approach, and an intensification of the public policy dialogue with regional and subregional organizations. Thus, the Trust Funds income and the Member States' funding for procurement services increased by \$154.5 million, or 72.9%, over the last two years.



PAHO's Trust Funds

Trust funds income reached \$137.1 million, which was composed of \$40.1 million from governments for external projects in other countries, \$84.7 million from governments for internal projects within their own countries (\$80.0 million for Brazil), \$6.3 million from international organizations, and \$6.0 million from private and public sector organizations. The most significant extrabudgetary contributions were received from the United States (\$15.8 million), Canada (\$5.4 million), Spain (\$4.4 million), Sweden (\$4.2 million), Norway (\$1.8 million) and the United Kingdom (\$1.5 million). The most significant contributions from international organizations were received from the U.N. Environment Program (\$3.3 million), World Bank (\$797,000), European Community (\$711,000), U.N. Development Program (\$574,000), and the Inter-American Development Bank (\$481,000). The private and public sector partners were the Pan American Health and Education Foundation (\$1.4 million), the Global Alliance (\$930,000), Albert B. Sabin Institute (\$882,000), the Global Fund (\$785,300), and the Johns Hopkins School of Public Health (\$300,000). The Organization continues to seek new financial resources from outside the Organization for its activities.

Procurement on Behalf of Member States

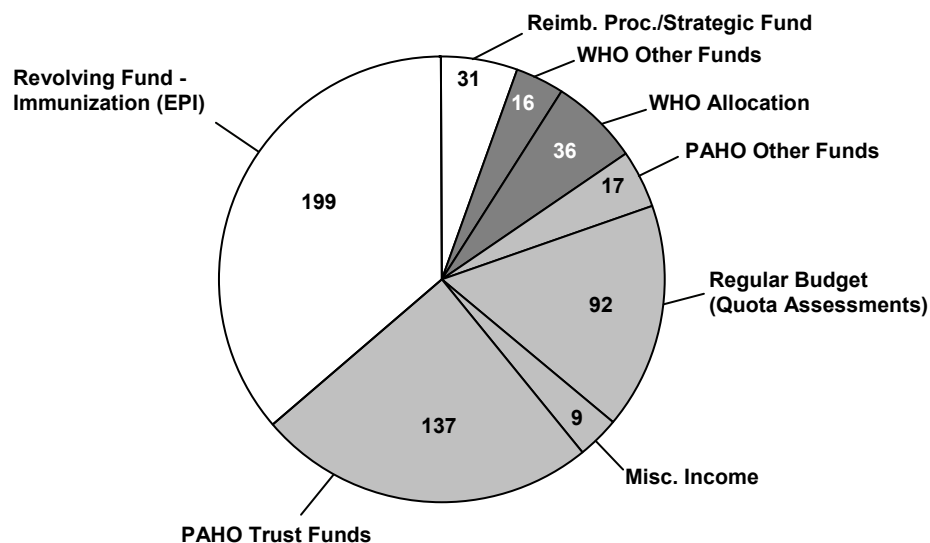
During 2006 the total income for procurement services on behalf of Member States increased to \$229.3 million compared with \$140.2 million in 2004. The vaccine purchases through the Revolving Fund for the Expanded Program on Immunization, which is a purchasing mechanism created to guarantee the quality and timely mobilization of vaccines at an affordable cost, increased to \$198.6 million in 2006. The procurement of medicaments through the Reimbursable Procurement Fund increased to \$18.5 million. The purchases for combating malaria, tuberculosis, leishmanial disease, and dengue, as well as antiretrovirals purchased through the Regional Revolving Fund for Strategic Public Health Supplies, increased to \$12.2 million. The largest volumes of procurement purchases placed through the three procurement

funds were made by Argentina, Bolivia, Brazil, Colombia, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Paraguay, Peru, and Venezuela.

Total Regular Program Budget and Other Sources Funding and Implementation

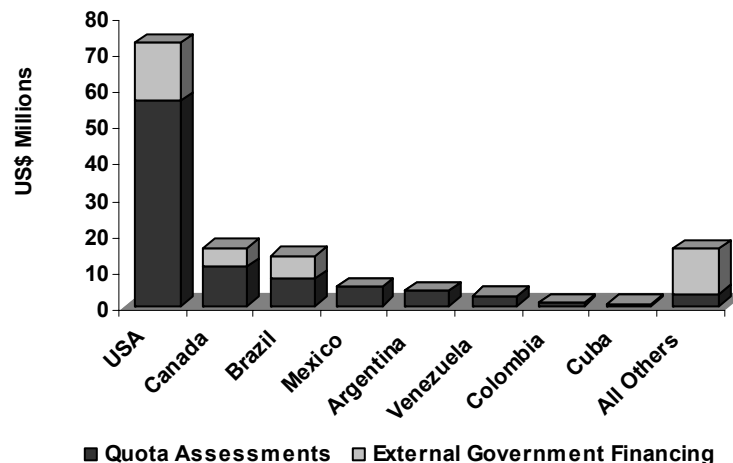
Total income in 2006 for all PAHO activities, net of eliminations, was \$537.0 million, which represents a 44.3% increase on the \$372.1 million income for 2004. The higher level of income has enabled PAHO to meet significantly increased programmatic activity. The trend of rising income and expenditure/implementation is welcomed in view of the increasing demands being made on the Organization. (Table A)

