

## ***Director's Comments***

In accordance with Financial Regulation 14.9 of the Pan American Health Organization (PAHO), I have the honor to present the Financial Report of the Pan American Health Organization for the financial reporting period 1 January 2013 through 31 December 2013. The Financial Statements and Notes to the Financial Statements have been prepared in compliance with International Public Sector Accounting Standards (IPSAS) and PAHO's Financial Regulations and Financial Rules.

Although PAHO has adopted an annual financial reporting period as stipulated in Financial Regulation 2.2, the budgetary period remains a biennium (Financial Regulation 2.1). Therefore, for the purposes of actual vs. budget comparisons in the Director's Comments, the annual budget figures represent one half of the Biennial Program and Budget as an approximation of annual budgetary figures.

### **1. Overview**

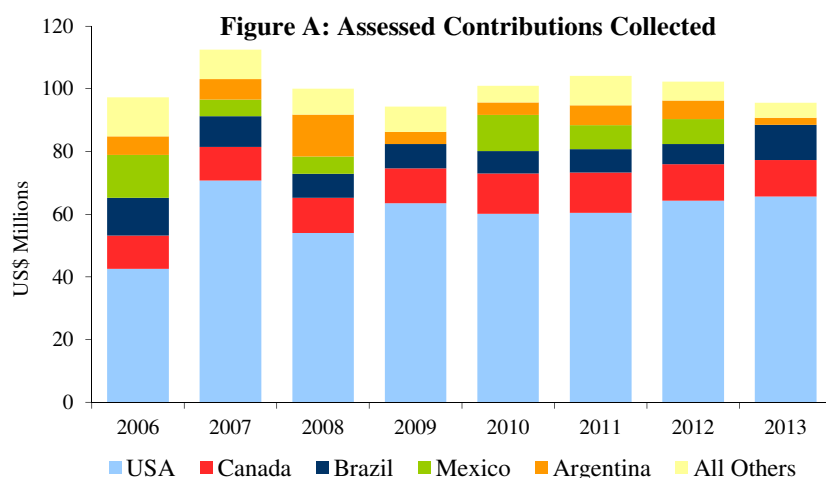
During 2013, PAHO continued its role in technical cooperation by: providing leadership on matters critical to health and engaging in partnerships; stimulating the generation, dissemination and application of valuable knowledge; setting norms and standards and promoting their implementation; articulating ethical and evidence-based policy options; catalyzing change and building sustainable institutional capacity; and, monitoring the health situation and assessing trends. In this regard, the Organization engaged in raising advocacy and awareness, and resource mobilization to address the regional collective public health priorities as set in the PAHO Strategic Plan and the Health Agenda for the Americas 2008-2017, while addressing the global mandates set out in the WHO Global Programme of Work. 2013 marked an important milestone as PAHO completed the implementation of its 2008-2013 Strategic Plan, the first Plan to have been fully implemented using the Organization's Result-Based Management Framework. During 2013, particular attention was placed on pushing towards the achievement of the health-related Millennium Development Goals (MDGs), especially MDG 4: reduce child mortality; MDG 5: improve maternal health; and, MDG 6: combat HIV/AIDS, Malaria and other diseases. In line with the regional and global mandates, the Organization also continued working with Member States in building national core capacity for the International Health Regulations (IHR), implementing the Framework Convention on Tobacco Control (FCTC), and promoting multi-sectoral policies and actions to address the NCDs and their risks factors in line with the recommendations of the UN High Level Meeting on NCDs.

PAHO provided technical cooperation in disaster preparedness in response to requests from our Member States, including internally displaced populations in Colombia, dengue in Honduras and Nicaragua, acute respiratory illness in Peru, and severe floods in St. Vincent and the Grenadines, St. Lucia, and Dominica. In addition, PAHO is supporting the Haitian Ministry of Health in tackling cholera and diarrhea using Oral Cholera Vaccine (OCV) and rotavirus vaccines in selected communities, as part of the Cholera Elimination Initiative in the island of Hispaniola. Furthermore, the Caribbean Public Health Agency (CARPHA) began operation in January 2013, and PAHO continued to support the Agency within the structure of the Interagency Framework Agreement signed between PAHO and CARPHA in September 2012, toward the achievement of their objectives to improve health and wellbeing, and reduce inequities in the Region.

In 2013, revenue to the Regular Budget totaled \$98.1 million. Revenue for activities funded by the World Health Organization totaled \$71.9 million. Revenue from Voluntary Contributions for public health programs totaled \$356.9 million in 2013 as compared to \$216.4 million in 2012. Revenue from procurement activities on behalf of Member States increased from \$562.4 million in 2012 to \$597.0 million in 2013. The level of resources for the Organization's three Procurement Funds represents 52% of the Organization's total revenue. The Organization's consolidated total revenue in 2013 reached \$1 139.5 million. The increase in revenue is primarily due to the increase in procurement of vaccines and the increase in National Voluntary Contributions.

