

Director's Comments

1. Overview

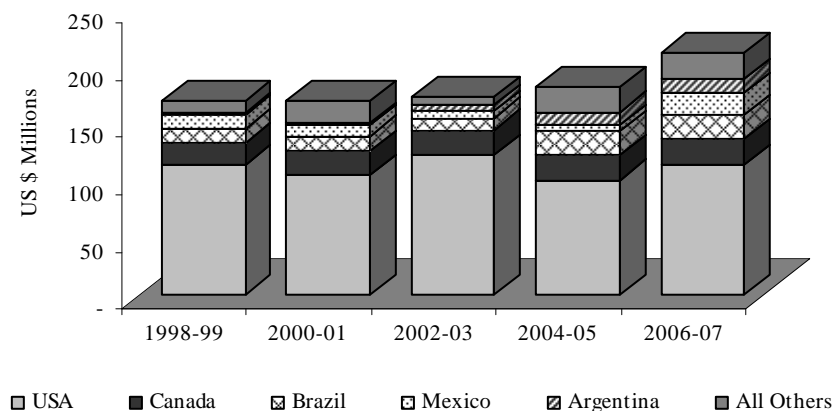
During the 2006-2007 biennium, the Pan American Health Organization (PAHO) mobilized significantly greater financial resources which enabled the Organization to strengthen its efforts to improve public health, promote well-being, reduce inequalities and social exclusion, and contribute to the health of the people of the Americas. With the increased financial resources, the Organization also provided a more comprehensive response to countries' needs and continued to promote Health for All, while moving forward in its efforts to tackle the unfinished agenda, protect health achievements, and respond to the challenges in public health faced by the Member States.

The Organization's total funding reached \$1.16 billion, \$359 million greater than 2004-2005, and the highest level of income for the Organization in any biennium. This increased income resulted from (1) the payment of Member States' quota arrearages, (2) the greater mobilization of voluntary contributions for public health, (3) the increase in procurement of essential public health vaccines and supplies on behalf of the Member States, and (4) the increased funding from the World Health Organization for the Region of the Americas. The Organization received the highest level of quota assessment payments in over ten years with current 2006-2007 biennium quota assessment receipts reaching \$155.1 million and the payment of arrearages reaching \$54.8 million. Voluntary contributions for public health reached \$290.9 million, which doubled the 2004-2005 level. 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 \$338.9 million in 2004-2005 to \$513.7 million in 2006-2007, an overall increase of 52% for the Organization's three procurement funds. The Organization received and implemented a total of \$119.8 million from the World Health Organization, an increase of \$23.0 million over the last biennium.

2. Biennial Program Budget: Financing

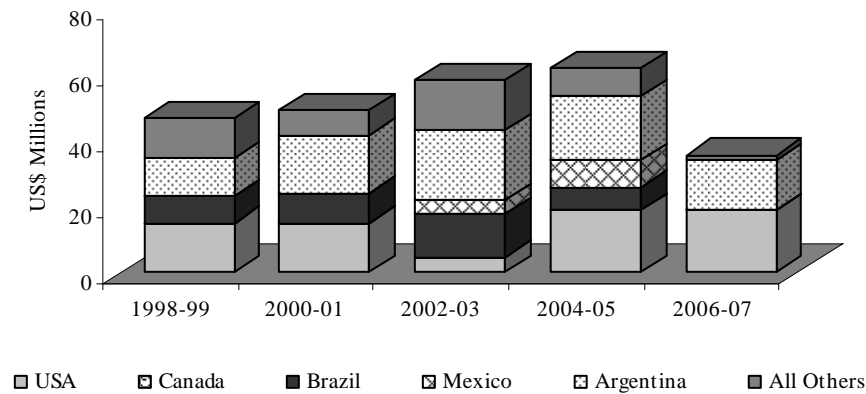
The Organization's Biennial Program Budget is financed by two components: (1) the Member States' assessed quota contributions and (2) miscellaneous income. The receipts of current and prior biennia assessed quota contributions in 2006-2007 totaled \$155.1 million and \$54.8 million, respectively. The rate of collection of current biennium assessed quota contributions for 2006-2007 was 84%, compared with 73% for the 2004-2005 biennium. Twenty-eight Member States paid their 2007 assessed quota contribution in full, seven Member States paid it in part, and four made no payments toward their 2007 assessed quota contribution.

