

PART I

DIRECTOR'S COMMENTS

DIRECTOR'S COMMENTS ON THE FINANCIAL STATEMENTS OF THE
PAN AMERICAN HEALTH ORGANIZATION FOR THE FINANCIAL PERIOD
1 January 2004 to 31 December 2005

The Financial Report of the Pan American Health Organization (PAHO) for the financial period 1 January 2004 to 31 December 2005 is submitted by the Director in accordance with Article XIII of the Financial Regulations.

Overview of the Financial Status of the Pan American Health Organization

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 Pan American Health Organization (PAHO), 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 \$798.8 million, an increase of \$46.9 million, or 6.2%, in comparison to the \$751.9 million in income in the 2002-2003 biennium. The most significant increases occurred with the Trust Funds, which experienced a \$26.6 million increase, the Natural Disaster Relief Fund, which experienced a \$9.6 million increase, and the Advances from Governments and Institutions for Procurement Fund which experienced a \$7.3 million increase, as compared to the previous biennium. Total expenditures, after eliminations, increased by \$68.4 million in 2004-2005, from \$717.9 million for the 2002-2003 biennium to \$786.3 million for the 2004-2005 biennium. This increase in expenditure is attributable to (1) an increase of \$4.2 million in the Regular Budget, (2) \$27.2 million in the expenditures of the Trust Funds, (3) \$6.2 million in the Natural Disaster Relief Fund, and (4) \$24.4 million in the Expanded Program on Immunization.

The World Health Organization provided \$72.5 million for Regular Budget activities in the Region of the Americas, which is \$710,000 less than in the last biennium. However, WHO increased its funding for extra-budgetary/voluntary projects significantly to \$31.0 million, as compared to \$13.3 million in the previous biennium. The Regional Office of the Americas was able to implement \$24.3 million of these project funds by the end of the biennium. Voluntary Funds for Health Promotion projects received \$20.4 million which was used for HIV/AIDS, TB and malaria (\$6.5 million), sustainable development of healthy environments (\$2.8 million), family and community health (\$2.4 million), communicable diseases (\$1.6 million), expanded program on immunization (\$1.1 million), evidence and information for policy (\$938,433), and \$5.1 million for other activities.

Overview of the Financial Position of the Regular Program Budget

The financial position of the Pan American Health Organization was strong at the end of the biennium, in large measure due to the conservative financial management of the Organization throughout the biennium. Receipts of current biennium assessments reached \$134.2 million in the 2004-2005 biennium. The collection of prior years' assessments was \$46.6 million. Thus, the collection of current and prior biennia quotas resulted in \$180.8 million, an overall increase of \$8.8 million in quota receipts, as compared to the 2002-2003 biennium. The most significant aspect of the quota collections is that every Member State made a quota payment in 2005, which is the first time that all Member States had met this critical financial responsibility to the Organization since 1990. Three of the contributing factors were (1) the option of paying quota assessments in local currency with the prior approval of the Director, (2) the structuring of

deferred payment plans for Member States with arrearages, and (3) the implementation of monthly and quarterly quota payment plans.

The percentage of collection of prior biennium's assessments increased significantly, while the percentage of current quota receipts in relation to total assessments for the 2004-2005 financial period decreased. Current assessments received for recent biennia were:

2004-2005	72.8%
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 2005 are:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Argentina	2,572,828	4,170,569	4,170,569	4,244,035	4,244,035
Bolivia	-	-	-	-	57,210
Brazil	-	-	-	-	6,988,625
Chile	-	-	-	250,000	467,710
Colombia	-	-	-	-	610,665
Costa Rica	-	-	-	-	103,119
Cuba	-	-	-	479,714	632,867
Dominica	-	-	17,024	17,324	17,324
Dominican Republic	-	-	-	1,345	155,904
Honduras	-	-	-	-	17,483
Jamaica	-	-	-	110,069	155,904
Mexico	-	-	-	3,049,502	5,266,070
Panama	-	-	-	-	63,743
Paraguay	-	-	-	142,424	155,904
Peru	-	-	325,310	355,113	355,113
Puerto Rico	-	-	-	-	97,015
Saint Lucia	-	-	-	-	34
Suriname	-	31,923	59,580	60,630	60,630
United States	-	-	-	-	18,786,511
Uruguay	-	-	221,295	225,194	225,194
Venezuela	-	-	-	-	<u>2,774,616</u>
TOTAL	<u>2,572,828</u>	<u>4,202,492</u>	<u>4,793,778</u>	<u>8,935,350</u>	<u>41,235,676</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 at 1 January 2006, there were five 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 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 Pan American Health Organization and the World Health Organization's Regional Office of the Americas had an approved and appropriated budget for 2004-2005 of \$294.2 million, less staff assessments of \$34.7 million, for a combined program budget of \$259.5 million.