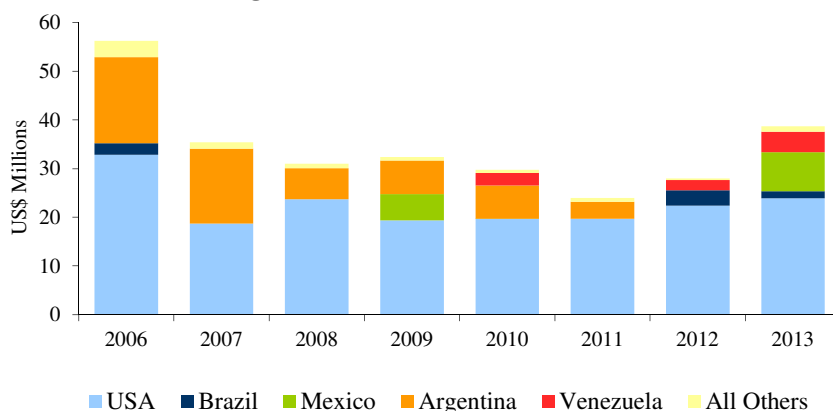
## 2. PAHO Regular Budget Segment: Financing

The PAHO Regular Budget Segment is comprised of the Member States' Assessed Contributions and Miscellaneous Revenue. In accordance with Resolution CD51.R11 adopted by the 51st Directing Council of the Pan American Health Organization, revenue from Assessed Contributions totaled \$106.2 million prior to the transfer of \$10.0 million to the Tax Equalization Fund. Revenue from Assessed Contributions was recorded in full on 1 January 2013, the date it became due and payable. However, in order to ensure that resources are available to fund the Regular Budget, the Organization must carefully monitor and report on the cash flows from Assessed Contributions and other receivables due to the Organization. The cash receipts of current and prior years' Assessed Contributions in 2013 totaled \$69.7 million and \$25.9 million, respectively. In 2013, the rate of collection of current year Assessed Contributions was 66%, compared with 74% for 2012. PAHO received payments toward 2013 Assessed Contributions from thirty-five Member States. Twenty-six Member States paid their 2013 Assessed Contributions in full, nine Member States made partial payments toward their 2013 Assessed Contributions, and seven Member States made no payment toward their 2013 Assessed Contributions.



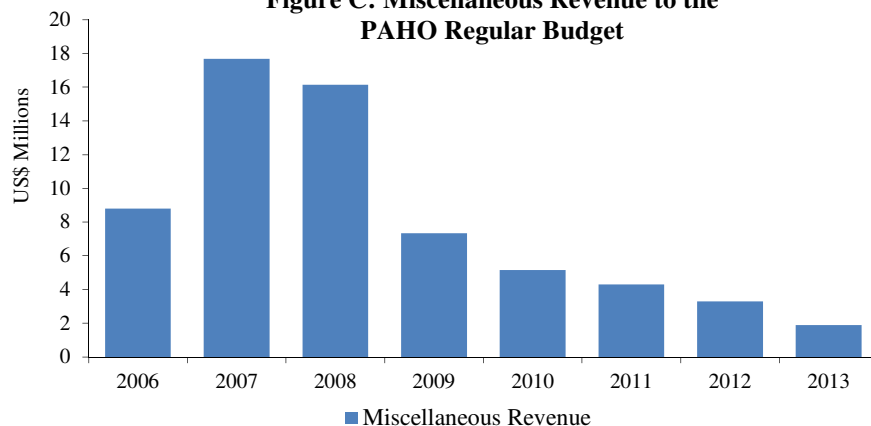
Total Assessed Contributions outstanding, including amounts due for previous financial periods, increased from \$28.0 million on 31 December 2012 to \$38.7 million on 31 December 2013. Each year the Delegates to the Directing Council or the Pan American Sanitary Conference review at length the financial circumstances of those Member States who are in arrears in their Assessed Contributions and subject to Article 6.B of the PAHO Constitution. As of 1 January 2014, there was one Member State subject to Article 6.B. However, as of the signing of these Statements, the Member State has made sufficient payments such that it is no longer subject to Article 6.B. The Organization is in continual communication with Member States to assist them in resolving arrears.

**Figure B: Assessed Contributions Due**



According to Regulation 5.1, the Regular Budget appropriations shall be financed by Assessed Contributions from Member States, Participating States, and Associate Members and the budgetary estimate of Miscellaneous Revenue. Miscellaneous Revenue includes a portion of investment revenue earned on the funds administered by the Organization, other miscellaneous revenue, and the miscellaneous expenses associated with investment fees, previously funded by the Regular Budget. Total Miscellaneous Revenue to the PAHO Regular Budget for 2013 was \$1.9 million and is comprised of \$2.8 million in investment revenue, investment management fees of \$0.4 million, a net loss of \$0.6 million on currency exchange, and the receipt of \$0.1 million in other miscellaneous revenue. The difference between the budgeted Miscellaneous Revenue for 2013 of \$6.0 million and the actual amount realized is due to the continued low interest rates, reflecting the challenges in the global economic environment since the development of the Biennial Program and Budget for 2012-2013. It is a tremendous challenge to project miscellaneous revenue, which poses a risk to meeting total budgetary revenue each biennium.