Assessed Quota Contributions Collected



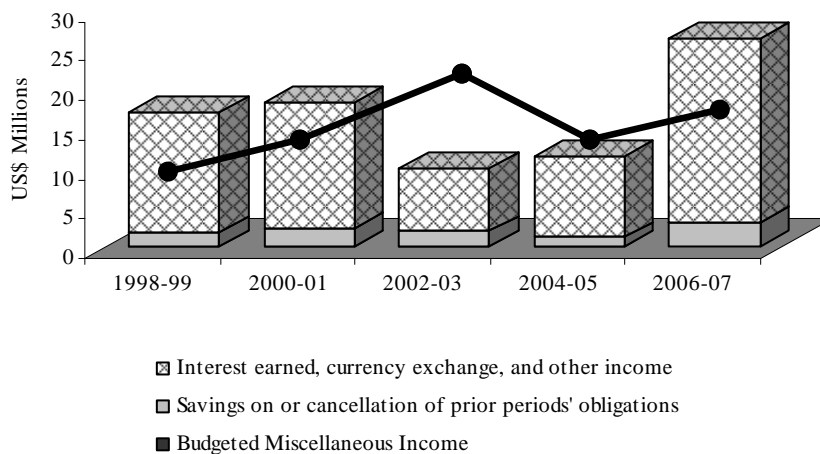
Total unpaid assessed quota contributions, including amounts due for previous financial periods decreased from \$61.7 million on 31 December 2005 to \$35.4 million on 31 December 2007. Within this figure, arrears exceeding two years were \$6.9 million. Each year the Delegates to the Directing Council or the Pan American Sanitary Conference review at length the financial circumstances of those Member States who are in arrears in their assessed quota contributions and subject to Article 6.B of the PAHO Constitution. As of 1 January 2008, there were only two Member States subject to Article 6.B, which is fewer countries than in previous biennia. The Organization is in continual communication with the respective Member States to assist them in resolving arrears through deferred payment plans and the payment of assessed quota contributions in local currency.

Assessed Quota Contributions Due



Miscellaneous income, which includes the interest earned on the Organization's investments, the gains and losses as a result of currency movements, savings on prior periods' obligations, and other income, is a significant funding component of the Biennial Program Budget and supplements the level of the Member States' assessed quota contributions. For 2006-2007, the Organization budgeted \$14.5 million in miscellaneous income. The actual amount realized for the 2006-2007 biennium was \$26.4 million which is comprised of \$23.1 million in interest earned on the funds managed by the Organization, a savings of \$3.0 million in cancellation of prior period's obligations, a loss of \$399,000 on currency exchange, and the receipt of \$660,000 in other income.

Miscellaneous Income



3. Biennial Program Budget: Implementation

The expenditures for the Biennial Program Budget's activities in support of promotion of international health programs reached \$182.2 million compared to PAHO's Biennial Program Budget of \$187.8 million, resulting in an overall financial implementation rate of 97%. After expenditures of \$182.2 million for international health programs, provision for delays in collection of assessed contributions, payment of prior years' assessed quota contribution, savings on or cancellation of prior periods' obligations, and transfers, the Organization ended the 2006-2007 biennium with an excess of income over expenditure of \$38.8 million in the Biennial Program Budget.

