

PART I

DIRECTOR'S COMMENTS

**DIRECTOR'S COMMENTS ON THE FINANCIAL STATEMENTS OF THE
PAN AMERICAN HEALTH ORGANIZATION FOR THE FINANCIAL PERIOD
1 January 2002 to 31 December 2003**

The Financial Report of the Pan American Health Organization (PAHO) for the financial period 1 January 2002 to 31 December 2003 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, Statement I, 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 reached \$767.2 million, an increase of \$114.6 million, or 17.6%, in comparison to the 2000-2001 biennium. The most significant increase occurred with the Revolving Fund for the Expanded Program on Immunization, which experienced a \$119.9 million increase compared to the previous biennium. Total expenditures, after eliminations, increased by \$60.2 million in 2002-2003, from \$673.0 million for the 2000-2001 biennium to \$733.2 million for the 2002-2003 biennium. This increase is attributable to (1) an increase of \$75.8 million in the expenditures of the Revolving Fund for the Expanded Program on Immunization; (2) a decrease of \$11.9 million in advances from governments and institutions for procurement expenditures; (3) a decrease of \$9.4 million in the expenditures of the WHO funds; (4) a decrease of \$8.6 million in the Building Fund expenditures; (5) an increase of \$6.8 million in the expenditures of the Strategic Fund; and (6) an increase of \$6.5 million in the Program Support Cost expenditures.

Financial Situation of the Regular Budget: Overview

The receipts of current biennium assessments reached \$139.5 million in the 2002-2003 biennium, which is an increase of \$7.4 million in comparison with the previous biennium. The collection of prior years' assessments was \$32.4 million, which was a decrease of \$3.6 million as compared to 2000-2001 biennium. Thus, the collection of current and prior biennia quotas resulted in an overall increase of \$3.8 million in quota receipts as compared to the 2000-2001 biennium.

The percentage of current quota receipts in relation to total assessments for the 2002-2003 financial period remained similar to the prior biennium:

Current assessments received for recent biennia are:

2002-2003	77.1%
2000-2001	77.3%
1998-1999	76.1%
1996-1997	69.4%
1994-1995	73.4%
1992-1993	80.2%
1990-1991	71.0%
1988-1989	70.6%

The quota contributions due at 31 December 2003 are:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Antigua and Barbuda	-	-	-	-	17,024	17,024
Argentina	1,255,189	3,841,869	3,992,676	3,992,676	4,170,569	4,170,569
Bolivia	-	-	-	-	-	59,580
Brazil	-	-	-	-	5,804,714	7,277,215
Chile	-	-	-	-	-	419,226
Colombia	-	-	-	-	656,511	800,069
Costa Rica	-	-	-	-	23,937	110,648
Cuba	-	-	-	359,463	621,912	621,912
Dominica	-	-	-	-	17,024	17,024
Dominican Republic	-	-	-	15,536	153,205	153,205
Ecuador	-	-	-	-	68,807	153,205
Haiti	-	-	-	-	-	59,580
Honduras	-	-	-	-	-	7,928
Jamaica	-	-	-	-	110,045	153,205
Mexico	-	-	-	-	-	4,074,909
Paraguay	-	-	-	62,754	153,205	153,205
Peru	-	-	-	-	342,980	348,966
Puerto Rico	-	-	-	-	-	95,336
Saint Lucia	-	-	-	-	-	33
Suriname	-	-	54,884	57,039	59,580	59,580
United Kingdom	-	-	-	-	-	27,340
United States	-	-	-	-	-	4,534,131
Uruguay	-	-	-	211,856	221,295	221,295
Venezuela	-	-	<u>327,863</u>	<u>2,612,462</u>	<u>2,728,637</u>	<u>2,728,637</u>
TOTAL	<u>1,255,189</u>	<u>3,841,869</u>	<u>4,375,423</u>	<u>7,311,786</u>	<u>15,149,445</u>	<u>26,263,822</u>

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 2004, there were seven Member States subject to Article 6.B, compared to four Member States as of 1 January 2002. 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 V of the Financial Regulations, assessments are due on the first day of the year to which they relate.

As shown on Statement IV, the Organization had an approved and appropriated budget for 2002-2003 of \$210.1 million, less staff assessments of \$23.3 million, for a program budget of \$186.8 million. During the course of the implementation of the 2002-2003 program budget, no transfers were made among appropriations.

