

PART I

DIRECTOR'S COMMENTS

**DIRECTOR'S COMMENTS ON THE FINANCIAL STATEMENTS OF THE
PAN AMERICAN HEALTH ORGANIZATION FOR THE YEAR ENDING
31 DECEMBER 2004**

The Interim Financial Report of the Pan American Health Organization (PAHO) for the year ending 31 December 2004 is submitted by the Director in accordance with Article XIII of the Financial Regulations.

Financial Status of the Pan American Health Organization: Overview

An overview of the financial status of the Organization as a whole is highlighted on the Statement of Income and Expenditure and Changes in Fund Balances, Table 1, which provides specific columns for the activities financed by the World Health Organization (WHO) and the consolidated financial activities of the Caribbean Epidemiology Center (CAREC), the Caribbean Food and Nutrition Institute (CFNI), and the Institute of Nutrition of Central America and Panama (INCAP), which are administered by the Organization. In addition, separate totals are shown for those activities in which PAHO's Member States have a residual right of ownership, as opposed to the other activities that are funds managed by the Organization.

The Organization's total income for all activities reached \$360.7 million, and total expenditure amounted to \$374.7 million for 2004, resulting in a shortfall of income over expenditure of \$14 million. This shortfall is attributable to (1) a drawdown of \$18.1 million in the Revolving Fund for the Expanded Program on Immunization, (2) a deficit of \$3.7 million of the Regular Budget and Working Capital Fund, (3) a drawdown of \$1.2 million in Program Support Costs, (4) a utilization of \$705,754 in the Regional Revolving Fund for Strategic Public Health Supplies, (5) an increase of \$8.6 million in Trust Funds, and (6) an increase of \$1.2 million in the Natural Disaster Relief Fund.

A summary of expenditure by source of funds for the interim financial periods 1995 to 2004 appears in Table A at the end of the Director's Comments.

Financial Situation of the Regular Budget: Overview

The receipts of current year and prior years' quota assessments in 2004 totaled \$50.2 million and \$30.4 million, respectively. Total income, net of tax equalization, was \$77.6 million. After disbursements for international health programs of \$81.2 million, savings on or cancellation of prior periods' obligations and other project adjustments, the Organization ended the first year of the 2004-2005 biennium with a shortfall of \$3.7 million in the Regular Budget Program.

The rate of collection of current year assessments for 2004 was 54%, compared with a collection rate of 71% and 75% for the years 2003 and 2002, respectively. The rates of collection of current year quota assessments for the following years are:

2004	54%
2003	71%
2002	75%
2001	64%
2000	51%

Arrears of contributions as of 1 January 2005 have increased to \$69.8 million, compared to \$58.2 million as of 1 January 2004 and \$49.1 million as of 1 January 2003. As of 31 December 2004, 15 Members had paid their current year's contribution in full, 5 members had paid in part, and 19 had made no payments toward their 2004 assessed contribution.

The quota assessments due at 31 December 2004 are:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Antigua and Barbuda	-	-	-	-	-	17,324
Argentina	87,476	3,992,676	3,992,676	4,170,569	4,170,569	4,244,035
Bolivia	-	-	-	-	59,580	60,630
Brazil	-	-	-	-	4,955,664	7,405,411
Chile	-	-	-	-	-	467,710
Colombia	-	-	-	-	800,068	814,163
Costa Rica	-	-	-	-	37,261	112,597
Cuba	-	-	-	162,375	621,912	632,867
Dominica	-	-	-	17,024	17,024	17,324
Dominican	-	-	-	-	78,857	155,904
Ecuador	-	-	-	-	-	33,008
Grenada	-	-	-	-	-	25,984
Honduras	-	-	-	-	-	5,546
Jamaica	-	-	-	-	110,039	155,904
Mexico	-	-	-	-	3,005,491	5,266,070
Paraguay	-	-	-	109,535	153,205	155,904
Peru	-	-	-	342,980	348,966	355,113
Puerto Rico	-	-	-	-	-	97,015
Saint Lucia	-	-	-	-	-	34
Suriname	-	-	42,343	59,580	59,580	60,630
United Kingdom	-	-	-	-	-	48,546
United States	-	-	-	-	-	18,786,321
Uruguay	-	-	-	221,295	221,295	225,194
Venezuela	-	-	-	-	-	2,774,616
TOTAL	87,476	3,992,676	4,035,019	5,083,358	14,639,511	41,917,850

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 2005, there were seven Member States subject to Article 6.B, compared to seven Member States as of 1 January 2004. Member States are urged to remit their quota payments on a timely basis so that the Organization may remain in a sound financial position. In accordance with Article 6.4 of the Financial Regulations, assessments are due on the first day of the year to which they relate.

