

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 2010 through 31 December 2010. The Financial Statements, Accounting Policies 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.

The Statements for the 2010 financial reporting period have been prepared in accordance with IPSAS for the first time. Therefore, the reader should carefully review the Notes accompanying these new Statements in order to fully understand the impact of accounting policy changes, as well as financial presentation, on the financial position of the Organization. It is important to note that PAHO has accepted the transition provision under IPSAS and will not be restating prior year figures, with the exception of opening balances in the Statement of Financial Position. Prior year comparative figures for revenue and expense reflect the accounting standards in effect at that time.

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 budget figures represent one half of the Biennial Program and Budget as an approximation of annual budgetary figures.

1. Overview

The 2010 year has been very challenging for public health in the Region of the Americas. During 2010, the Organization faced enormous challenges, including the earthquakes that struck Chile and devastated Haiti, as well as the outbreak of cholera in Haiti. Over the years, technical cooperation in disaster preparedness with the Pan American Health Organization (PAHO) has enabled more and more Member States to effectively respond to emergencies and disasters with their own resources. However, the magnitude of these earthquakes required an increase in resource mobilization and was met with PAHO Member States' immense commitment to public health and human security of their citizens. PROMESS, the essential public health supplies warehouse in Haiti, played a crucial role in distributing medicines and medical supplies to where they were needed most in Haiti. PAHO also provided critical leadership in coordinating international, nongovernmental, and other United Nations organizations to work effectively with Haitian government officials, local partners, and the Haitian people.

In addition, PAHO's technical cooperation in the year 2010 supported human security in seven main areas: health economics, food security, environment, personal security, community safety, social protection and disease control. With the continued support of Member States, PAHO is well positioned to promote and facilitate solidarity and horizontal cooperation among countries on health matters, shown to be strong assets in the quest to protect peoples' lives and well-being. The Organization celebrates another year of accomplishing its mission by leading strategic, collaborative efforts proven vital to improving the well-being, health, and security of the people of the Americas.

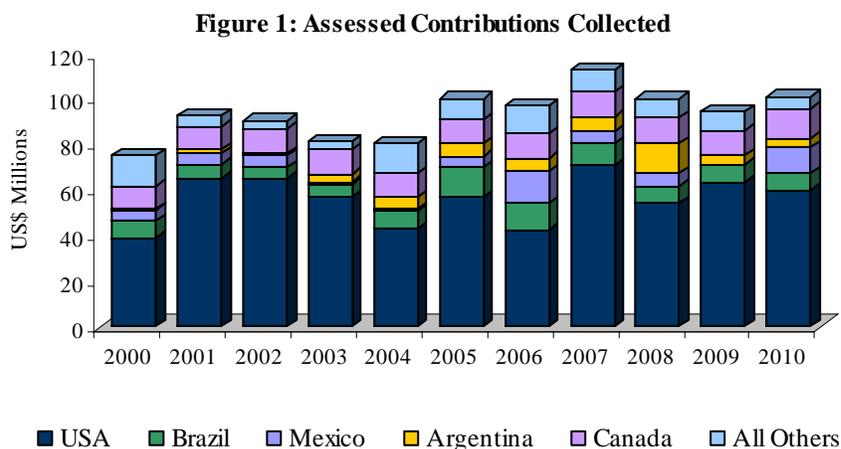
The Organization also maintained its commitment to transparency in the reporting of financial information. On 1 January 2010, PAHO transitioned from the United Nations' System Accounting Standards (UNSAS) to International Public Sector Accounting Standards (IPSAS), which improve comparability and consistency in the reporting of financial information. The changes to recording and reporting financial information are significant, but reflect best practices and are in line with the direction other United Nations and international organizations are taking. Under IPSAS, PAHO recognizes revenue based on the nature of the activity, not when cash is received (UNSAS). For assessed contributions, revenue is recognized when the contribution becomes due and payable. However, for Voluntary Contributions, revenue is based upon actual implementation during the financial reporting period. Expenses are recognized when the services and goods are provided or delivered, not when cash is disbursed.