**PAHO/AMRO Income for Program Activities for 2006
(in US\$ millions)**



Total 2006 contributions from Member States including both Regular Program Budget assessments and funding from governments for external projects are shown below. This chart indicates that the Organization relies heavily on a relatively small number of Member States as a major source of financing of the Organization's activities.

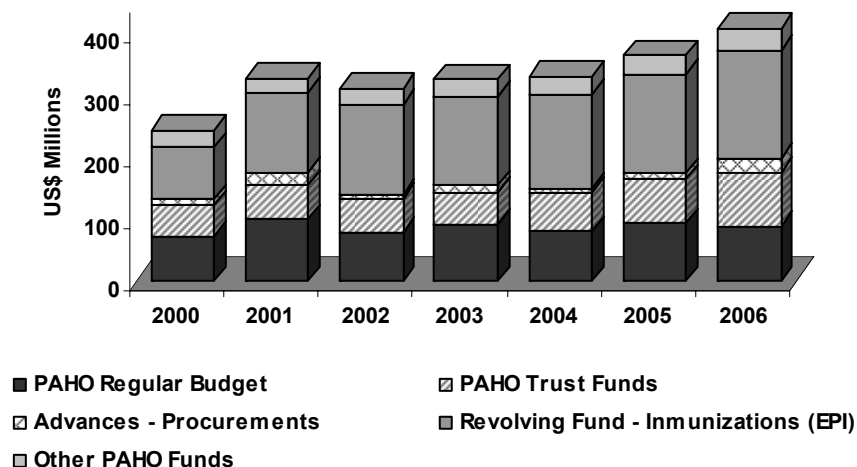
**Quota Assessments & Government Financing
of External Projects for 2006**



Expenditure by Source of Fund

PAHO's expenditure, before eliminations, increased by \$78.3 million in 2006, from \$331.4 million in 2004 to \$409.7 million in 2006. This increase in expenditure is attributable to an increase of (1) \$8.6 million in PAHO's Regular Budget, (2) \$24.4 million in the expenditure of the Trust Funds, (3) \$21.8 million in the Expanded Program on Immunization, (4) \$16.5 million in Advances from Governments and Institutions for Procurement, and (5) \$7.0 million in other PAHO funds.

Expenditure by Source of Fund



Liquidity and Investment Management

The financial stability of the Organization depends not only upon timely receipt of income but also on effective management of liquidity and the appropriate investment policies. The Investment Committee regularly reviews the portfolio's performance and makes recommendations on the strategy to preserve the Organization's capital, while benefiting from the conditions in the financial markets.

Total cash and investments for the Organization at 31 December 2006 were \$289.8 million. The investments are primarily short-term (less than 12 months) and are held to finance the Regular Program Budget activities and other activities for which cash has yet to be expended. The longer-term investments are placed for future projects and activities and future entitlements of current staff members.

Performance of the Centers Administered by PAHO

Caribbean Epidemiology Center (CAREC)

Quota receipts for the current year amounted to \$1.6 million, or 69% of the 2006 assessments. Receipts on arrearages amounted to \$810,431, or 18.7% of its quota arrearages. The net excess of income over expenditure in the 2006 CAREC Regular Budget was \$290,289, which increased the Working Capital Fund balance to \$962,976 as of 31 December 2006. Income for trust funds reached \$4.2 million, and CAREC generated income of \$708,300 from providing services to its Member States.

Caribbean Food and Nutrition Institute (CFNI)

Quota receipts for the current year amounted to \$200,323, or 56% of the 2006 assessments. Receipts on arrearages amounted to \$66,775, or 4.8% of the total quota arrearages as of 31 December 2006. The net shortfall of income over expenditure for the 2006 Regular Program Budget was \$46,595, which resulted in a cumulative deficit of \$410,201 in the Working Capital Fund as of 31 December 2006. The Pan American Health Organization is currently funding this deficit. CFNI received \$698,713 in income for its trust funds.