**Figure C: Miscellaneous Revenue to the PAHO Regular Budget**



### 3. PAHO Regular Budget Segment: Implementation

Total expenses for PAHO Regular Budget activities in support of the implementation of international health programs reached \$101.7 million in 2013 compared to budgeted expense of \$102.2 million, resulting in a financial implementation rate of 99% for 2013. The Organization ended 2013 with a Financial Net Deficit from Operations of \$3.6 million in the PAHO Regular Budget Segment. After adjustments for non-budgetary items, the Budgetary Net Deficit for 2013 was \$1.3 million.

**Table 1. PAHO Regular Budget Segment: Financial Highlights (in millions of United States dollars)**

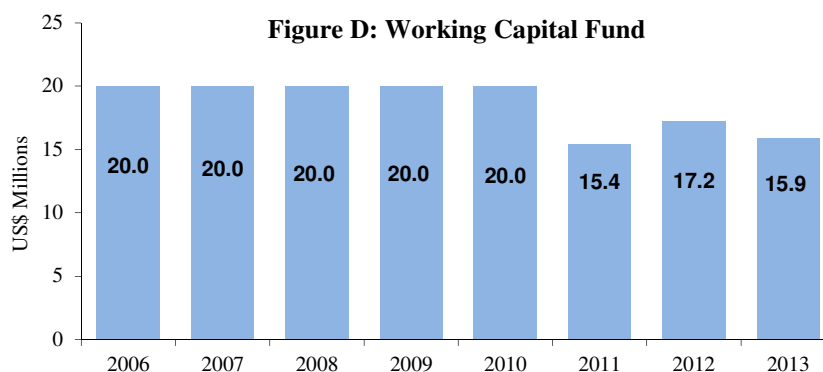
	Actual	Budgeted*
<b>Revenue:</b>		
2013 Assessed Contributions	106.2	106.2
<b>Less:</b> Tax Equalization	(10.0)	(10.0)
Other Revenue	0.0	-
Miscellaneous Revenue	1.9	6.0
Total Revenue	98.1	102.2
<b>Expenses:</b>		
2012 Operating Expenses	(101.7)	(102.2)
<b>Financial Net Deficit from Operations for 2013</b>	(3.6)	-
Adjustments for non-budgetary items**	2.0	
Transfers of Fund Balances from CAREC & CFNI	0.3	
<b>Budgetary Net Deficit from Operations for 2013</b>	(1.3)	

*\*For the purposes of actual vs. budget comparisons in this narrative, the budget figures represent one half of the Biennial Program and Budget to approximate annual budgetary figures.*

*\*\*Non-budgetary items such as depreciation, amortization and contributions in-kind do not constitute part of the Regular Budget and, therefore, are excluded from revenue and expenses for the purposes of calculating the Regular Budget Appropriation surplus or deficit.*

#### 4. Working Capital Fund

As of 1 January 2012, the Organization's Working Capital Fund was \$15.4 million. The Financial Net Deficit from Regular Budget Operations was \$3.6 million for 2013. However, as there was a Financial Net Surplus from Regular Budget Operations for 2012 of \$1.6 million, the Financial Net Deficit from Regular Budget Operations for the 2012-2013 biennium was \$2.0 million. In order to arrive at the Biennial Budgetary Net Result, the Biennial Financial Net Deficit is adjusted as follows: reduced by \$2.9 million for non-budgetary items; reduced by \$0.3 million pertaining to transfers of balances from CAREC and CFNI; increased by \$0.3 million for prior year adjustments; and, increased by \$0.4 million for the de-recognition of WHO prior year expense. Therefore, the result is a Budgetary Net Surplus of \$0.5 million for the 2012-2013 biennium. This surplus was transferred to the Working Capital Fund resulting in a balance of \$15.9 million as of 31 December 2013.



## 5. WHO Allocation and Other Sources Funds

The Pan American Health Organization implemented \$42.5 million from the WHO Regular Budget Allocation in support of the international health programs established by the World Health Assembly for the Region of the Americas. In addition, the Organization implemented \$29.4 million in Other Sources Funds from WHO. Therefore, total implementation of WHO funds during 2013 reached \$71.9 million. In comparison, during 2012, the Organization implemented \$37.8 million in WHO Regular Budget funds and \$23.8 million in Other Sources Funds from WHO for a total of \$61.6 million.