The Organization's consolidated total revenue in 2010 reached \$932.6 million, \$214.1 million greater than 2008, and the highest level of revenue for the Organization in its history. This increased revenue resulted mainly from (1) the increase in activity for the purchase of essential public health vaccines and supplies on behalf of the Member States, (2) the increase in mobilization and implementation of Voluntary Contributions for public health, and (3) the increased funding from the World Health

Organization for the Region of the Americas. The Organization has continued to increase the rate of receipt of assessed contributions with current 2010 assessed contributions receipts reaching \$71.6 million, not including the Centers, and the payment of arrears reaching \$29.4 million, for a total of \$101.0 million. PAHO's revenue from Voluntary Contributions for public health programs reached \$199.8 million, \$34.9 million higher than the 2008 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 \$234.3 million in 2006, to \$370.0 million in 2008, to \$541.1 million in 2010, in part due to the purchase of H1N1 vaccines, and the introduction of Rotavirus and Pediatric Pneumococcal vaccines. The level of resources for the Organization's three Procurement Funds represents 58% of the Organization's total revenue. The World Health Organization funded activities provided total revenue of \$82.4 million, an increase of \$18.8 million over 2008.

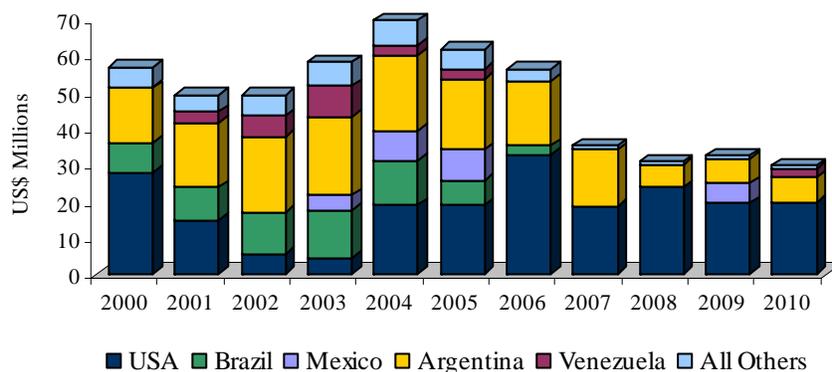
2. PAHO Regular Budget Component: Financing

The PAHO Regular Budget Component is comprised of: (1) the Member States' assessed contributions and (2) miscellaneous revenue. In accordance with Resolution CD49.R9 adopted by the 49th Directing Council of the Pan American Health Organization (PAHO), revenue from assessed contributions totaled \$98.3 million prior to the transfer of \$5.1 million to the Tax Equalization Fund. With the transition to IPSAS, revenue for assessed contributions is recorded in full on the date it became due and payable, or 1 January 2010. However, in order to ensure that resources are available to fund the Regular Budget, the Organization must continue to 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 2010 totaled \$71.6 million and \$29.4 million, respectively, not including the Centers. The rate of collection of current year assessed contributions for 2010 was 73%, compared with 70% for 2008. Twenty-six Member States paid their 2010 assessed contribution in full, seven Member States made partial payments, and six Member States made no payments toward their 2010 assessed contribution.



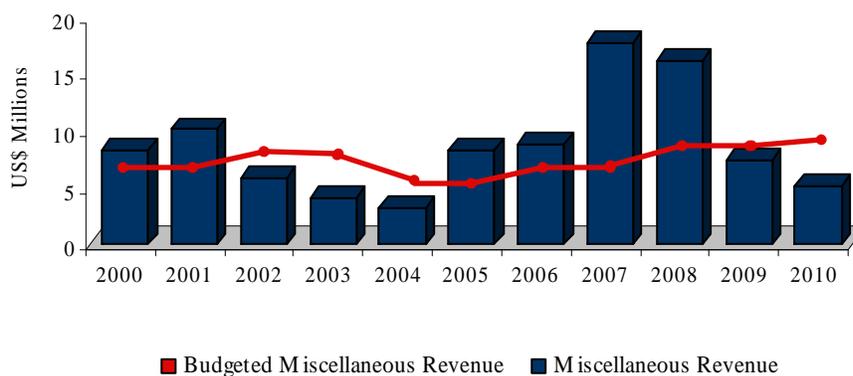
Total unpaid assessed contributions, including amounts due for previous financial periods, decreased from \$31.0 million on 31 December 2008 to \$29.7 million on 31 December 2010 and there are no arrears exceeding two years. Each year the Delegates to the Directing Council or the Pan American Sanitary 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 2011, there were three Member States subject to Article 6.B. 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 contributions in local currency.