An amount of \$6,750,000 per year was projected as miscellaneous income to supplement the 2004-2005 PAHO Regular Budget. The actual amount realized for the year 2004 was \$2,516,243, due to the decrease in the interest earned on the Organization's funds, a loss on currency exchange, and a decrease on savings on or cancellation of prior periods' obligations.

As shown on the Statement of Cash Flow (Table 3), the net shortfall of all cash inflows over cash outflows was \$14.1 million.

Funds are allotted for a one-year period. Against these allotments, obligations have been incurred for the full 12 months involved (e.g. salaries); in other cases (e.g. consultants and short-term personnel services, travel, fellowships, contractual services, meetings and purchase of supplies and equipment) obligations have been incurred only to the extent commitments were known and had been established at 31 December 2004. Accordingly, the financial position as of 31 December 2004 does not represent a meaningful financial reflection of the rate of program implementation.

Cases of Fraud and Presumptive Fraud

The Organization experienced six cases of fraud within the year 2004 for a total of \$79,518. Of this total, \$79,415 were recovered prior to 31 December 2004. The remaining balance of \$103 is comprised of \$79 which were recovered in January 2005 and \$24 which were recorded as losses to the Organization.

Ex-gratia Payments

In accordance with Article 13.5 of the Financial Regulations, the Director has the authority to make such ex-gratia payments that he/she deems necessary in the interests of the Organization. These payments amounted to \$6,552 during the year 2004.

Trust Funds

The donated Trust Fund income for 2004 reached \$71.8 million. The implementation of projects funded by these Trust Funds amounted to \$63.2 million, which represents 77.9% when compared to PAHO Regular Budget expenditure and underscores the effort to supplement additional funds from outside sources.

The Trust Fund accounts with receipts in excess of expenditure amounted to \$43.2 million at 31 December 2004. The Trust Fund accounts at 31 December 2004 with expenditure greater than receipts amounted to \$1.2 million. The Organization is pleased with the financial position of these Trust Funds. However, PAHO continues to seek new activities to be financed by resources outside of the Organization and to take measures to increase the rate of reimbursement of Trust Fund expenditure.

Caribbean Epidemiology Center (CAREC)

Quota receipts for the current year amounted to \$1.5 million, or 71.8% of the 2004 assessments. Receipts on arrearages amounted to \$726,832, or 19.7% of the total quota receivables as of 31 December 2004.

The net excess of income over expenditure for 2004 was \$284,748. This excess increased the Working Capital Fund from a balance of \$945,845 at the end of the prior year to a fund balance of \$1.2 million as of 31 December 2004. Income for trust funds reached 2.0 million, and CAREC generated income of \$684,432 from providing services.

Caribbean Food and Nutrition Institute (CFNI)

Quota receipts for the current year amounted to \$178,224, or 50% of the 2004 assessments. Receipts on arrearages amounted to \$66,152, or 4.7% of the total quota receivables as of 31 December 2004.

The net shortfall of income over expenditure for 2004 was \$30,219. This shortfall increased the Working Capital Fund deficit from a balance of \$405,265 at the end of the prior year to a deficit in the fund balance of \$435,484 as of 31 December 2004. CFNI received \$662,675 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 \$1.0 million. Its Endowment Fund has reached \$360,215.

Quota receipts for the current year amounted to \$280,900, or 74.2% of the 2004 assessments. Receipts on arrearages amounted to \$91,749, or 46.1% of the total quota receivables as of 31 December 2004. INCAP received \$1.0 million in trust fund income during 2004.