In addition to the quota contributions, the Regular Program Budget benefited from \$10.3 million of miscellaneous income (interest earned, currency exchange difference and other income), plus \$1.2 million savings on or cancellation of prior periods' obligations. In order to fund the purchase of information technology equipment, telephone systems, and major software applications, the Organization transferred \$3.4 million to the Capital Equipment Fund.

The actual and budget income and expenditure for the Pan American Health Organization are as follows:

	<u>Actual</u>	<u>Budgeted</u>
Collection of 2004-2005 assessments, net	123,131,974	173,300,000
Prior year's contributions, net	46,613,436	-
Interest income, currency exchange, and other income	10,335,822	13,500,000
Savings on or cancellation of prior periods' obligations	1,182,387	-
Less: Other project adjustments	<u>(5,227)</u>	<u>-</u>
Total Funds available (Effective Working Budget)	181,258,392	186,800,000
Less: Actual 2004-2005 expenditure	<u>(175,259,824)</u>	<u>(175,259,824)</u>
Net Surplus from operations	5,998,568	11,540,176
Less: Transfer to Capital Equipment Fund	<u>(3,400,000)</u>	<u>(3,400,000)</u>
Total changes in fund balances	<u>2,598,568</u>	<u>8,140,176</u>

On 31 December 2005, the Organization's cash, term deposits and investments totaled \$189.1 million, in comparison with \$201.1 million at the end of the previous biennium. The cash and term deposits were \$124.1 million, while the investments reached \$65.0 million. Overall the financial resources available for investment decreased by \$12.0 million due to a \$12.0 million decrease in the closing balance of the Expanded Program on Immunizations (EPI).

Trust Funds

The donated Trust Fund income for the 2004-2005 biennium reached \$137.1 million, an increase of \$26.6 million from the previous biennium mainly reflecting the increase of funding from a Member State for projects within its country. The implementation of projects funded by these Trust Funds amounted to \$134.3 million, which is the equivalent of 76.6% of the PAHO Regular Budget expenditures and underscores the effort to supplement health promotion projects with funding from outside sources. The Program Support Costs (PSC) earned on these projects to assist with the administrative responsibilities related to the projects increased by \$881,813 to \$12.9 million.

The Revolving Fund for the Expanded Program on Immunization

During the 2004-2005 biennium, the Revolving Fund for the Expanded Program on Immunization received \$302.2 million in income, which was a 4.9% decrease from the previous biennium. The majority of the funding for vaccine procurements came from Argentina (\$34.3 million), Bolivia (\$15.0 million), Brazil (\$35.2 million), Colombia (\$68.4 million), Costa Rica (\$4.3 million), Dominican Republic (\$4.9 million), Ecuador (\$8.9 million), El Salvador (\$10.6 million), Guatemala (\$5.9 million) Honduras (\$9.9 million), Nicaragua (\$3.5 million), Panama (\$4.6 million), Paraguay (\$8.1 million) Peru (\$25.0 million), Uruguay (\$5.0 million), and Venezuela (\$44.3 million). The capitalization of the Revolving Fund, which provides funding for the vaccine purchases which are processed through the Revolving Fund with payment by the government or institution within 60 days of delivery, has grown to \$34.9 million.

Advances from Governments and Institutions for Procurement

The funds transferred to the Organization by governments and institutions for purchases of syringes, HIV/AIDS diagnostic kits, and medical supplies and equipment, excluding immunizations, totaled \$26.3 million as compared to \$20.6 million in the 2002-2003 biennium. These supplies were purchased mainly by Bolivia (\$7.1 million), Brazil (\$11.3 million), Cuba (\$1.9 million), Ecuador (\$554,000), Guatemala (\$1.9 million), Nicaragua (\$604,000), Peru (\$403,000), and Venezuela (\$698,000).