Biennial Program Budget: Financial Highlights

	<u>Actual</u>	<u>Budgeted</u>
Collection of 2006-2007 assessments	155.1	183.6
<i>Less:</i> Tax Equalization	(10.3)	(10.3)
Prior year's assessed quota contributions	54.8	
Interest income, currency exchange, and other income	23.4	14.5
Savings on or cancellation of prior periods' obligations	3.0	
Total Funds available	226.0	187.8
<i>Less:</i> Actual 2006-2007 operating expenditure	(182.2)	(187.8)
Net Surplus from operations	43.8	
<i>Less:</i> Transfer to Expanded Program on Immunization	(3.0)	
Transfer to Capital Equipment Fund	(1.8)	
Transfer to Building Fund	(.2)	
Total changes in fund balances	<u>38.8</u>	

The significant Biennial Program Budget expenditure categories are shown below, in millions of United States dollars:

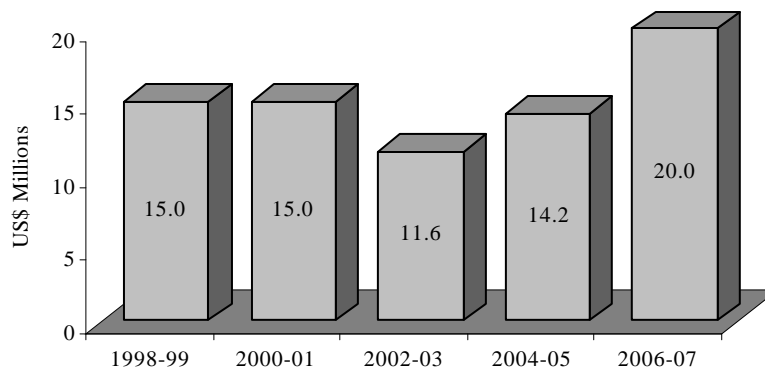
Staff: salaries and entitlements	\$114.9
Consultants, local and short-term staff	20.8
Staff duty travel	5.4
Contractual services	7.7
Seminars and courses	9.8
Information technology	6.0
General operating expenses	9.1
Other costs	8.5
Total Regular Program Budget Expenditure	<u>\$182.2</u>

The most significant expenditure category for the implementation of international health programs is personnel costs, which reflects PAHO's commitment to providing technical cooperation to the Member States in order to strengthen public health in the countries of the Americas. The expenditures for duty travel, contractual services, seminars and courses, information technology, and general operating expenses contribute to this commitment.

4. Working Capital Fund

At the beginning of the 2006-2007 biennium, the Organization's Working Capital Fund balance was \$14.2 million. With the accumulation of \$38.8 million in "Total Changes in Fund Balances" for the PAHO Regular Budget during the 2006-2007 biennium, the Working Capital Fund would have exceeded its \$20.0 million authorized ceiling level established by the 44th Directing Council in 2003. Therefore, in compliance with Financial Regulation 4.4, \$33.0 million were transferred to the Holding Account. Thus, as of 31 December 2007, the Working Capital Fund's balance was \$20.0 million. In September 2008, the 48th Directing Council will determine the utilization of the funds in the PAHO Holding Account.

Level of Working Capital Fund



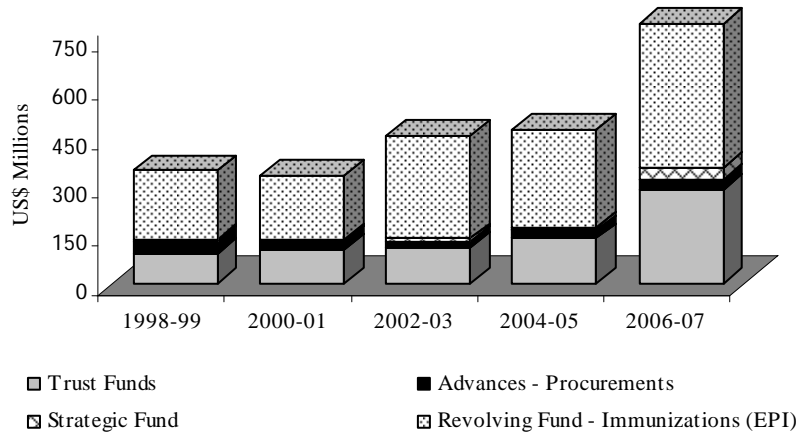
5. Biennial Program Budget: WHO Allocation and Other Sources Funds from WHO

During 2006-2007 the Pan American Health Organization/Regional Office of the Americas (AMRO) implemented \$75.1 million from the Biennial Program Budget Allocation of the World Health Organization (WHO) in order to implement the international health programs established by the World Health Assembly for the Region of the Americas. In addition, the Organization implemented \$44.7 million in Other Sources Funds from WHO. In comparison, during 2004-2005, the Organization implemented \$72.5 million in WHO Regular Program Budget Allocation funds and \$24.3 million in Other Sources Funds from WHO. Therefore, the total WHO funding implemented by PAHO/AMRO during the 2006-2007 biennium reached \$119.8 million, an increase of \$23.0 million from the previous biennium.