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

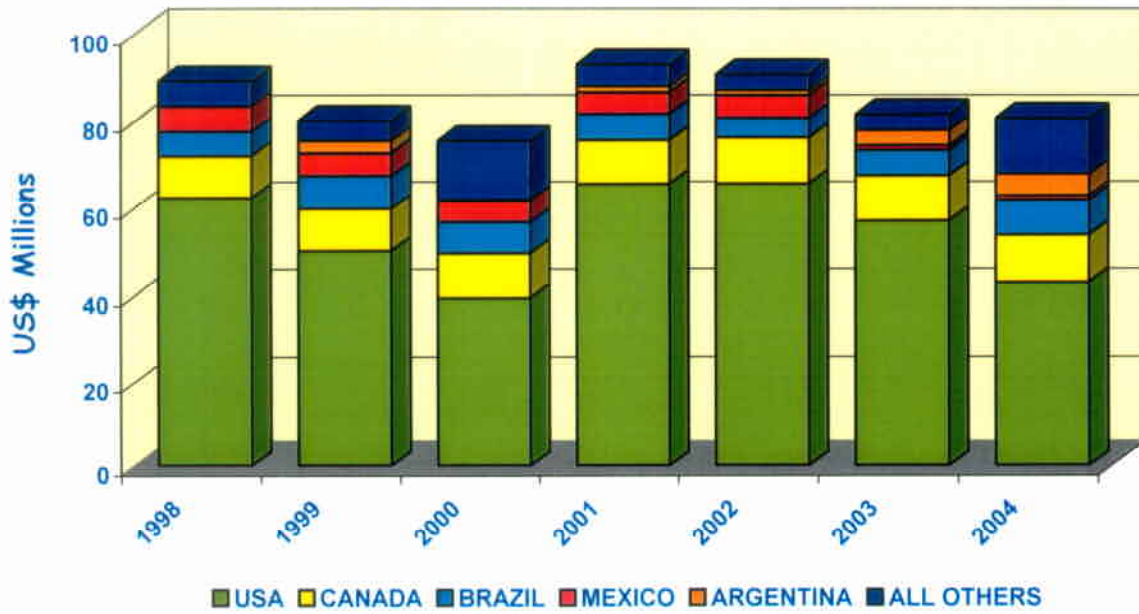
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
PAN AMERICAN HEALTH ORGANIZATION					
Regular Budget	83,498,732	67,002,283	91,116,493	69,589,827	95,807,416
Special Funds					
Animal Health Research	499	1,271	13,181	-	-
Capital Equipment	86,537	-	47,080	229,587	46,053
Cholera	603,033	329,721	51,044	-	-
Health Promotion	153,917	146,659	25,310	-	-
Income from Services	-	-	-	2,606,640	2,479,476
Measles	534,954	101,855	224,355	275,929	50,721
Natural Disaster Relief	5,598,686	1,594,141	659,888	2,915,376	4,217,117
Preinvestment Fund in Environment and Health Program Support Costs	134,492	223,289	57,965	7,937	7,402
Trust Funds	7,443,726	7,015,216	130,587	6,340,345	4,283,965
	38,955,146	38,454,622	46,824,740	55,829,854	49,770,712
Nonproject Funds					
Advances from Governments and Institutions for Procurement Building Fund	6,616,001	8,659,003	3,313,124	10,380,800	19,911,267
Emergency Procurement Revolving Fund	940,982	932,619	818,069	848,714	805,590
Provision for Termination and Repatriation Entitlements	-	-	125,000	-	-
Revolving Fund for the Expanded Program on Immunization	1,747,208	3,315,483	1,939,446	1,044,035	1,564,905
Sale of Vaccine at PANAFTOSA	15,543,396	13,673,578	26,238,199	65,425,186	120,397,126
Regional Revolving Fund for Strategic Public Health Supplies	1,225,771	1,586,477	422,024	101,856	13,821
Tax Equalization Fund	-	-	-	-	-
	3,024,916	3,132,039	3,636,528	3,437,413	3,379,936
Subtotal PAHO	<u>166,107,996</u>	<u>146,168,256</u>	<u>175,643,033</u>	<u>219,033,499</u>	<u>302,735,507</u>
CAREC					
Regular Budget	1,355,811	1,564,597	1,679,796	1,703,511	1,907,734
Trust and Special Funds	1,513,814 1/	1,438,739 1/	2,116,884	1,345,885	1,881,393
CFNI					
Regular Budget	297,013	306,416	270,087	306,089	323,221
Trust and Special Funds	128,014 1/	171,061 1/	200,725	57,300	44,278
INCAP					
Regular Budget	745,325	702,466	610,780	622,975	574,436
Trust and Special Funds	1,973,030 1/	1,495,220 1/	5,217,084	2,514,984	2,162,284
Subtotal Centers	<u>6,013,007</u>	<u>5,678,499</u>	<u>10,095,356</u>	<u>6,550,744</u>	<u>6,893,346</u>
WORLD HEALTH ORGANIZATION					
Regular Budget	47,478,078	29,034,231	48,780,592	33,025,020	47,933,478
Global Program on AIDS	7,160,203	1,128,653	77	-	-
United Nations Development Program	258,201	302,292	566,610	119,438	261,615
United Nations Population Fund	2,619,289	2,094,201	1,755,233	881,334	535,857
Others	6,379,148	5,089,892	5,726,163	6,094,397	9,498,360
Subtotal WHO	<u>63,894,919</u>	<u>37,649,269</u>	<u>56,828,675</u>	<u>40,120,189</u>	<u>58,229,310</u>
TOTAL, ALL FUNDS	<u><u>236,015,922</u></u>	<u><u>189,496,024</u></u>	<u><u>242,567,064</u></u>	<u><u>265,704,432</u></u>	<u><u>367,858,163</u></u>