The additional income, other than the quota contributions received, earned for the Regular Budget during the biennium consisted of \$7.9 million for miscellaneous (interest earned, currency exchange difference, and others), plus \$1.9 million in savings on or cancellation of prior periods' obligations, less \$3.4 million for a transfer to the Capital Equipment Fund.

The actual and budget income and expenditure in U.S. dollars are as follows:

	<u>Actual</u>	<u>Budgeted</u>
Collection of 2002-2003 assessments, net	128,896,733	170,300,000
Prior year's contributions, net	32,432,072	-
Interest income	7,943,675	16,500,000
Savings on or cancellation of prior periods' obligations	1,930,303	-
Less: Other project adjustments	<u>(82,170)</u>	<u>-</u>
Total Funds available (Effective Working Budget)	171,120,613	186,800,000
Less: Actual 2002-2003 expenditure	<u>(171,104,979)</u>	<u>(171,104,979)</u>
Net Surplus from operations	15,634	15,695,021
Less: Transfer to Capital Equipment Fund	<u>(3,407,000)</u>	<u>(3,407,000)</u>
Total changes in fund balances	<u>(3,391,366)</u>	<u>12,288,021</u>

As shown on the Statement of Cash Flow (Statement III), the net excess of income over expenditure was \$23.6 million. The Statement of Income and Expenditure and Changes in Fund Balances (Statement I) identifies the five major factors contributing to the excess of inflows over outflows: (1) an increase of \$27.9 million in the Revolving Fund for the Expanded Program of Immunization; (2) an increase of \$3.4 million in trust funds; (3) a decrease of \$3.2 million in the Strategic Fund; (4) an increase of \$2.9 million in the Provision for Termination and Repatriation Costs; and (5) a decrease of \$2.5 million in the Program Support Costs. Furthermore, the Cash Flow Statement identifies total interest earnings of \$8.5 million during the financial period ended 31 December 2003. Cash and term deposits increased by \$62.9 million due to the increase in the end-of-biennium fund balance for the Revolving Fund for the Expanded Program on Immunization and a decrease of long-term investments in favor of cash and term deposits.

Ex Gratia Payments

In accordance with Financial Regulation 13.5, the Director has the authority to make such ex gratia payments that he/she deems necessary in the interests of the Organization. There were no payments authorized during the 2002-2003 biennium.

Trust Funds

The donated Trust Fund income for the 2002-2003 biennium reached \$110.5 million, an increase of \$4.5 million from the previous biennium. The implementation of projects funded by these Trust Funds amounted to \$107.2 million, which is the equivalent of 62.6% of the PAHO Regular Budget expenditures and underscores the effort to supplement additional funds from outside sources.

The Trust Fund accounts with receipts in excess of expenditures amounted to \$35.2 million at 31 December 2003 compared to \$32.6 million at 31 December 2001, an increase of \$2.6 million. In contrast, the Trust Fund accounts at 31 December 2003 with expenditures greater than receipts amounted to \$1.7 million, compared with \$2.5 million at 31 December 2001, a decrease of \$800,000. The Organization is pleased with the financial position of these Trust Funds. However, it 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.

The Revolving Fund for the Expanded Program on Immunization

During the 2002-2003 biennium, the Revolving Fund for the Expanded Program on Immunization experienced an increase in income of \$119.9 million, or 60.6%, compared to the previous biennium. The expenditures increased by \$75.8 million, from \$214.0 million in the 2000-2001 biennium to \$289.8 million, an increase of 35.4%. The majority of the vaccines were purchased by Argentina, Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Peru, and Venezuela.

Advances from Governments and Institutions

The purchases under Reimbursable Procurement made on behalf of the Member States for all supplies, excluding immunizations, totaled \$18.1 million as compared to \$30.0 million in the 2000-2001 biennium. These supplies were purchased mainly by Argentina, Bolivia, Brazil, Ecuador, Guatemala, Nicaragua, and Uruguay.

Latin American and Caribbean Center on Health Sciences Information (BIREME)

Total income from the sale of publications, CD-ROMs, and services reached \$4.2 million and contributed to available funds of \$4.9 million including the beginning fund balance of \$0.7 million. Expenditures were \$4.7 million, which resulted in a 31 December 2003 balance of \$240,160. Other funding included \$1.2 million from PAHO's Regular Budget and \$2.8 million from trust fund agreements.