6. PAHO's Other Sources Funds

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 sub-regional organizations. The combined Trust Fund income and the Member States' funding for procurement services increased to \$804.6 million, a growth of \$328.6 million, or 69%, over the previous two year period.

Other Sources Funds



7. PAHO's Trust Funds

The Pan American Health Organization's image as a reliable partner for the Member States, stakeholders, partners, and the people of the Americas was a catalyst for PAHO receiving \$290.9 million in voluntary funds to assist the peoples of the Americas in attaining the best possible health for all. These funds are composed of \$112.7 million from governments for external projects, \$156.0 million from governments for internal projects within their own countries (\$148.9 million for Brazil), \$11.3 million from international organizations, \$10.7 million from private and public sector organizations, and \$208,000 from other voluntary contributions. The most significant voluntary fund contributions for projects external to the respective countries were received from Brazil (\$10.1 million), Canada (\$21.7 million), Norway (\$3.1 million), Spain (\$27.7 million), Sweden (\$10.0 million), the United Kingdom (\$3.4 million), and the United States (\$33.7 million).

The most significant contributions from international organizations were received from the European Community (\$2.0 million), the International Bank for Reconstruction and Development (\$1.2 million), the U.N. Development Program (\$661,200), the Inter-American Development Bank (\$713,000), the U.N. Environment Program (\$4.9 million), and the U.N. International Strategy for Disaster Reduction (\$1.2 million). The largest contributions from the private and public sectors were received from the Pan American Health and Education Foundation (\$2.3 million), the Global Alliance (\$1.3 million), the Albert B. Sabin Institute (\$1.4 million), the Church of the Latter-Day Saints (\$1.2 million), the Global Fund (\$850,000), and the Johns Hopkins School of Public Health (\$450,000). The Organization continues to seek new financial resources from outside the Organization to augment public health projects in the Americas.

8. Procurement on Behalf of Member States

During 2006-2007 the total income for procurement services on behalf of Member States increased to \$513.7 million compared with \$338.9 million in 2004-2005. 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 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 from \$302.2 million in 2004-2005 to \$448.9 million in 2006-2007. Through this significant support to Member States' vaccination programs, the Organization contributes to the challenges of bringing good health to the most neglected, vulnerable, marginalized, and excluded populations in the Americas.

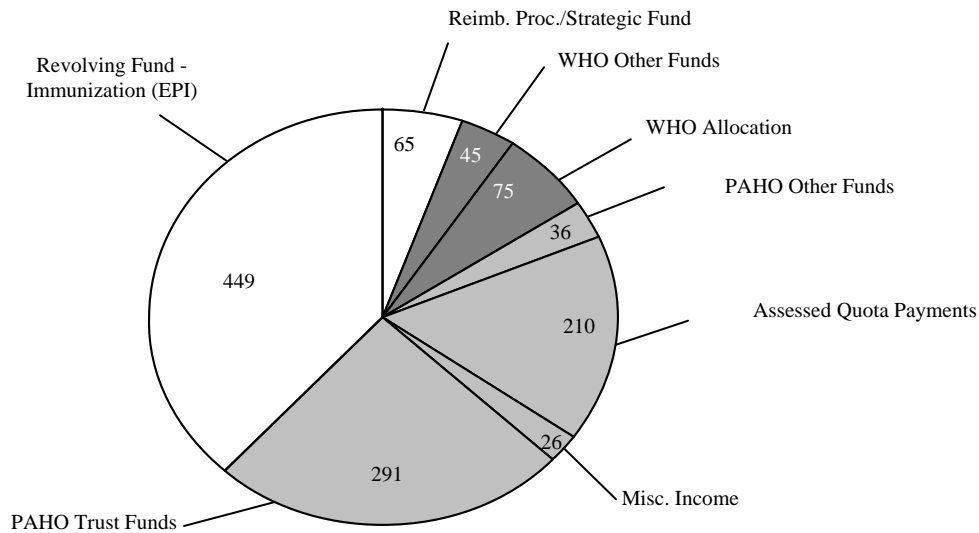
During the same period, funding for the purchases of medical supplies (i.e., HIV/AIDS diagnostic kits, etc.), medical equipment, and publications, processed through the Advances from Governments and Institutions for