Caribbean Epidemiology Centre (CAREC)

Quota receipts for the current biennium amounted to \$3.0 million, or 70.6% of the 2004-2005 assessments. Receipts on arrearages amounted to \$759,310, or 19.8% of the total quota receivables as of 31 December 2003. The net shortfall of income over expenditure, adjustments and savings on, and cancellation of, prior periods' obligations for the financial period 2004-2005, was \$273,158. This deficit decreased the Working Capital Fund from a balance of \$945,845 at the end of the prior biennium to a fund balance of \$672,687 as of 31 December 2005.

The level of funds received for program activities financed by Trust Fund arrangements reached \$6.3 million, or 9.3% lower than the previous biennium. Project expenditures during the 2004-2005 biennium amounted to \$6.1 million. The Trust Fund balance as of 31 December 2005 totaled \$1.9 million.

Caribbean Food and Nutrition Institute (CFNI)

Current biennium quota receipts of \$423,043 reflected an increase of \$55,106 over the previous biennium. Prior biennia receipts of \$199,944 were \$25,600 greater than the 2002-2003 biennium. Total quota payments reached \$622,987, while quota receivables increased by \$89,281 to \$1.39 million.

The Center's Regular Budget expenditure decreased by \$22,550 to \$581,328, thus contributing to the improvement in the Working Capital Fund's deficit from \$405,265 as of the end of the previous biennium to \$363,606 on 31 December 2005. 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 \$1.65 million and \$1.48 million, respectively, as compared to last biennium's results of \$972,144 and \$832,940, respectively. The Trust Fund balance as of 31 December 2005 totaled \$484,516.

Institute of Nutrition of Central America and Panama (INCAP)

The Institute's financial position remains strong with a fully funded Working Capital balance of \$1.0 million. The receipt of quota assessments for the current biennium increased. The current biennial quota contributions of \$706,829 were \$97,707 or 16.0% higher than the 2002-

2003 biennium. Contributions for prior biennia of \$192,816 were \$102,633 or 34.7% lower than the prior biennium. The balance of quota contributions due at the end of the biennium continued to decrease from \$339,987 at the end of the 2000-2001 biennium to \$100,571 on 31 December 2005, which reflects a very successful effort to encourage the Member States to meet their financial commitments to the Institute. During this biennium, the Dominican Republic joined INCAP which can provide increased support with nutritional programs.

Trust Fund income decreased from \$2.2 million for the 2002-2003 biennium to \$1.82 million for the 2004-2005 biennium. Expenditure was \$2.0 million, resulting in a decrease in the total available Trust Fund balance to \$429,217.

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

Total income from the sale of publications, CD-ROMs, and services reached \$4.0 million and contributed to available funds of \$4.2 million including the beginning fund balance of \$240,160. Expenditures were \$3.6 million, which resulted in a 31 December 2005 balance of \$624,923. Other funding included \$1.2 million from PAHO's Regular Budget and \$4.85 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 \$556,021 resulting in an available balance of \$2.3 million after the addition of the \$1.8 million beginning balance. Expenditures reached \$1.1 million resulting in a 31 December 2005 balance of \$1.2 million. Other expenditures included \$1.5 million from trust fund agreements, \$3.1 million from PAHO Regular Budget, and \$846,548 from WHO funds.

Latin American Center for Perinatology and Human Development (CLAP)

Total income of \$1,697 from sales and services were offset by \$529 in expenditures, resulting in a fund balance of \$19,475 on 31 December 2005 with the beginning balance of \$18,307. Other funding included \$1.1 million from PAHO Regular Budget, \$481,521 from WHO funds, and \$477,381 from trust funds.

Pan American Institute for Food Protection and Zoonoses (INPPAZ)

The Center received \$2.1 million from a PAHO Regular Budget allocation, \$404,105 under Trust Fund allocations (including funding from the host government), and \$938 from PAHO Special Funds. In December 2005, INPPAZ was disestablished, in accordance with the Directing Council's Resolution (CD46.R6), in order to reengineer PAHO's technical cooperation strategy in support of food safety. This was driven by the availability of institutions of excellence and networks developed in the region to deal with food safety. There was no longer a need for a specialized Pan American center with the characteristics of INPPAZ.