1/ Excludes Special Funds

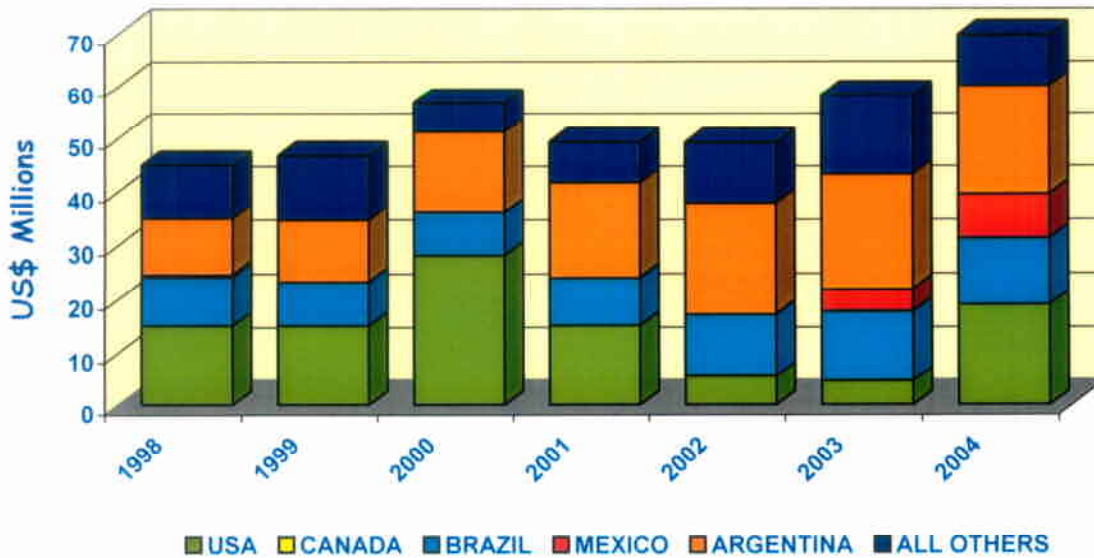
**PAN AMERICAN HEALTH ORGANIZATION
TEN YEARS OF GROWTH
SUMMARY OF EXPENDITURE BY SOURCE OF FUNDS
(Expressed in US dollars)**

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	
					PAN AMERICAN HEALTH ORGANIZATION
73,757,377	100,129,091	79,958,550	91,146,429	81,246,238	Regular Budget
					Special Funds
-	-	-	-	-	Animal Health Research
539,323	1,135,374	2,145,382	1,020,930	1,825,974	Capital Equipment
1,821	50,449	-	-	-	Cholera
-	282,529	239,695	213,285	28,659	Health Promotion
4,909,133	3,735,093	3,838,910	3,219,053	3,379,720	Income from Services
6,442	5,744	-	-	-	Measles
1,826,938	2,187,227	759,327	893,368	3,634,521	Natural Disaster Relief
7,671	-	-	-	-	Preinvestment Fund in Environment and Health Program Support Costs
6,415,778	1,617,671	6,622,918	7,881,502	7,688,935	Trust Funds
48,969,108	55,331,951	53,291,594	53,866,918	63,255,416	
					Nonproject Funds
					Advances from Governments and Institutions for Procurement Building Fund
9,944,090	20,099,412	8,217,622	9,883,874	5,813,092	Emergency Procurement Revolving Fund
3,722,034	6,876,499	1,127,521	875,120	755,295	Provision for Termination and Repatriation Entitlements Revolving Fund for the Expanded Program on Immunization
-	-	-	-	-	Sale of Vaccine at PANAFTOSA Regional Revolving Fund for Strategic Public Health Supplies
1,558,662	1,392,565	1,045,819	2,028,035	2,120,504	Tax Equalization Fund
83,925,328	130,046,164	144,652,030	145,131,413	153,073,837	
5,690	18,887	1,645	12,781	66,639	
2,619,858	2,800,279	6,121,810	6,129,306	3,701,492	
5,242,095	4,113,621	4,795,085	4,736,441	4,853,918	
<u>243,451,348</u>	<u>329,822,556</u>	<u>312,817,908</u>	<u>327,038,455</u>	<u>331,444,240</u>	Subtotal PAHO
					CAREC
1,965,095	1,634,132	1,778,163	2,017,996	2,013,838	Regular Budget
1,709,441	2,557,225	2,547,500	3,801,049	3,162,186	Trust and Special Funds
					CFNI
321,970	322,779	325,235	278,643	274,595	Regular Budget
110,172	200,862	294,869	703,721	696,958	Trust and Special Funds
					INCAP
574,198	654,825	931,750	688,170	504,189	Regular Budget
1,945,175	2,171,208	2,098,871	2,283,060	2,222,388	Trust and Special Funds
<u>6,626,051</u>	<u>7,541,031</u>	<u>7,976,388</u>	<u>9,772,639</u>	<u>8,874,154</u>	Subtotal Centers
					WORLD HEALTH ORGANIZATION
31,992,360	45,355,392	33,643,056	39,604,555	32,366,234	Regular Budget
-	-	-	-	-	Global Program on AIDS
43,344	29,992	-	-	-	United Nations Development Program
281,914	119,519	147,715	173,774	33,095	United Nations Population Fund
5,764,074	12,310,115	5,063,006	7,898,403	7,772,350	Others
<u>38,081,692</u>	<u>57,815,018</u>	<u>38,853,777</u>	<u>47,676,732</u>	<u>40,171,679</u>	Subtotal WHO
<u>288,159,091</u>	<u>395,178,605</u>	<u>359,648,073</u>	<u>384,487,826</u>	<u>380,490,073</u>	TOTAL, ALL FUNDS