## 6. PAHO Voluntary Contributions

PAHO Voluntary Contributions are comprised of (1) the Voluntary Contributions Fund, which includes financial resources from governments, international organizations, and private and public sector organizations; (2) the National Voluntary Contributions Fund, which includes financial resources from governments exclusively for internal projects; (3) the Voluntary Contributions-Emergency Preparedness and Disaster Relief Fund, which includes financial resources from governments, international organizations, and private and public sector organizations; and (4) other funds.

During 2013, PAHO's total revenue from Voluntary Contributions reached \$356.9 million as compared to \$216.4 million in 2012. Revenue is composed of \$58.3 million (2012: \$67.5 million) from governments for external projects, \$3.4 million (2012: \$5.9 million) from international organizations, \$6.1 million (2012: \$6.0 million) from private and public sector organizations, \$286.6 million from governments for internal projects (2012: \$136.0 million), \$2.1 million (2012: \$0.8 million) for Emergency Preparedness and Disaster Relief, and \$0.4 million (2012: \$0.2 million) from Other Voluntary Contributions.

In 2013, the largest partners/stakeholders with respect to the Voluntary Contributions Fund were as follows: Brazil (\$4.4 million), Canada (\$21.2 million), Spain (\$8.9 million), the United States (\$19.3 million), the European Community (\$2.5 million), the Albert B. Sabin Institute (\$1.1 million), the Bill Gates Foundation (\$1.7 million), and the Pan American Health and Education Foundation (\$1.1 million). The largest partners/stakeholders for Emergency Preparedness and Disaster Relief were the Government of the United Kingdom (\$0.7 million) and the European Community (\$1.1 million).

## 7. Procurement on Behalf of Member States

During 2013, the total revenue for procurement services on behalf of Member States increased to \$597.0 million compared with \$562.4 million in 2012. Through extensive international bidding, PAHO is able to purchase vaccines, public health supplies and equipment, and literature on behalf of Member States and international institutions at affordable prices. Revenue for vaccine and syringe purchases through the Revolving Fund for Vaccine Procurement, which is a purchasing mechanism created to guarantee the quality and timely mobilization of vaccines at an affordable cost, increased from \$482.0 million in 2012 to \$550.7 million in 2013. This was due mainly to the increase in doses of some vaccines, such as HPV, DTaP, varicella, and Pneumococcal, which are more expensive than the traditional vaccines. Through this significant support to Member States' vaccination programs, the Organization contributes to the challenge of ensuring access to immunization services for the most neglected and vulnerable populations in the Americas. For 35 years, the Revolving Fund for Vaccine Procurement has been recognized by Member States as one of the pillars of the regional immunization program's leadership position. It has successfully contributed to the elimination of polio, measles, and rubella, to sustaining high rates of immunization coverage for vaccine preventable diseases, and to the rapid introduction of new vaccines in the Region of the Americas.

The Regional Revolving Fund for Strategic Public Health Supplies was created in 1999 in order to facilitate the procurement of strategic public health supplies at low, more affordable prices, to improve the availability of strategic supplies and to enhance planning capacity for procuring and distributing products. These strategic supplies were procured to support the prevention, diagnosis and treatment of HIV/AIDS, Tuberculosis, and Malaria. Revenue for the Fund decreased from \$52.7 million in 2012 to \$23.4 million in 2013, as some key countries faced delays during 2013 in authorizing price estimates and transferring funds. As a result, at the end of the year, PAHO placed purchase orders for over \$15.0 million, which will be delivered in the first semester of 2014 and will be reflected in revenue for 2014. Given the growing burden of disease from NCDs throughout the

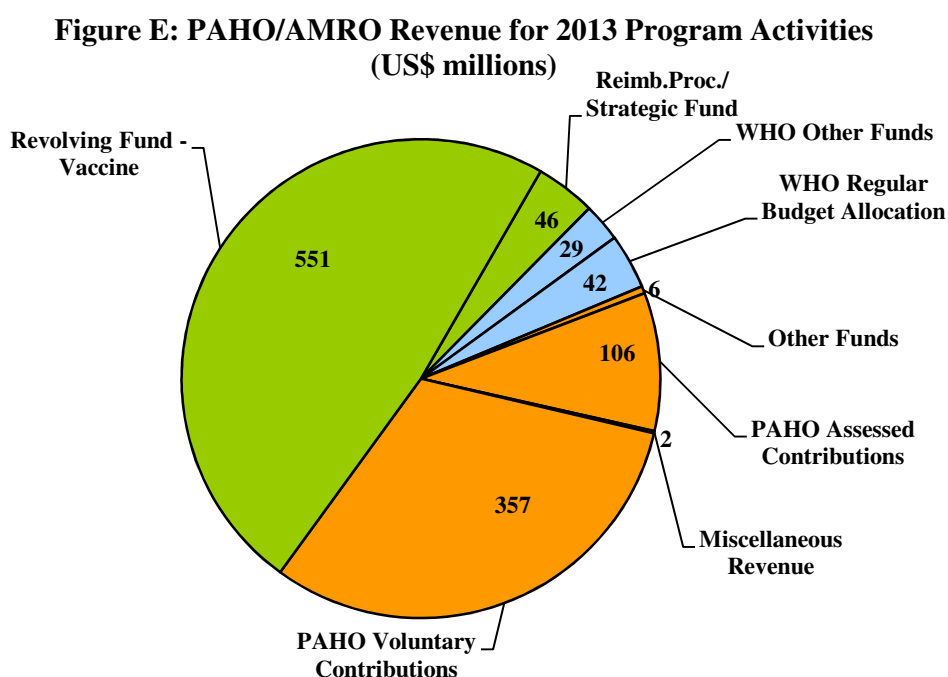
Region, PAHO organized the first multi-country tender for essential medicines for hypertension, diabetes and cancer during 2013, with a view to improving access to these much needed medicines in Member States commencing in 2014.