Pan American Center for Sanitary Engineering and Environmental Sciences (CEPIS)

Income from the sale of publications and laboratory and other services was \$1.7 million resulting in an available balance of \$3.0 million after the addition of the \$1.3 million beginning balance. Expenditures reached \$1.2 million resulting in a 31 December 2003 balance of \$1.8 million. Other expenditures included \$3.0 million from trust fund agreements, \$4.0 million from PAHO Regular Budget, and \$0.9 million from WHO Regular Budget funds.

Latin American Center for Perinatology and Human Development (CLAP)

The \$24,905 in available funds (\$5,801 from the beginning balance and \$19,104 in income from sales and services) were offset by \$6,598 in expenditures, resulting in a fund balance of \$18,307. Other expenditures included \$1.3 million from PAHO Regular Budget, \$253,323 from WHO funds and \$1.1 million from trust funds.

Pan American Institute for Food Protection and Zoonoses (INPPAZ)

The Center received \$1.2 million under Trust Fund arrangements (including funding from the host government), \$3.2 million from a PAHO Regular Budget allocation, and \$27,165 from PAHO Special Funds.

Pan American Foot-and-Mouth Disease Center (PANAFTOSA)

PANAFTOSA received \$5.7 million in PAHO Regular budget allocation, \$1.9 million under Trust Fund allocations (including funding from the host government), and \$718,478 from PAHO Special Funds.

Caribbean Epidemiology Centre (CAREC)

Quota receipts for the current biennium amounted to \$2.3 million, or 59.5% of the 2002-2003 assessments. Receipts on arrearages amounted to \$2.0 million, or 46.7% of the total quota receivables as of 31 December 2003. The net surplus of income over expenditure, adjustments and savings on, and cancellation of, prior periods' obligations and write-offs, for the financial period 2002-2003 was \$208,907. This surplus increased the Working Capital Fund from a balance of \$736,938 at the end of the prior biennium to a fund balance of \$945,845 as of 31 December 2003.

The level of funds received for program activities financed by Trust Fund arrangements increased to \$7.0 million, or 74.4% higher than the previous biennium. Project expenditures during the 2002-2003 biennium amounted to \$5.9 million, compared to \$3.5 million during the 2000-2001 biennium, or an increase of 68.6%.

Caribbean Food and Nutrition Institute (CFNI)

Current biennium quota receipts of \$367,937 reflected an increase of \$134,641 or 57.7% over the prior biennium. Prior biennia receipts of \$174,344 were \$282,853 less than the 2000-2001 biennium, a decrease of 61.9%. Total quota receivables as of 31 December 2003 were \$1.3 million.

The Center's Regular Budget expenditure decreased by \$40,871. The Working Capital Fund deficit increased from \$343,668 as of the end of the previous biennium to \$405,265 as of 31 December 2003. The Center has been successful in seeking new sources of income for its programs. Trust Fund income and expenditure increased significantly for the biennium to \$972,144 and \$832,940, respectively, as compared to the last biennium's results of \$346,306 and \$203,773, respectively. The Trust Fund balance as of 31 December 2003 totaled \$312,225.

Institute of Nutrition of Central America and Panama (INCAP)

The Institute's financial performance continues to strengthen, with a fully funded Working Capital balance of \$1.0 million. An amount of \$175,450 was transferred under the authorization of the Center's Director from the Special Fund for INCAP Services to the INCAP Regular Budget Fund in order to comply with the regulations for sales of services in accordance with the new delegation of authority.

The receipt of quota assessments for both the current biennium and prior biennia increased. The current biennial contributions of \$609,122 were \$41,724 or 7.4% higher than the 2000-2001 biennium, while contributions for prior biennia of \$295,449 were \$4,455 or 1.5% higher than the prior biennium. The balance of quota contributions due at the end of the biennium decreased from \$339,987 to \$192,816, or 43.3%.

Trust Fund income remained steady around \$2.2 million for the biennium. However, expenditure increased from \$1.6 million in 2000-2001 to \$2.4 million in 2002-2003, resulting in a decrease in the total available Trust Fund balance to \$567,335.