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

PANAFTOSA received \$5.9 million in PAHO Regular budget allocation, \$2.2 million under Trust Fund allocations (including funding from the host government), and \$1.3 million from PAHO Special Funds.

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 Fund 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 centers, and other PAHO Special Funds. They are used to implement 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 by a decision of the Director. They have been established for the benefit of the Member States, for the benefit of the staff members, or to monitor or manage special, non-program 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 and the WHO Regular Budget Allocation to the Regional Office of the Americas presented according to the appropriation resolution approved by the 44th Directing Council in 2003.

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 2005. 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 Non-Project 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 2004-2005 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.

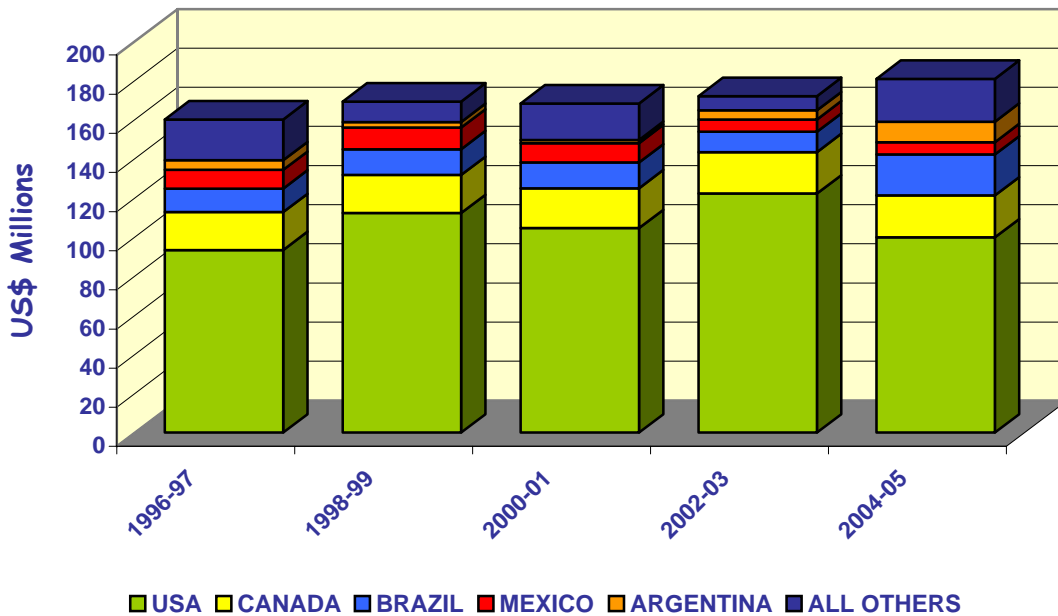
**PAN AMERICAN HEALTH ORGANIZATION
SUMMARY OF EXPENDITURE BY SOURCE OF FUNDS
FOR THE FINANCIAL PERIODS 1996-1997 TO 2004-2005
(Expressed in US dollars)**