Figure 2: Assessed Contributions Due



Miscellaneous revenue, which includes the investment revenue earned on the funds administered by the Organization, the gains and losses as a result of currency movements, savings on or cancellation of prior periods' obligations, and other income, is a funding component of the PAHO Regular Budget and supplements the level of the Member States' assessed contributions. Total miscellaneous revenue for 2010 was \$5.2 million and is comprised of \$4.1 million in investment revenue, \$1.2 million in savings on or cancellation of prior period's obligations, a net loss of \$563 589 on currency exchange, the receipt of \$385 113 in other miscellaneous, and \$25 468 in miscellaneous revenue from the Caribbean Epidemiology Center. The difference between the budgeted miscellaneous revenue for 2010 of \$10 million and the actual amount realized is due to the low interest rates available for investments. As interest rates are expected to remain constant for 2011, and assuming the portfolio remains at the current level, miscellaneous revenue is forecasted to reach a total of \$10.0 million for the 2010-2011 biennium. Any significant changes in the level or structure of the portfolio would increase or decrease this figure.

Figure 3: Miscellaneous Revenue



3. PAHO Regular Budget Component: Implementation

The expenses for PAHO Regular Budget activities in support of the promotion of international health programs reached \$94.2 million in 2010 compared to budgeted expense of \$103.2 million, resulting in an overall financial implementation rate of 91%. The Organization ended 2010 with a Net Surplus from Operations of \$4.2 million in the PAHO Regular Budget Component, which is available for implementation in the second year of the biennium.

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

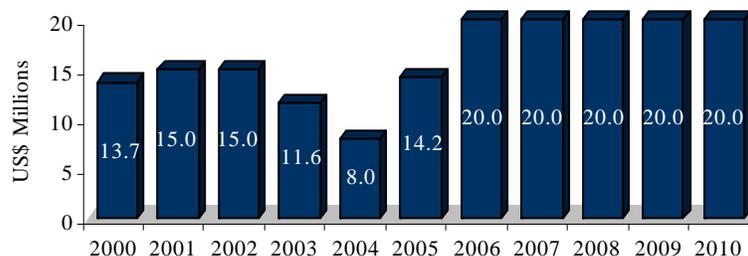
	Actual	Budgeted*
Revenue: 2010 Assessed Contributions	98.3	98.3
<i>Less:</i> Tax Equalization	(5.1)	(5.1)
Miscellaneous Revenue	5.2	10.0
Total Funds Available	98.4	103.2
<i>Less:</i> Actual 2010 Operating Expense	(94.2)	(103.2)
Net Surplus from Operations	4.2	

* 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.

4. Working Capital Fund

At the beginning of the 2010 financial reporting period, the Organization's Working Capital Fund was fully funded at \$20.0 million, its authorized level. The accumulation of \$4.2 million in Net Surplus from Operations in the PAHO Regular Budget during the 2010 financial reporting period provides funding for the second year of the biennium. Thus, as of 31 December 2010, the Working Capital Fund remained fully funded at \$20.0 million.

Figure 4: Working Capital Fund



5. WHO Allocation and Other Sources Funds

During 2010, revenue from the Regular Budget Allocation of the World Health Organization (WHO) reached \$39.5 million and revenue from Other Sources Funds from WHO reached \$42.9 million, for a total of \$82.4 million.

The Pan American Health Organization implemented \$39.5 million from the WHO Regular Budget Allocation 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 \$42.9 million in Other Sources Funds from WHO. In comparison, during 2008, the Organization implemented \$36.5 million in WHO Regular Budget Allocation funds and \$27.1 million in Other Sources Funds from WHO. Therefore, the total WHO funding implemented by PAHO/AMRO during 2010 reached \$82.4 million, an increase of \$18.8 million over 2008.