Institute of Nutrition of Central America and Panama (INCAP)

The Institute's financial performance remains strong, with a fully funded Working Capital balance of \$1.06 million and an Endowment Fund of \$385,727. Quota receipts for the current year amounted to \$362,328, or 85%. Receipts on arrearages amounted to \$97,083, or 97% of the total quota arrearages as of 31 December 2006. INCAP received \$2.0 million in trust fund income during 2006.

Conclusion

The growth in financial resources and increasing complexity of the demands being made upon the Organization pose challenges for future financial management. The emphasis on increased decentralization to the country offices and the implementation of Results Based Management are impacting the responsibilities and accountabilities of the senior managers and strengthening the focus on timely program implementation. The implementation of the Financial Accountability Framework in 2006, which included the review of financial policies and procedures, training and workshops, and the requirement that the Representatives in the Organization's country offices certify their offices' 2006 financial accounts, is contributing to strengthened accountability and responsibility. Furthermore, the expected implementation of International Public Sector Accounting Standards (IPSAS) in alignment with the United Nations and its specialized agencies will enhance the Organization's commitment to results based management. These initiatives will continue to position the Organization as a leader in the implementation of best practices of both public and private sector institutions and will support its continued commitment to its fiduciary responsibility.

Statutory Requirement

The Interim Financial Report of the Pan American Health Organization (PAHO) for the year ending 31 December 2006 is submitted by the Director in accordance with Regulation XIII of the Financial Regulations. This Financial Report has been prepared in accordance with the United Nations System Accounting Standards (UNSAS) and PAHO's Financial Regulations and Financial Rules. The Report reflects the financial position of the Organization at the end of the first year of the Biennial Program Budget for 2006-2007. This Financial Report is an important element in the overall framework of accountability, responsibility, and financial integrity of the Organization.

**PAN AMERICAN HEALTH ORGANIZATION
TEN YEARS OF GROWTH
SUMMARY OF EXPENDITURE BY SOURCE OF FUNDS
(Expressed in US dollars)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
PAN AMERICAN HEALTH ORGANIZATION					
Regular Budget	91,116,493	69,589,827	95,807,416	73,757,377	100,129,091
Special Funds					
Animal Health Research	13,181	-	-	-	-
Capital Equipment	47,080	229,587	46,053	539,323	1,135,374
Cholera	51,044	-	-	1,821	50,449
Health Promotion	25,310	-	-	-	282,529
Income from Services	-	2,606,640	2,479,476	4,909,133	3,735,093
Measles	224,355	275,929	50,721	6,442	5,744
Natural Disaster Relief	659,888	2,915,376	4,217,117	1,826,938	2,187,227
Preinvestment Fund in Environment and Health	57,965	7,937	7,402	7,671	-
Program Support Costs	130,587	6,340,345	4,283,965	6,415,778	1,617,671
Trust Funds	46,824,740	55,829,854	49,770,712	48,969,108	55,331,951
Nonproject Funds					
Advances from Governments and Institutions for Procurement	3,313,124	10,380,800	19,911,267	9,944,090	20,099,412
Building Fund	818,069	848,714	805,590	3,722,034	6,876,499
Emergency Procurement Revolving Fund	125,000	-	-	-	-
Provision for Termination and Repatriation Entitlements	1,939,446	1,044,035	1,564,905	1,558,662	1,392,565
Revolving Fund for the Expanded Program on Immunization	26,238,199	65,425,186	120,397,126	83,925,328	130,046,164
Sale of Vaccine at PANAF-TOSA	422,024	101,856	13,821	5,690	18,887
Regional Revolving Fund for Strategic Public Health Supplies	-	-	-	2,619,858	2,800,279
Tax Equalization Fund	3,636,528	3,437,413	3,379,936	5,242,095	4,113,621
Subtotal PAHO	<u>175,643,033</u>	<u>219,033,499</u>	<u>302,735,507</u>	<u>243,451,348</u>	<u>329,822,556</u>
CAREC					
Regular Budget	1,679,796	1,703,511	1,907,734	1,965,095	1,634,132
Trust and Special Funds	2,116,884 ^{1/}	1,345,885	1,881,393	1,709,441	2,557,225
CFNI					
Regular Budget	270,087	306,089	323,221	321,970	322,779
Trust and Special Funds	200,725 ^{1/}	57,300	44,278	110,172	200,862
INCAP					
Regular Budget	610,780	622,975	574,436	574,198	654,825
Trust and Special Funds	5,217,084 ^{1/}	2,514,984	2,162,284	1,945,175	2,171,208
Subtotal Centers	<u>10,095,356</u>	<u>6,550,744</u>	<u>6,893,346</u>	<u>6,626,051</u>	<u>7,541,031</u>
WORLD HEALTH ORGANIZATION					
Regular Budget	48,780,592	33,025,020	47,933,478	31,992,360	45,355,392
Global Program on AIDS	77	-	-	-	-
United Nations Development Program	566,610	119,438	261,615	43,344	29,992
United Nations Population Fund	1,755,233	881,334	535,857	281,914	119,519
Others	5,726,163	6,094,397	9,498,360	5,764,074	12,310,115
Subtotal WHO	<u>56,828,675</u>	<u>40,120,189</u>	<u>58,229,310</u>	<u>38,081,692</u>	<u>57,815,018</u>
Eliminations	-	-	-	-	-
TOTAL, ALL FUNDS	<u><u>242,567,064</u></u>	<u><u>265,704,432</u></u>	<u><u>367,858,163</u></u>	<u><u>288,159,091</u></u>	<u><u>395,178,605</u></u>