	1996-1997	1998-1999	2000-2001	2002-2003 (Revised) (See note 27)	2004-2005
PAN AMERICAN HEALTH ORGANIZATION					
Regular Budget	158,118,776	165,397,243	173,886,468	171,104,979	175,259,824
Special Funds					
Animal Health Research	14,452	-	-	-	-
Capital Equipment	47,080	275,640	1,674,697	3,166,312	3,288,942
Cholera	380,765	-	52,270	-	-
Health Promotion	171,969	-	282,529	452,980	95,421
Income from Services	-	5,086,116	8,644,226	7,057,963	6,677,560
Measles	326,210	326,650	12,186	-	-
Natural Disaster Relief	2,254,029	7,132,493	4,014,165	1,652,695	7,804,977
Preinvestment Fund in Environment and Health	281,254	15,339	7,671	-	-
Program Support Costs	7,145,803	10,624,310	8,033,449	14,504,420	13,207,553
Textbook Program	-	-	-	-	-
Trust Funds	85,279,362	105,600,566	104,301,059	107,158,512	134,329,239
Nonproject Funds					
Advances from Governments and Institutions for Procurement	11,972,127	30,292,067	30,043,502	18,101,496	15,267,257
Building Fund	1,750,688	1,654,304	10,598,533	2,002,641	1,893,036
Emergency Procurement Revolving Fund	125,000	-	-	-	-
Provision for Termination and Repatriation Entitlements	5,254,929	2,608,940	2,951,227	3,073,854	4,679,075
Revolving Fund for the Expanded Program on Immunization	39,911,777	185,822,312	213,971,492	289,783,443	314,165,224
Sale of Vaccine at PANAFTOSA	2,008,501	115,677	24,577	14,426	74,637
Regional Revolving Fund for Strategic Public Health Supplies	-	-	5,420,137	12,251,116	10,218,556
Tax Equalization Fund	6,768,567	6,817,349	9,355,716	9,531,526	10,330,177
Subtotal PAHO	<u>321,811,289</u>	<u>521,769,006</u>	<u>573,273,904</u>	<u>639,856,363</u>	<u>697,291,478</u>
CAREC					
Regular Budget	3,244,393	3,611,245	3,599,227	3,796,159	4,197,126
Trust and Special Funds	3,555,623 ^{1/}	3,227,278	4,266,666	6,348,549	8,182,824
CFNI					
Regular Budget	576,503	629,310	644,749	603,878	581,328
Trust and Special Funds	371,786 ^{1/}	101,578	311,034	998,590	1,571,278
INCAP					
Regular Budget	1,313,246	1,197,411	1,229,023	1,619,920	1,398,561
Trust and Special Funds	6,712,304 ^{1/}	4,677,268	4,116,383	4,381,931	4,327,416
Subtotal Centers	<u>15,773,855</u>	<u>13,444,090</u>	<u>14,167,082</u>	<u>17,749,027</u>	<u>20,258,533</u>
WORLD HEALTH ORGANIZATION					
Regular Budget	77,814,823	80,958,498	77,347,752	73,247,611	72,537,769
Global Program on Aids	1,128,730	-	-	-	-
United Nations Development Program	868,902	381,053	73,336	-	-
United Nations Fund for Population Activities	3,849,434	1,417,191	401,433	321,489	132,903
Others	10,816,055	15,592,757	18,074,189	12,961,409	24,216,401
Subtotal WHO	<u>94,477,944</u>	<u>98,349,499</u>	<u>95,896,710</u>	<u>86,530,509</u>	<u>96,887,073</u>
Eliminations	-	-	-	(26,247,003) ^{2/}	(28,120,184) ^{2/}
TOTAL, ALL FUNDS	<u><u>432,063,088</u></u>	<u><u>633,562,595</u></u>	<u><u>683,337,696</u></u>	<u><u>717,888,896</u></u>	<u><u>786,316,900</u></u>