Presentation of the Financial Report

As required by Financial Regulation 13.2, an interim financial report is prepared at the end of the first year of the two-year financial period, and a final financial report covering the full biennium is prepared at the end of the second year. The financial statements are presented in compliance with the revised United Nations System Accounting Standards.

Proprietary Funds include the Regular Budget and Working Capital Fund, the Special Funds for Program Support Costs, and other Special Funds. These funds finance the programs of the Organization.

Program Fiduciary Funds include the allocation of funds from the WHO Regular Budget and other WHO/UN allocations, Trust Funds, funds administered on behalf of the Centers, and other PAHO Special Funds. They are used to implement program activities in accordance with agreements or understandings with related parties or other legal authorities.

Nonproject Funds include a number of funds that have been established as the result of resolutions adopted by the PAHO Governing Bodies. They have been established for the benefit of the Member States, for the benefit of the staff members, or to monitor or manage special nonprogram activities.

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, shows 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, shows the status of the appropriations of the PAHO Regular Budget presented according to the appropriation resolution approved by the 43rd Directing Council in 2001.

Similar statements have also been prepared in accordance with the United Nations System Accounting Standards for CAREC, CFNI, and INCAP.

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.

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, or awards for fellowships for which funds have not been disbursed as of 31 December 2003. 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 follow the same procedures. All other funds or accounts shown in Statement I under the section, Pan American Health Organization, i.e., Trust Funds, Special Funds, and Nonproject Funds, are shown on a cash basis.

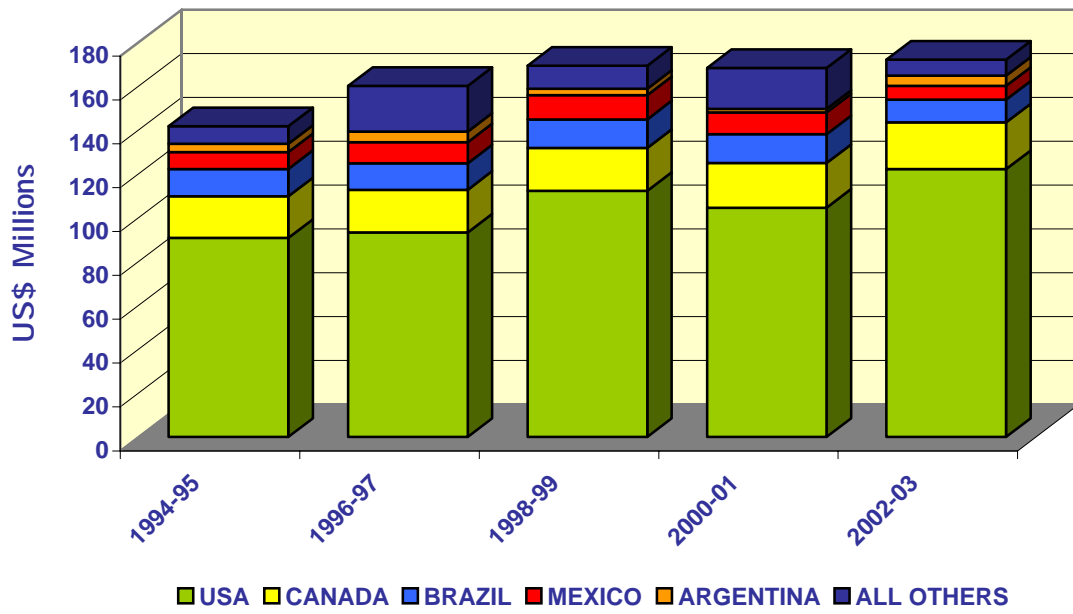
Incomes for the Regular Budgets of PAHO, CAREC, CFNI, and INCAP are recorded according to the total assessed contributions of the 2002-2003 biennial budget with a provision for delays in the collection of contributions. Incomes from all other sources are recorded on a cash basis; interest is recorded 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.