Procurement Fund, increased from \$25.7 million to \$30.7 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, to increase availability of strategic supplies, and to create greater planning capacity for procuring and distributing products, received \$34.1 million for the purchase of strategic supplies. These strategic supplies were focused on combating malaria, tuberculosis, leishmanial disease, dengue, and HIV/AIDS. The largest volumes of procurement purchases placed through the three procurement funds were made by Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

9. Total Biennial Program Budget and Other Sources Funding and Implementation

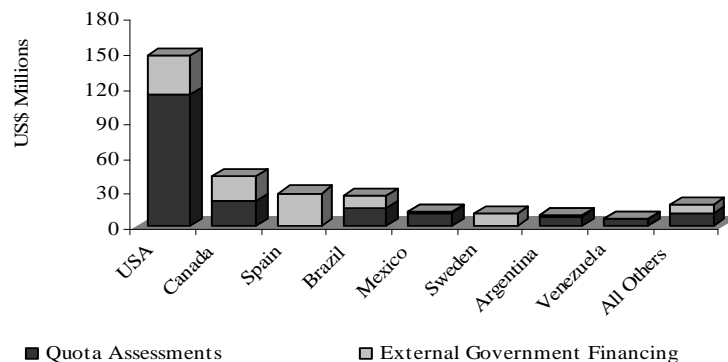
Total income in 2006-2007 for all PAHO activities, net of eliminations, reached \$1.16 billion, which represents a 45% increase on the \$799 million income for 2004-2005. The trend of rising income is welcomed in view of the increasing demands being made on the Organization.

PAHO/AMRO Income for 2006-2007 Program Activities (in US\$ millions)



Total 2006-2007 income from nine Member States, partners, and stakeholders, including both Biennial Program Budget funds and voluntary contributions (i.e., trust funds) from governments, partners, and stakeholders, are shown below. This chart indicates that the Organization relies heavily on a relatively small number of Member States and partners/stakeholders as a major source of financing of the Organization's activities.

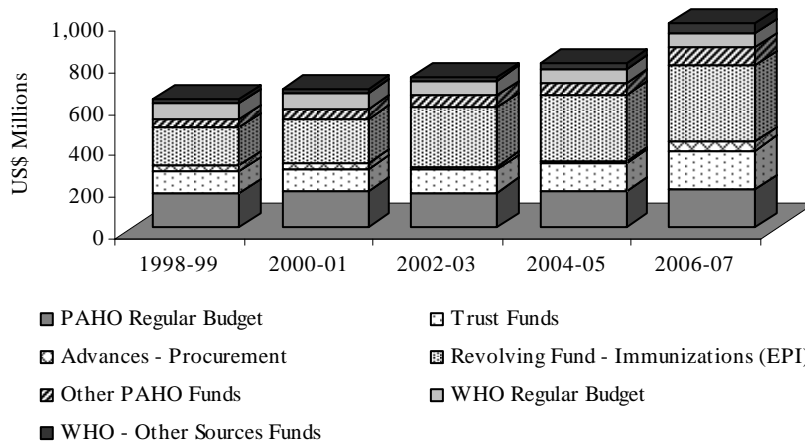
Assessed Quota Payments & Government Financing of External Projects for 2006-2007