6. PAHO Voluntary Contributions

PAHO Voluntary Contributions are comprised of (1) the Voluntary Contributions Fund, which includes financial resources from governments for external projects, international organizations, and private and public sector organizations; (2) the

new Voluntary Contributions-Government Financing of Internal Projects Fund, which was established on 1 January 2010; (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 2010, PAHO's total revenue from Voluntary Contributions reached \$199.8 million. Revenue is composed of \$69.3 million from governments for external projects, \$8.8 million from international organizations, \$4.7 million from private and public sector organizations, \$106.8 million from governments for internal projects (\$98.5 million for Brazil), \$81 498 from other voluntary contributions, \$9.9 million for programs and activities regarding emergency preparedness and disaster relief, and \$175 719 for the Caribbean Food and Nutrition Institute (CFNI).

In 2010, the largest governmental partners/stakeholders with respect to revenue recognized from projects external to the respective countries were Brazil (\$5.5 million), Canada (\$17.2 million), Norway (\$2.1 million), Spain (\$19.6 million), Sweden (\$2.6 million), and the United States (\$20.4 million). Significant revenue recognized from projects funded by international organizations include the Caribbean Community Secretariat (\$553 346), the European Community (\$3.9 million), the Inter-American Development Bank (\$2.0 million), the International Bank for Reconstruction and Development (\$586 415), the U.N. International Strategy for Disaster Reduction (\$566 104), and the U.N. Trust Fund for Human Security (\$420 979). The largest private and public sectors partners/stakeholders with respect to revenue recognized were the Albert B. Sabin Institute (\$868 158), the Global Alliance for Vaccine and Immunization (\$671 331), and the Pan American Health and Education Foundation (\$1.3 million).

Significant revenue recognized for technical cooperation in emergency preparedness and disaster relief is attributable to the Governments of Canada (\$2.8 million) and Spain (\$4.5 million), and from the European Community (\$2.0 million). The Organization continues to seek new financial resources from outside the Organization to expand public health projects in the Americas.

7. Procurement on Behalf of Member States

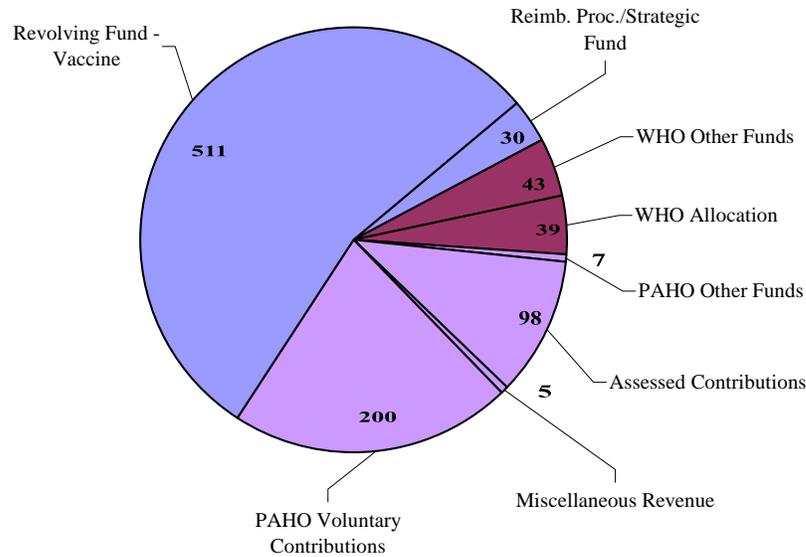
During 2010, the total revenue for procurement services on behalf of Member States increased to \$541.1 million compared with \$370.0 million in 2008. Through extensive international bidding, PAHO is able to purchase vaccines, public health supplies and equipment, and literature on behalf of Member States, government and international institutions at affordable prices. Funding 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 \$321.7 million in 2008 to \$510.6 million in 2010. Through this significant support to Member States' vaccination programs, the Organization contributes to the challenge of ensuring equal access to health services to the most neglected, vulnerable, marginalized, and excluded populations in the Americas.