**PAN AMERICAN HEALTH ORGANIZATION
SUMMARY OF EXPENDITURE BY SOURCE OF FUNDS
FOR THE FINANCIAL PERIODS 1994-1995 TO 2002-2003
(Expressed in US dollars)**

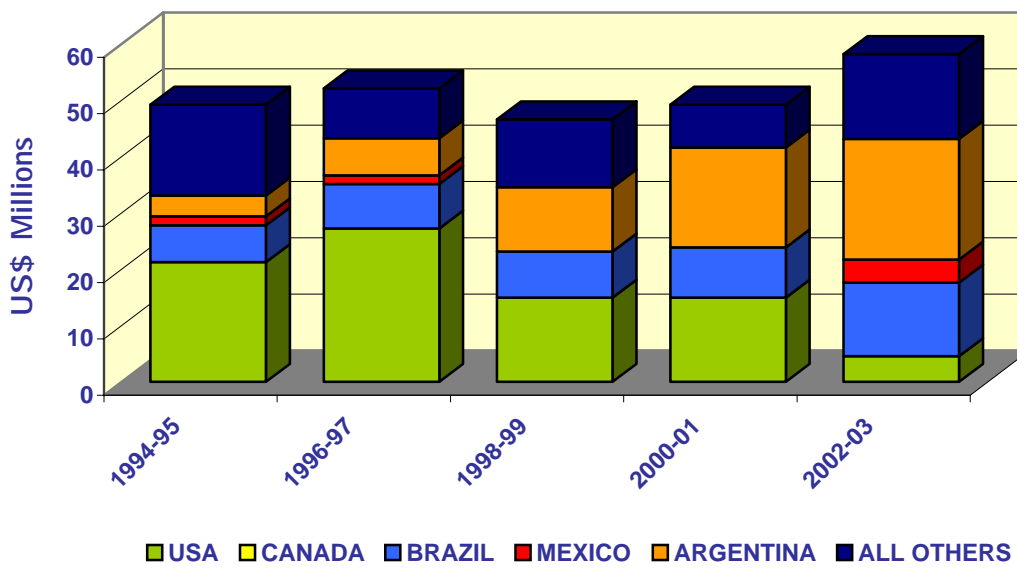
	<u>1994-1995</u>	<u>1996-1997</u>	<u>1998-1999</u>	<u>2000-2001</u>	<u>2002-2003</u>
PAN AMERICAN HEALTH ORGANIZATION					
Regular Budget	159,457,717	158,118,776	165,397,243	173,886,468	171,104,979
Special Funds					
Animal Health Research	4,571	14,452	-		
Capital Equipment	86,537	47,080	275,640	1,674,697	3,166,312
Cholera	774,985	380,765	-	52,270	-
Health Promotion	436,828	171,969	-	282,529	452,980
Income from Services	-	-	5,086,116	8,644,226	7,057,963
Measles	534,954	326,210	326,650	12,186	-
Natural Disaster Relief	13,635,647	2,254,029	7,132,493	4,014,165	1,652,695
Preinvestment Fund in					
Environment and Health	153,648	281,254	15,339	7,671	-
Program Support Costs	12,435,899	7,145,803	10,624,310	8,033,449	14,504,420
Textbook Program	-	-	-	-	-
Trust Funds	81,561,338	85,279,362	105,600,566	104,301,059	107,158,512
Nonproject Funds					
Advances from Governments and					
Institutions for Procurement	13,286,394	11,972,127	30,292,067	30,043,502	18,101,496
Building Fund	2,347,339	1,750,688	1,654,304	10,598,533	2,002,641
Emergency Procurement					
Revolving Fund	-	125,000	-	-	-
Provision for Termination and					
Repatriation Entitlements	3,697,058	5,254,929	2,608,940	2,951,227	3,073,854
Revolving Fund for the Expanded					
Program on Immunization	29,009,180	39,911,777	185,822,312	213,971,492	289,783,443
Sale of Vaccine at PANAFTOSA	3,001,272	2,008,501	115,677	24,577	14,426
Strategic Fund	-	-	-	5,420,137	12,251,116
Tax Equalization Fund	6,451,152	6,768,567	6,817,349	9,355,716	9,531,526
Subtotal PAHO	<u>326,874,499</u>	<u>321,811,289</u>	<u>521,769,006</u>	<u>573,273,904</u>	<u>639,856,363</u>
CAREC					
Regular Budget	2,853,759	3,244,393	3,611,245	3,599,227	3,796,159
Trust and Special Funds	3,042,703 ^{1/}	3,555,623 ^{1/}	3,227,278	4,266,666	6,348,549
CFNI					
Regular Budget	476,404	576,503	629,310	644,749	603,878
Trust and Special Funds	195,597 ^{1/}	371,786 ^{1/}	101,578	311,034	998,590
INCAP					
Regular Budget	1,377,061	1,313,246	1,197,411	1,229,023	1,619,920
Trust and Special Funds	<u>7,827,022</u> ^{1/}	<u>6,712,304</u> ^{1/}	<u>4,677,268</u>	<u>4,116,383</u>	<u>4,381,931</u>
Subtotal Centers	<u>15,772,546</u>	<u>15,773,855</u>	<u>13,444,090</u>	<u>14,167,082</u>	<u>17,749,027</u>
WORLD HEALTH ORGANIZATION					
WHO - Regular Budget	78,314,098	77,814,823	80,958,498	77,347,752	73,247,611
Global Program on Aids	14,127,817	1,128,730	-	-	-
United Nations					
Development Program	555,858	868,902	381,053	73,336	-
United Nations Fund for					
Population Activities	5,749,571	3,849,434	1,417,191	401,433	321,489
WHO - Others	<u>14,912,870</u>	<u>10,816,055</u>	<u>15,592,757</u>	<u>18,074,189</u>	<u>12,961,409</u>
Subtotal WHO	<u>113,660,214</u>	<u>94,477,944</u>	<u>98,349,499</u>	<u>95,896,710</u>	<u>86,530,509</u>
TOTAL, ALL FUNDS	<u><u>456,307,259</u></u>	<u><u>432,063,088</u></u>	<u><u>633,562,595</u></u>	<u><u>683,337,696</u></u>	<u><u>744,135,899</u></u>