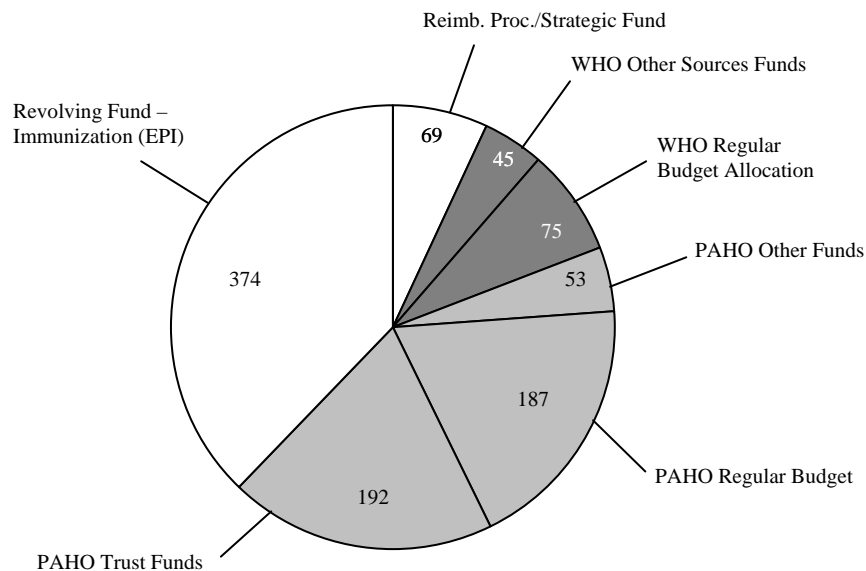
10. Expenditure by Source of Fund

The higher level of income has enabled PAHO/AMRO to achieve significantly increased programmatic activity. PAHO/AMRO's total expenditure, before the expenditures by the three non-consolidated centers and eliminations, increased to \$994.6 million in 2006-2007 from \$797.6 million in 2004-2005, an increase of 25% during the 2006-2007 biennium. This increase in expenditure is attributable to an increase of (1) \$8.6 million in PAHO's Biennial Program Budget expenditure, (2) \$58.1 million in the expenditure of the Trust Funds, (3) \$59.7 million in the Expanded Program on Immunization, (4) \$24.3 million in Advances from Governments and Institutions for Procurement, (5) \$19.4 million in the Strategic Fund, (6) \$4.0 million in other PAHO funds, and (7) \$2.6 million in the WHO Regular Budget Allocation and \$20.3 million in WHO Other Sources Funds.

Expenditures by Sources of Funds



PAHO/AMRO Expenditure for Program Activities for 2006-2007 (in US\$ millions)



11. Liquidity and Investment Management

The financial stability of the Organization depends not only upon timely receipt of assessed quota contributions, voluntary contributions, and other 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 2007 were \$397.2 million, an increase of \$208.2 million over the cash and investment balance as of 31 December 2005. The investments are primarily short-term (less than 12 months) and are held to finance the Biennial Program Budget activities, the procurement on behalf of Member States, the implementation of partner/stakeholder agreements, and other activities for which cash has yet to be disbursed. The longer-term investments are placed for future projects and activities and future entitlements of current staff members.

12. Performance of the Centers Administered by PAHO

Caribbean Epidemiology Center (CAREC)

Quota assessment receipts for the 2006-2007 biennium reached \$3.6 million, or 76% of the 2006-2007 quota assessments. Receipts on arrearages amounted to \$1.1 million, or 26% of its quota assessment arrearages. The net shortfall of income over expenditure in the 2006-2007 CAREC Regular Budget was \$9,149, which decreased the Working Capital Fund balance to \$663,538 as of 31 December 2007. Income for trust funds reached \$4.7 million, and CAREC generated income of \$1.1 million from providing specialized services to its Member States.

Caribbean Food and Nutrition Institute (CFNI)

Quota assessment receipts for the 2006-2007 biennium reached \$420,325, or 58% of the 2006-2007 quota assessments. Receipts on arrearages amounted to \$76,571, or 6% of the total quota assessment arrearages as of 31 December 2007. The net shortfall of income over expenditure for the 2006-2007 Regular Program Budget was \$140,670, which resulted in a cumulative deficit of \$504,276 in the Working Capital Fund as of 31 December 2007. The Pan American Health Organization is currently funding this deficit. CFNI received \$1.1 million in trust fund income.