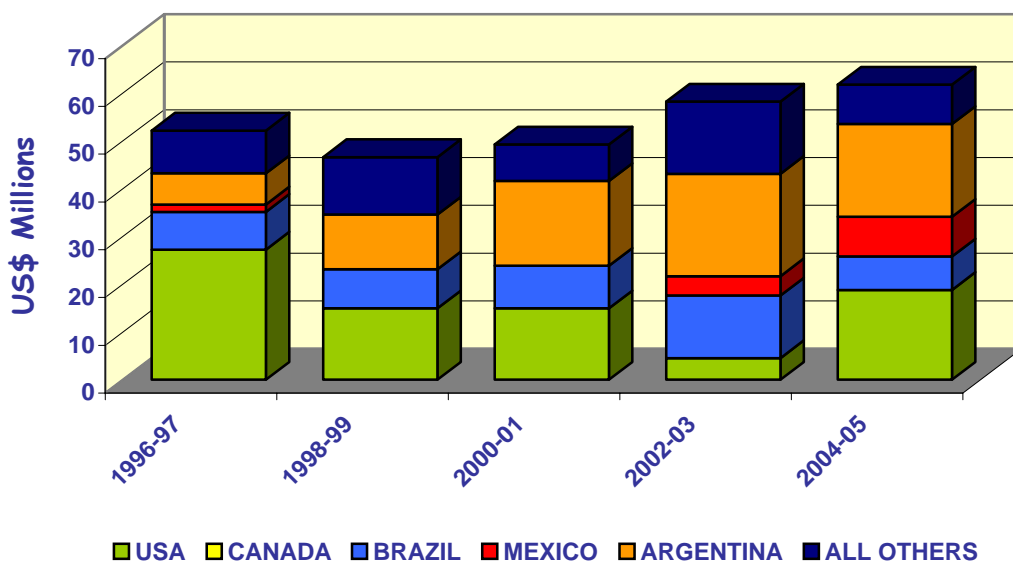
^{1/} Excludes Special Funds

^{2/} Eliminations started in 2002-2003

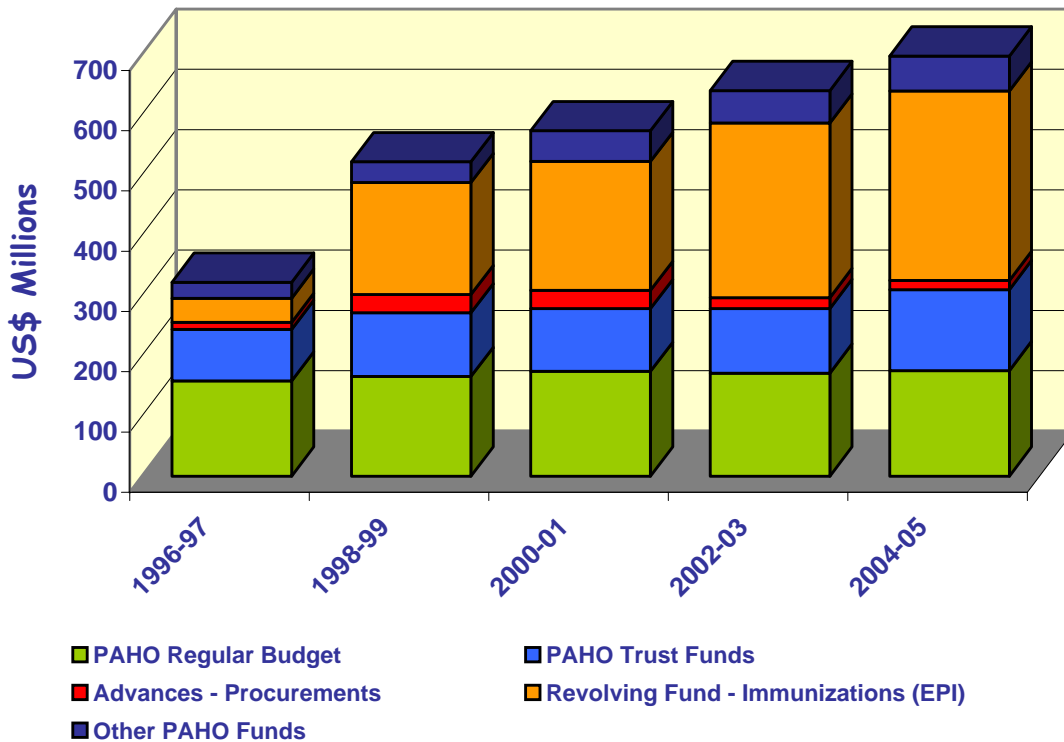
Quota Contributions Collected



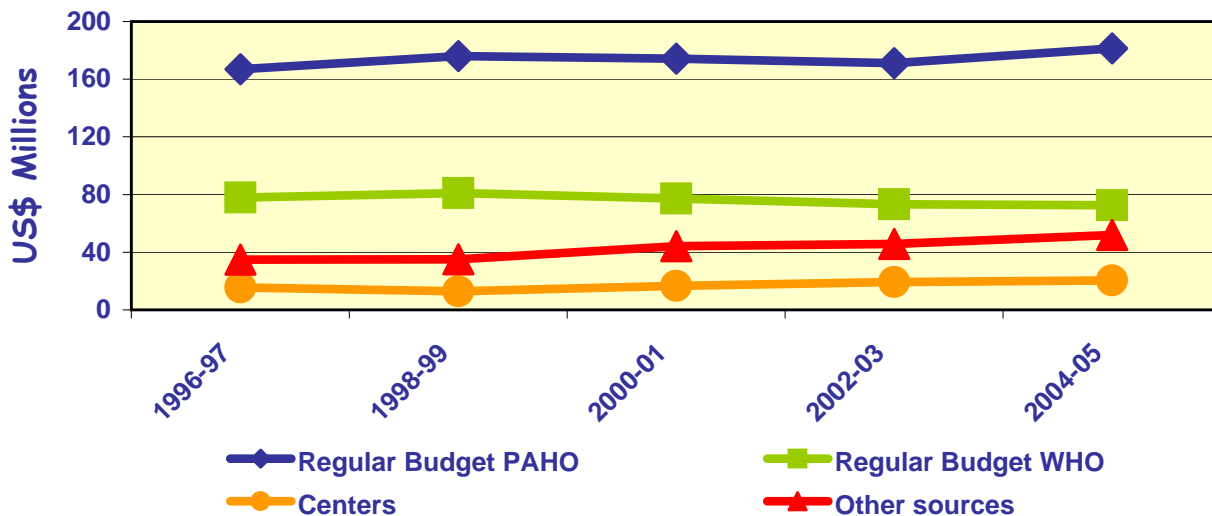