^{1/} Excludes Special Funds

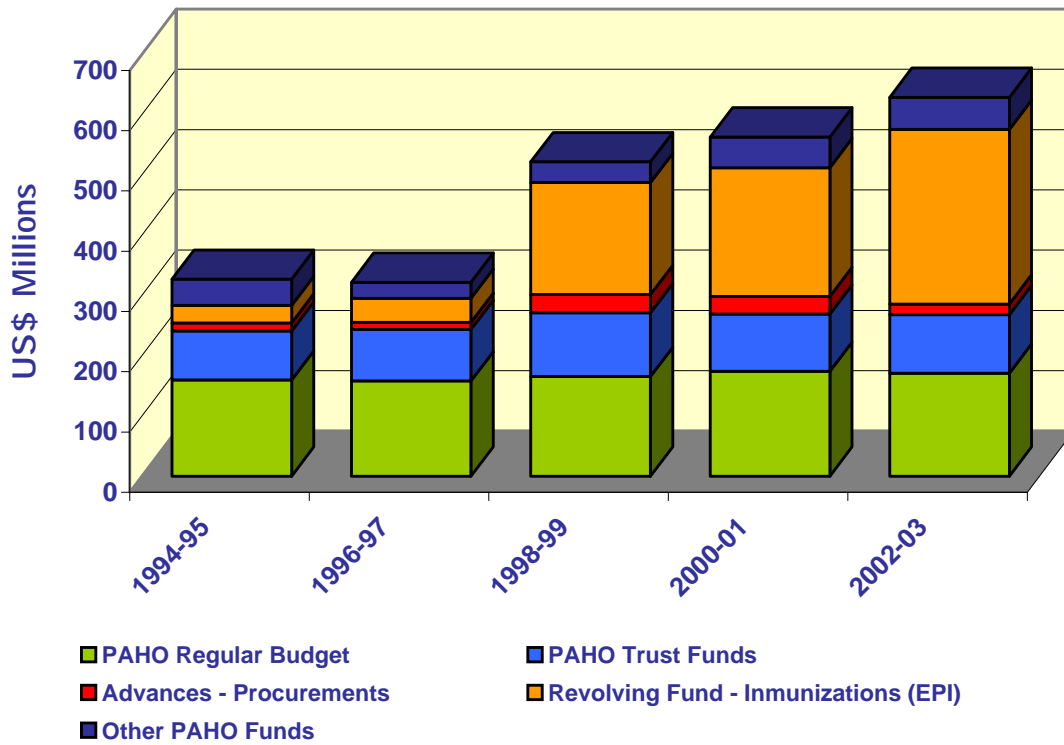
Quota Contributions Collected



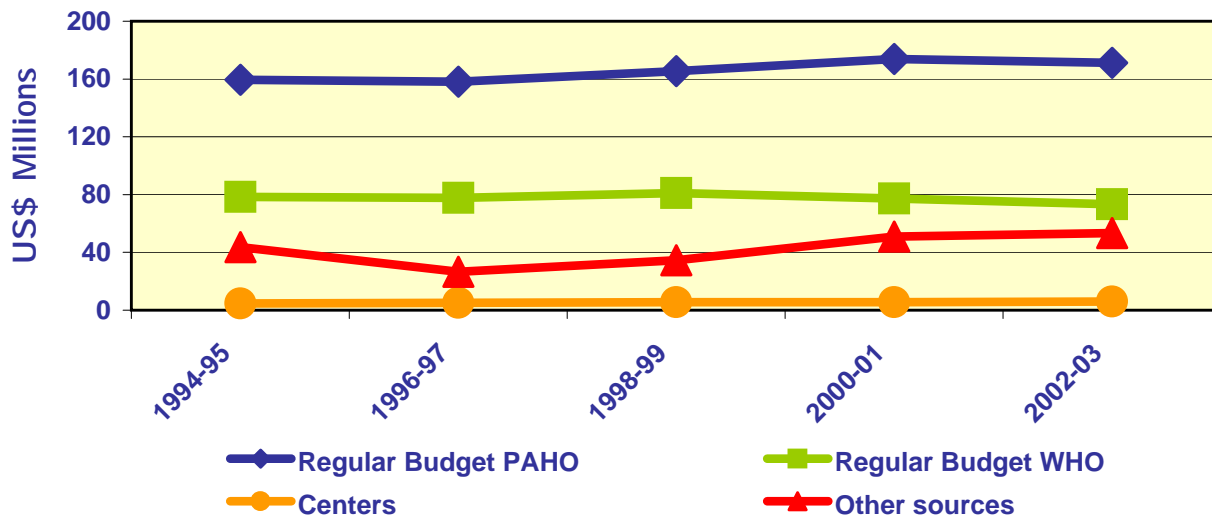
Quota Contributions Due