During the same period, funding for the purchase of medical supplies, medical equipment, and literature processed through the Reimbursable Procurement on Behalf of Member States Fund, decreased from \$27.7 million in 2012 to \$22.9 million in 2013, mainly due to the significant decrease in the demand for Canine Rabies vaccine.

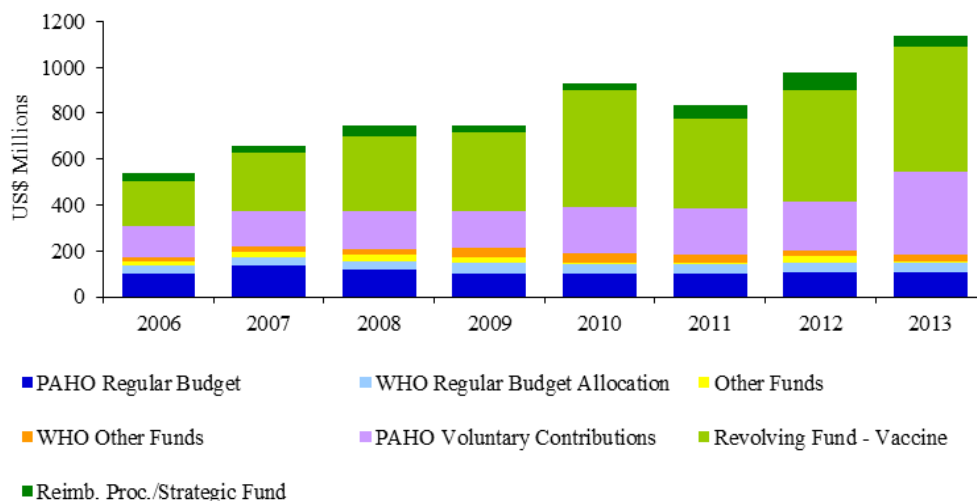
The Member States with the largest volume of procurement purchases placed through the three procurement funds were Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Panama, Paraguay, Peru, and Venezuela.

## 8. Total Regular Budget and Other Sources Funding Implementation

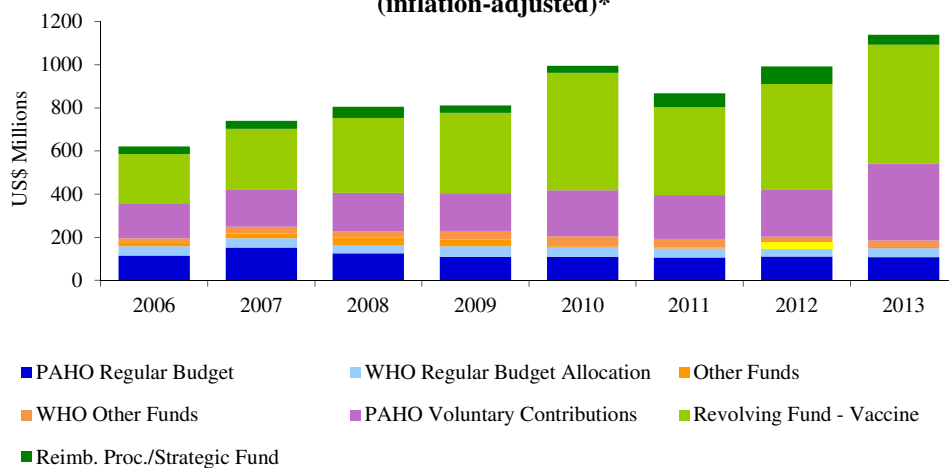
Total revenue in 2013 for all PAHO activities, net of eliminations, reached \$1 139.5 million, which represents a 16% increase from revenue for 2012 of \$978.6 million. As noted previously, the primary factor in the increase in total revenue was the increase in the procurement of vaccines and National Voluntary Contributions.