During the same period, funding for the purchases of medical supplies, medical equipment, and literature, processed through the Reimbursable Procurement on Behalf of Member States Fund was \$8.8 million. Furthermore, revenue for 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 increase planning capacity for procuring and distributing products, reached \$21.7 million. 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, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

8. Total Regular Budget and Other Sources Funding Implementation

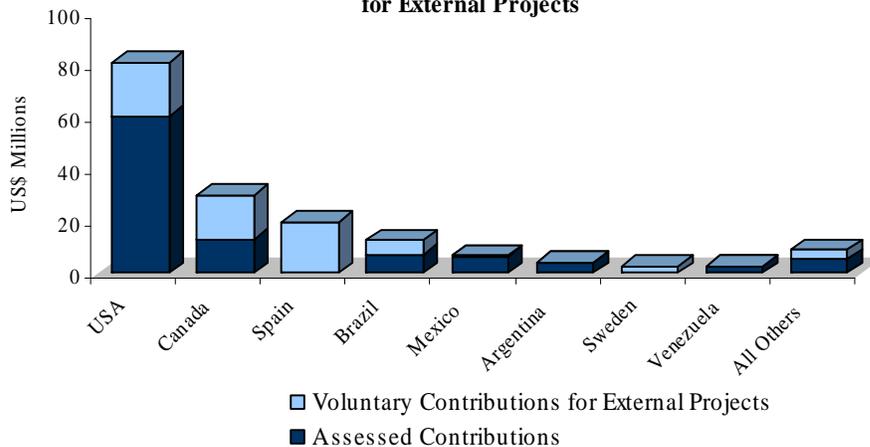
Total revenue in 2010 for all PAHO activities, net of eliminations, reached \$932.6 million, which represents a 30% increase over the \$718.5 million revenue for 2008. The trend of increasing financial resources is welcomed by the Organization in order to contribute to decreasing the disease burden and improving the health of the peoples of the Americas.

Figure 5: PAHO/AMRO Revenue for 2010 Program Activities (US\$ millions)



The total revenue attributable to eight Member States, partners, or stakeholders, including assessed contributions and Voluntary Contributions from governments for external projects, is 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.

Figure 6: 2010 Assessed Contributions & Voluntary Contributions for External Projects



9. Expense by Source of Fund

The higher level of financial resources has enabled PAHO/AMRO to achieve significantly increased programmatic activity. PAHO/AMRO's total consolidated expense, reflecting disbursements and accrued liabilities, increased to \$927.3 million in 2010 from \$678.6 million in 2008, an increase of 37%. This increase in expense is in part attributable to an increase of (1) \$174.6 million in the Revolving Fund for Vaccine Procurement, (2) \$57.8 million in Voluntary Contributions, and (3) \$18.8 million in the WHO Regular Budget Allocation and Other Sources Funds.