Quota Contributions Due



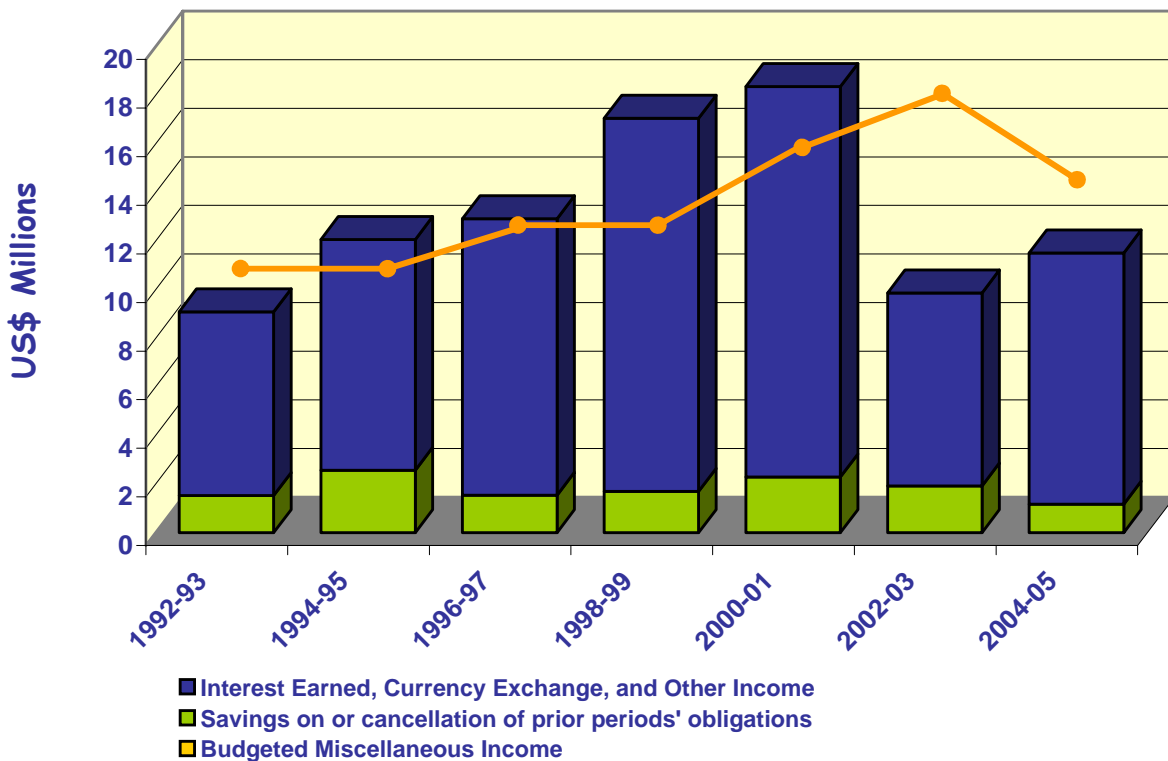
Expenditure by Source of Fund



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



Miscellaneous Income



Level Of Working Capital Fund