**Figure F: Revenue by Source of Funds**

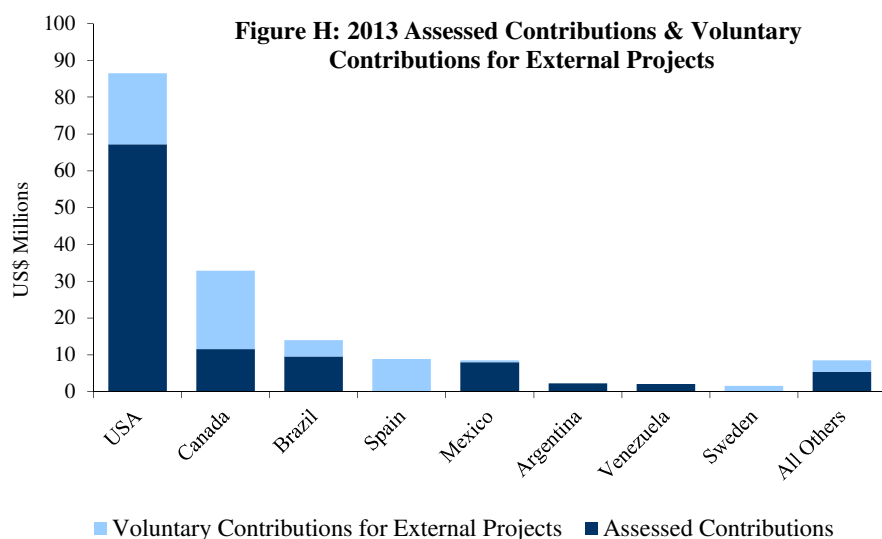


**Figure G: Revenue by Source of Funds  
(inflation-adjusted)\***



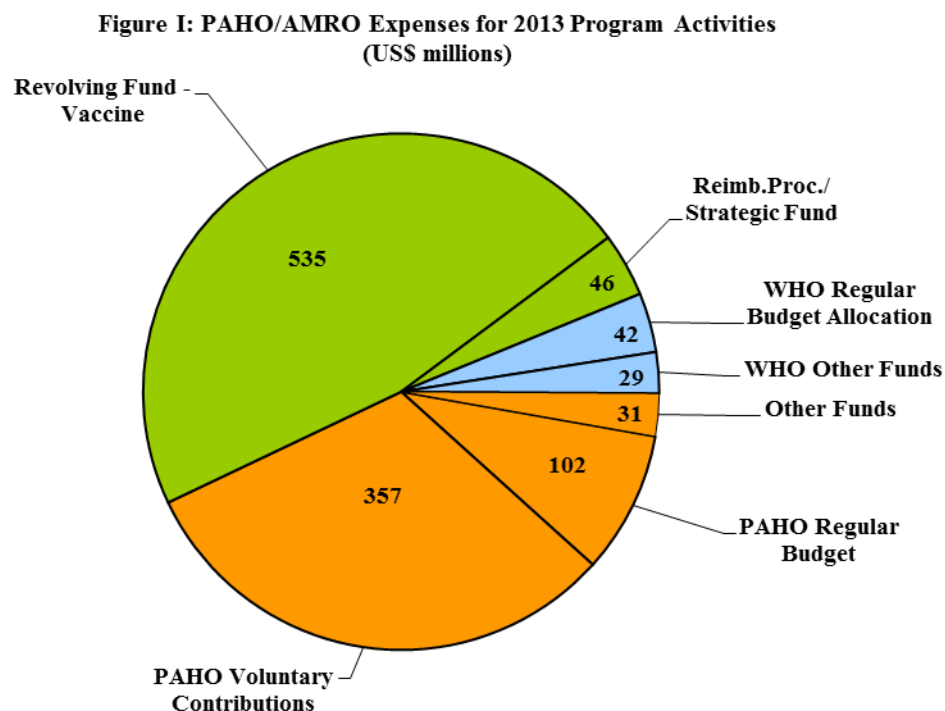
\* Consumer Price Index data provided by the U.S. Department of Labor Bureau of Labor Statistics

The chart below illustrates total revenue attributable to the largest governmental contributors to PAHO, including revenue from Assessed Contributions and Voluntary Contributions from governments for external projects. This chart indicates that the Organization relies heavily on a relatively small number of countries as the major source of financing for the Organization's activities.