Institute of Nutrition of Central America and Panama (INCAP)

The Institute's financial performance remains strong, with a fully-funded Working Capital balance of \$1.0 million and an Endowment Fund of \$407,304. Quota assessment receipts for the 2006-2007 biennium amounted to \$797,904, or 93% of the biennium's total quota assessments. Receipts on arrearages amounted to \$100,571, or 100% of the total quota assessment arrearages as of 31 December 2007. INCAP received \$5.2 million in trust fund income during 2006-2007.

13. 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 2006-2007, which included the review of financial policies and procedures, training and workshops, and the requirement that the Representatives in the Organization's country offices and senior managers at Headquarters certify their offices' 2006-2007 financial accounts strengthened accountability and responsibility. Furthermore, the implementation of the new Expenditure Recognition Policy and 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 responsibilities.

14. Components of the Financial Report

As required by Financial Regulation 13.2, a final financial report covering the full biennium is prepared at the end of the biennium. PAHO's financial statements are presented in compliance with the revised United Nations System Accounting Standards. Similar statements have also been prepared in accordance with the United Nations System Accounting Standards for CAREC, CFNI, and INCAP.

The Organization's funds are composed of proprietary funds which include the Biennial Program Budget and Working Capital Fund, the Special Fund for Program Support Costs, and other Special Funds. These funds finance the programs of the Organization. The PAHO program fiduciary funds include the allocation of funds from the WHO Regular Budget and other WHO/UN allocations, trust funds provided by partners, stakeholders, and donors for specific projects, and funds administered on behalf of centers. These funds support the implementation of program activities in accordance with agreements or understandings of related parties or other legal authorities. Non-project funds include a number of funds that have been established as the result of resolutions adopted by the PAHO Governing Bodies or decisions by the Director. They have been established for the benefit of the Member States or PAHO staff members, or to monitor or manage special, non-program activities.

PAHO's financial statements include:

- *The Statement of Income and Expenditure and Changes in Fund Balances*, Statement I, reflects the income, expenditure, and changes in fund balances for the Organization's Regular Budget and Working Capital Fund, the Trust Funds, the Special Funds, the Non-project Funds, the WHO Regular Budget allocation and voluntary funds for the Region of the Americas, as well as the funds for the three non-consolidated centers.
- *The Statement of Assets, Liabilities, and Reserves and Fund Balances*, Statement II, is supported by accompanying Explanatory Notes and Schedules that give greater detail of the overall activity.
- *The Statement of Cash Flow*, Statement III, identifies the cash flow of the Organization's funds and highlights the increases and decreases of the Organization's assets, liabilities, reserves, and fund balances.
- *The Statement of Regular Budget Appropriations*, Statement IV, reflects the status of the appropriations of the PAHO Regular Budget and the WHO Regular Budget Allocation to the Regional Office of the Americas presented according to the appropriation resolution approved by the 46th Directing Council in 2005.

15. Accounting Policies

The major accounting policies of the Organization appear in the Explanatory Notes of the Financial Statements. The accounting policies and procedures followed by the Organization remain consistent with the Organization's Financial Regulations and with the more detailed financial and accounting procedures established by the Director in light of these Regulations.

Income for the Regular Budgets of PAHO, CAREC, CFNI, and INCAP are recorded according to the total assessed quota contributions of the 2006-2007 Biennial Program Budget with a provision for delays in the collection of quota contributions. Income from all other sources is recorded on a cash basis; interest is recorded in the accounts when credited to the Organization's bank accounts; and Trust Funds are recorded as received when the funds are credited to the Organization's bank accounts.