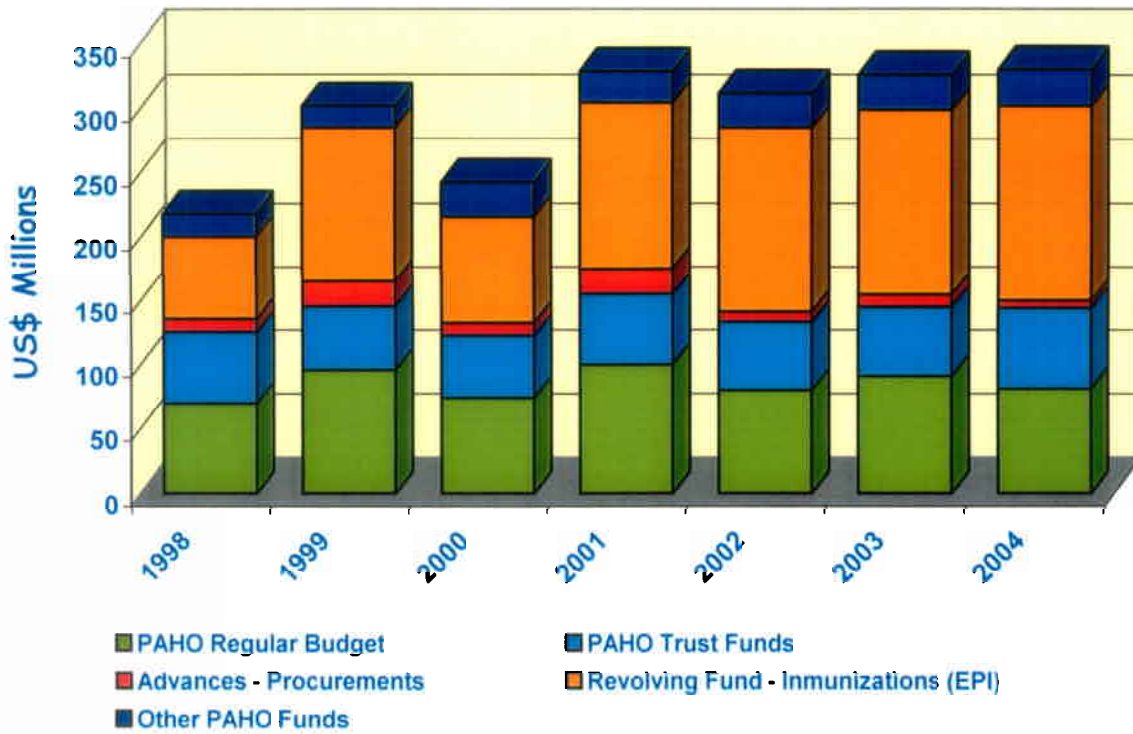
Quota Contributions Collected



Quota Contributions Due



Expenditure by Source of Fund



PAHO's and Centers' Income (without Procurement) and WHO