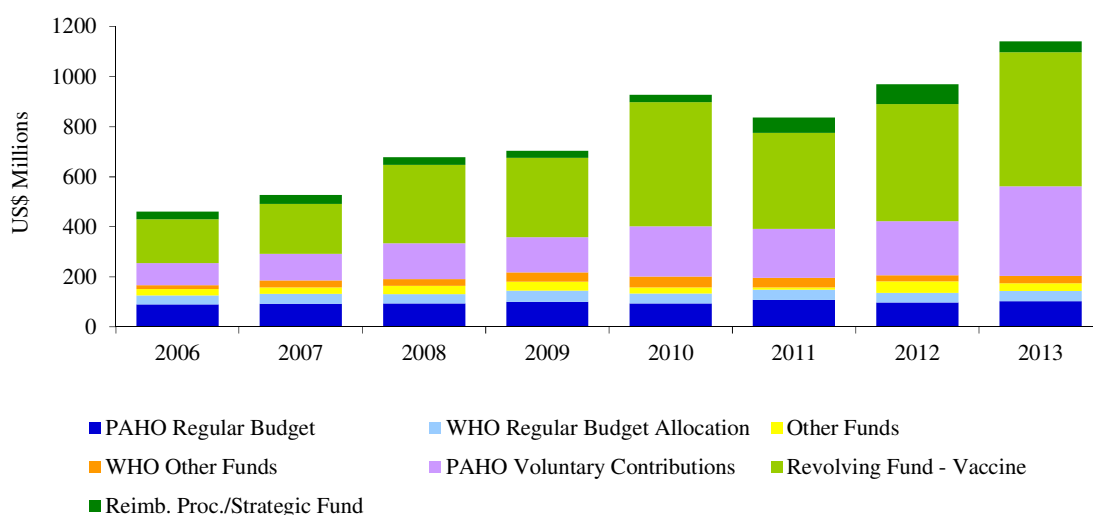
## 9. Expenses by Source of Fund

PAHO's total consolidated expenses, reflecting disbursements and accrued liabilities, increased by 18% to \$1 142.1 million in 2013 from \$969.7 million in 2012. This increase is attributable to the increase in the procurement of vaccines and implementation of National Voluntary Contributions projects.





**Figure J: Expenses by Source of Funds**



The primary PAHO consolidated expense categories are shown below in millions of United States dollars:

**Table 2. PAHO Consolidated Expense Categories (Net of Eliminations)**

Staff and Other Personnel Costs	\$186.3
Supplies, Commodities, Materials	600.8
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization	2.1
Contractual Services	100.1
Travel	
Duty Travel	7.4
Courses and Seminars	90.4
Transfers and Grants to Counterparts	143.9
General Operating and Other Direct Costs	11.1
<b>Total PAHO Expense</b>	<b>\$1 142.1</b>

The two most significant expense categories for the implementation of international health programs are Staff and Other Personnel Costs, and Supplies, Commodities, Materials. The Staff and Other Personnel Costs category reflects PAHO's commitment to providing technical cooperation to the Member States. The Supplies, Commodities, Materials category represents the procurement of vaccines, strategic public health medications, syringes, and medical supplies for Member States through the Procurement Funds.

## 10. Liquidity and Investment Management

The financial stability of the Organization depends not only upon the timely receipt of Assessed Contributions, Voluntary Contributions, and other receivables, but also on the effective management of the resources administered by the Organization. The PAHO Investment Committee has been delegated the authority to establish and implement appropriate investment policies, reflecting best practices and prudent financial management. The Investment Committee regularly reviews the investment portfolio's performance, keeping in mind the primary objective to preserve the capital value of resources and maintain adequate liquidity, while maximizing the yield on the portfolio. During 2013, despite the challenging international financial climate, the investment portfolio remained stable and earned revenue of \$2.8 million.

The Statement of Financial Position reflects the actual market value of the investment portfolio as of the reporting date. This figure does not reflect an actual gain or loss, but the actual market value of individual instruments in the portfolio that are available for sale. Any "unrealized" gain or loss resulting from this market valuation would only be recognized in the Statement of Financial Performance should the instruments be sold.

Total cash and investments for the Organization at 31 December 2013 were \$557.4 million, a decrease of \$64.7 million over the cash and investment balance as of 31 December 2012. The terms of the various investments in the portfolio reflect the nature and liquidity needs of the Organization and, therefore, are primarily short-term in duration (less than 12 months). These short-term investments are held to finance the Biennial Program and Budget activities, the procurement on behalf of Member States, the implementation of Voluntary Contributions agreements, and other activities. Long-term investments (from one to ten years) represent special funds held in reserve and other long-term liabilities of the Organization, including future entitlements of current staff members for termination and repatriation, and after-service health insurance.