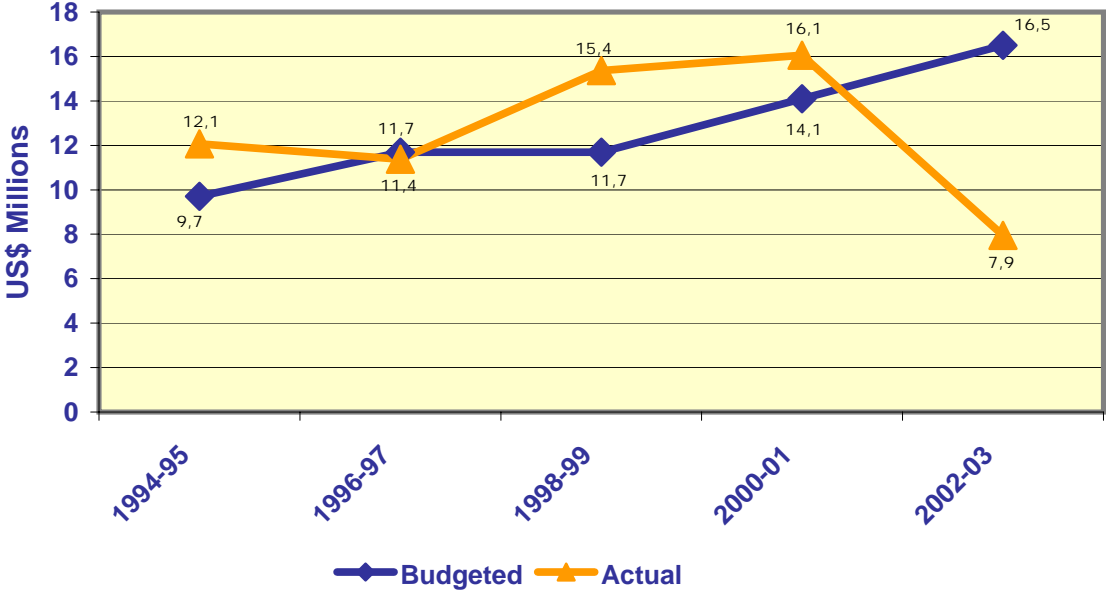
Expenditure by Source of Fund



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



Miscellaneous Income



Level Of Working Capital