Budgetary accounting, unlike financial accounting, goes beyond the actual basis for recording expenses (disbursements and accounts payable) by recording as expenditure at the end of the financial period, with the corresponding liability, all valid unliquidated obligations. These unliquidated obligations are commitments involving a liability against the

resources of the current financial period, e.g., for personnel services, procurement of supplies, duty travel, etc. for which the activities, services, and goods have been completed or delivered, or are contractually due to be completed or delivered, by 31 December 2007, but the funds have not been disbursed as of 31 December 2007. In accordance with Article IV of the Financial Regulations, unliquidated obligations are recorded in the books of accounts in respect of the Regular Budgets of PAHO, CAREC, CFNI, and INCAP. The Regular Budget of WHO and other WHO funds, as well as all other funds of the Pan American Health Organization, except for Trust Funds, shown in Statement I under the section, Pan American Health Organization, are shown on the same basis.

**Pan American Health Organization
Summary of Expenditure by Source of Funds
Financial Periods 1998-1999 to 2006-2007**

(expressed in US dollars)

	1998-1999	2000-2001	2002-2003	2004-2005	2006-2007
Pan American Health Organization					
Regular Budget	165 397 243	173 886 468	171 104 979	175 259 824	182 159 558
Special Funds					
Capital Equipment	275 640	1 674 697	3 166 312	3 288 942	5 560 513
Cholera		52 270			
Health Promotion		282 529	452 980	95 421	743 594
Income from Services	5 086 116	8 644 226	7 057 963	6 677 560	8 132 115
Measles	326 650	12 186			
Natural Disaster Relief	7 132 493	4 014 165	1 652 695	7 804 977	6 104 014
Preinvestment Fund in Environment and Health	15 339	7 671			
Program Support Costs	10 624 310	8 033 449	14 504 420	13 207 553	14 176 798
Textbook Program					
Trust Funds	105 600 566	104 301 059	107 158 512	134 329 239	192 385 273
Nonproject Funds					
Advances from Governments and Institutions for Procurement	30 292 067	30 043 502	18 101 496	15 267 257	39 560 171
Building Fund	1 654 304	10 598 533	2 002 641	1 893 036	2 106 746
Provision for Termination and Repatriation Entitlements	2 608 940	2 951 227	3 073 854	4 679 075	4 081 003
Revolving Fund for the Expanded Program on Immunization	185 822 312	213 971 492	289 783 443	314 165 224	373 866 864
Sale of Vaccine at PANAFTOSA	115 677	24 577	14 426	74 637	94 129
Regional Revolving Fund for Strategic Public Health Supplies		5 420 137	12 251 116	10 218 556	29 577 919
Tax Equalization Fund	6 817 349	9 355 716	9 531 526	10 330 177	11 217 762
Subtotal PAHO	521 769 006	573 273 904	639 856 363	697 291 478	869 766 459
CAREC					
Regular Budget	3 611 245	3 599 227	3 796 159	4 197 126	4 552 490
Trust and Special Funds	3 227 278	4 266 666	6 348 549	8 182 824	9 493 863
CFNI					
Regular Budget	629 310	644 749	603 878	581 328	637 566
Trust and Special Funds	101 578	311 034	998 590	1 571 278	1 595 273
INCAP					
Regular Budget	1 197 411	1 229 023	1 619 920	1 398 561	1 458 436
Trust and Special Funds	4 677 268	4 116 383	4 381 931	4 327 416	5 201 215
Subtotal Centers	13 444 090	14 167 082	17 749 027	20 258 533	22 938 843

	1998-1999	2000-2001	2002-2003	2004-2005	2006-2007
World Health Organization					
Regular Budget	80 958 498	77 347 752	73 247 611	72 537 769	75 117 851
United Nations Development Program	381 053	73 336			
United Nations Population Fund	1 417 191	401 433	321 489	132 903	
Others	15 592 757	18 074 189	12 961 409	24 216 401	44 667 138
Subtotal WHO	98 349 499	95 896 710	86 530 509	96 887 073	119 784 989
Eliminations			(26 247 003)	(28 120 184)	(34 798 521)
Total All Funds	633 562 595	683 337 696	717 888 896	786 316 900	977 691 770

^{1/} Eliminations started in 2002-2003.