## 11. Financial Statements

In accordance with IPSAS 1, a complete set of Financial Statements has been prepared as follows:

- *Consolidated Statement of Financial Position* measures the financial strength of PAHO and displays in monetary value the assets and liabilities as of the end of the financial reporting period.
- *Consolidated Statement of Financial Performance* shows how well PAHO used its assets to generate revenue. It is a general measure of PAHO's financial health over a given period of time (12 months) and can be compared with similar organizations.
- *Consolidated Statement of Changes in Net Assets* shows all the activity in net assets during a financial period, thus reflecting the increase or decrease in PAHO's net assets during the year.
- *Consolidated Cash Flow Statement* explains the changes in the cash position of PAHO by reporting the cash flows classified by operating, investing, and financing activities.
- *Comparison of Budget and Actual Amounts* reflects actual utilization of revenue in comparison with the Biennial Program and Budget Plan approved by the 51<sup>st</sup> Directing Council in 2011.
- *Notes, comprising a summary of significant accounting policies and other relevant information.*

In order to provide the reader of PAHO's Financial Statements with more detailed information to fully understand the breadth of the activities of the Organization and the consolidated Centers, an unaudited informational annex has been provided after the Report of the External Auditor. This annex includes summaries for the individual segments, Assessed Contributions, Voluntary Contributions, Procurement Funds, funding for the Regional Office of the Americas (AMRO)/World Health Organization, the Caribbean Epidemiology Center, the Caribbean Food and Nutrition Institute, and Other Centers.

## 12. Other Highlights

### *After-Service Health Insurance (SHI) Liability*

The After-Service Health Insurance Fund, established in 2010, reflects the financial obligation of the Organization for current and prior staff members' health insurance for future years. The Defined Benefit Obligation as of 31 December 2013, as calculated by Aon Hewitt Corporation, reached \$275.4 million. As the Organization's After-Service Health Insurance Fund had assets of \$38.5 million, the net Defined Benefit Obligation for After-Service Health Insurance decreased to \$236.9 million as of 31 December 2013.

### *Mais Médicos*

The Mais Médicos Project is an innovative and large scale South-South Cooperation project between two PAHO Member States, in which Cuban medical doctors provide health care services in Brazil. The Cuban doctors are located in underserved areas from a medical care perspective, including remote communities and the periphery of urban areas, due to the distribution pattern and location preferences of national Brazilian doctors. The Project aims at increasing Universal Health Access for the Brazilian population by expanding Primary Health Care in underserved areas. PAHO's "added value" to this project centers around the design and supervision of training courses for the doctors, and in monitoring the overall progress of the project, including its evaluation. Total funds implemented by PAHO in 2013 pertaining to this project amounted to \$159.9 million.

As part of the PAHO Enterprise Risk Management Program, a project-specific risk register has been developed identifying the main risks and associated mitigation measures for the Mais Médicos Project. The Mais Médicos risk register is periodically reviewed and updated to identify any new risks and to ensure that the mitigation measures remain appropriate and have been implemented. In addition, a dedicated technical and administrative team has been established to manage the project, establish the baseline for evaluation, and produce the necessary technical reports.

### *PALTEX*

The Medical Textbooks Program was created in 1966 within the strategy of PAHO technical cooperation to promote and support the development of health related human resources among PAHO Member States. In 1971, the Medical Textbooks Program was expanded to other health disciplines and became the Expanded Textbook and Instructional Materials Program (PALTEX) in order to increase the quality of the Latin American health sciences. The mission of PALTEX is to contribute to the development of health sciences education in order to strengthen healthcare in the Region of the Americas. PALTEX carries out its mission through the development and provision of institutional materials that are up-to-date, relevant, high quality and accessible to students and health workers. As a technical cooperation program, PALTEX acquires, produces and sells quality textbooks and instructional materials in Spanish and Portuguese at affordable prices, which presents an incentive for students and educators to develop and complement the educational process. The materials are available in five hundred participating institutions, including universities and government agencies, in 19 countries.

Effective 1 April 2012, the PALTEX Program administration and activities became fully integrated in PAHO's financial operations. Revenue generated from sales of materials in 2013 reached \$6.5 million and expense reached \$6.9 million, resulting in a Net Deficit of \$0.4 million. However, after adjusting for non-cash items, expense equaled \$5.7 million, resulting in a Net Surplus of \$0.8 million.

## 14. Accounting Policies and Basis of Preparation

The Financial Statements of the Pan American Health Organization (the Organization) have been prepared on the accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS), using the fair value valuation convention. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

These Financial Statements were prepared under the assumption that the Organization is a going concern and will continue in operation and will meet its mandate for the foreseeable future (IPSAS 1). The Governing Bodies of the Organization have not communicated through any means that there is an intention to terminate the Organization or to cease its operations. Furthermore, at the time of the preparation of these Financial Statements and in accordance with IPSAS 14, Paragraph 18, the Executive Management of the Organization was not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the ability of the Organization to continue as a going concern.

The Financial Statements of the Organization were certified and approved for issue by the Director of the Organization under the authority vested in her by the Pan American Sanitary Conference as stated in the Resolution CSP28.R7 in September 2012. This issuance approval is dated 9 April 2014. No other authority has the power to amend the Financial Statements after issuance. (Reference: IPSAS 14, paragraph 26).



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**Carissa F. Etienne**

**Director**

**Pan American Health Organization**