^{1/} Excludes Special Funds

**PAN AMERICAN HEALTH ORGANIZATION
TEN YEARS OF GROWTH
SUMMARY OF EXPENDITURE BY SOURCE OF FUNDS
(Expressed in US dollars)**

2002	2003	2004	2005	2006	
					PAN AMERICAN HEALTH ORGANIZATION
79,958,550	91,146,429	81,246,238	94,013,586	89,830,071	Regular Budget
-	-	-	-	-	Special Funds
2,145,382	1,020,930	1,825,974	1,462,968	1,420,067	Animal Health Research
-	-	-	-	-	Capital Equipment
239,695	213,285	28,659	66,762	224,194	Cholera
3,838,910	3,219,053	3,379,720	3,297,840	3,453,139	Health Promotion
-	-	-	-	-	Income from Services
759,327	893,368	3,634,521	4,170,456	4,276,443	Measles
-	-	-	-	-	Natural Disaster Relief
6,622,918	7,881,502	7,688,935	5,518,618	7,959,780	Preinvestment Fund in
53,291,594	53,866,918	63,255,416	71,073,823	87,643,204	Environment and Health
					Program Support Costs
					Trust Funds
					Nonproject Funds
8,217,622	9,883,874	5,813,092	9,454,165	22,338,844	Advances from Governments
1,127,521	875,120	755,295	1,137,741	818,670	and Institutions for Procurement
					Building Fund
-	-	-	-	-	Emergency Procurement
1,045,819	2,028,035	2,120,504	2,558,571	1,783,517	Revolving Fund
144,652,030	145,131,413	153,073,837	161,091,387	174,860,495	Provision for Termination and
1,645	12,781	66,639	7,998	10,328	Repatriation Entitlements
6,121,810	6,129,306	3,701,492	6,517,064	9,685,802	Revolving Fund for the Expanded
4,795,085	4,736,441	4,853,918	5,476,259	5,418,404	Program on Immunization
					Sale of Vaccine at PANAFTOSA
					Regional Revolving Fund for
					Strategic Public Health Supplies
					Tax Equalization Fund
<u>312,817,908</u>	<u>327,038,455</u>	<u>331,444,240</u>	<u>365,847,238</u>	<u>409,722,958</u>	Subtotal PAHO
1,778,163	2,017,996	2,013,838	2,183,288	2,152,720	CAREC
2,547,500	3,801,049	3,162,186	5,020,638	6,213,130	Regular Budget
					Trust and Special Funds
325,235	278,643	274,595	306,733	313,693	CFNI
294,869	703,721	696,958	874,320	947,279	Regular Budget
					Trust and Special Funds
931,750	688,170	504,189	894,372	686,023	INCAP
2,098,871	2,283,060	2,222,388	2,105,028	2,144,321	Regular Budget
					Trust and Special Funds
<u>7,976,388</u>	<u>9,772,639</u>	<u>8,874,154</u>	<u>11,384,379</u>	<u>12,457,166</u>	Subtotal Centers
					WORLD HEALTH ORGANIZATION
33,643,056	39,604,555	32,366,234	40,171,535	35,902,806	Regular Budget
-	-	-	-	-	Global Program on AIDS
-	-	-	-	27,500	United Nations
147,715	173,774	33,095	99,808	721	Development Program
5,063,006	7,898,403	7,772,350	16,444,051	16,270,859	United Nations
					Population Fund
38,853,777	47,676,732	40,171,679	56,715,394	52,201,886	Others
					Subtotal WHO
-	(26,247,003)		(28,120,184)	(16,634,875)	Eliminations
<u>359,648,073</u>	<u>358,240,823</u>	<u>380,490,073</u>	<u>405,826,827</u>	<u>457,747,135</u>	TOTAL, ALL FUNDS