Figure 7: Expenses by Source of Funds

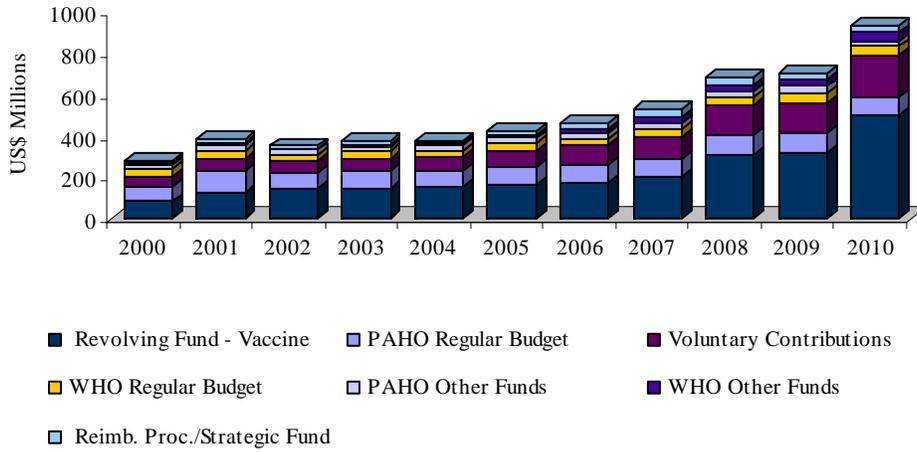
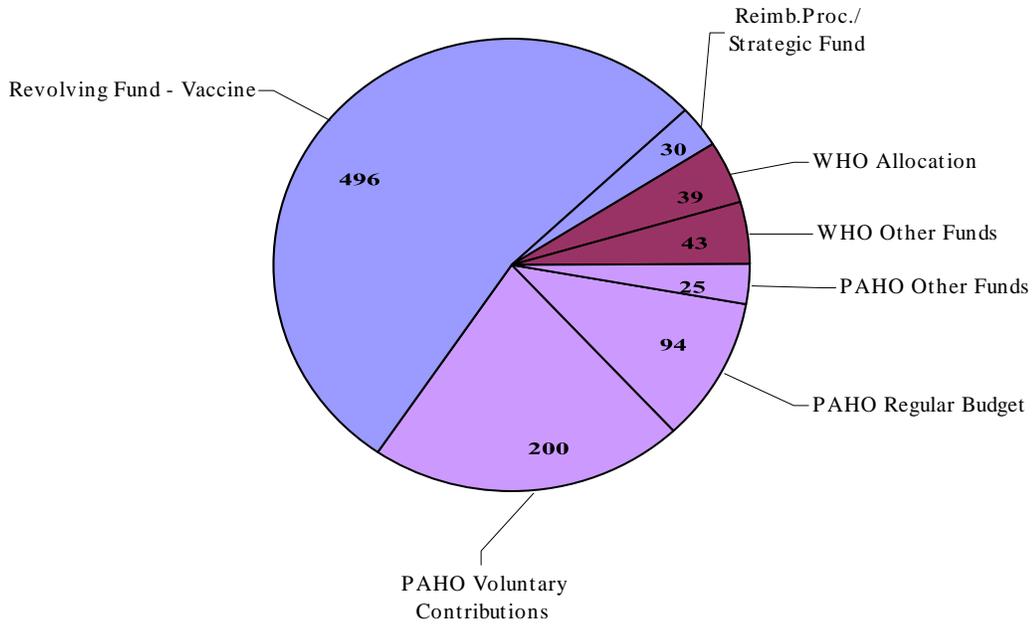


Figure 8: PAHO/AMRO Expenses for 2010 Program Activities (US\$ millions)



PAN AMERICAN HEALTH ORGANIZATION
FINANCIAL REPORT OF THE DIRECTOR and REPORT OF THE EXTERNAL AUDITOR
1 January 2010 – 31 December 2010

The primary PAHO consolidated expense categories, including Regular Budget activities, Voluntary Contributions, Procurement activities and others, are shown below, in millions of United States dollars:

Table 2. PAHO consolidated expense categories

Staff and Other Personnel Costs	\$171.4
Supplies, Commodities, Materials	571.2
Equipment, Vehicles and Furniture	0.9
Contractual Services	84.1
Travel	52.4
Transfers and Grants to Counterparts	36.9
General Operating and Other Direct Costs	10.4
Total PAHO Expenses	<u>\$927.3</u>

The two most significant expense categories for the implementation of international health programs are (1) Staff and Other Personnel Costs, and (2) Supplies, Commodities, Materials. The Staff and Other Personnel Costs category 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 Supplies, Commodities, Materials category represents the procurement of vaccines and medical supplies for Member States through the Procurement Funds. The other expenses, including a) contractual services (including letters of agreement); b) general operating expenses; and c) travel for PAHO missions, seminars and courses, and technical capacity building, contribute to this commitment as well.

10. Liquidity and Investment Management

The financial stability of the Organization depends not only upon timely receipt of assessed contributions, voluntary contributions, and other revenue, but also on effective management of liquidity and the implementation of appropriate investment policies. The PAHO Investment Committee regularly reviews the portfolio's performance and makes decisions on the strategy to preserve the capital value of resources administered by the Organization, while benefiting from the conditions in the financial markets. During 2010, despite the international financial crisis, the investment portfolio remained stable and earned interest of \$4.1 million. Through a competitive process, PAHO's Investment Committee recently selected two additional external portfolio managers to oversee a portion of the intermediate duration portfolio. The addition of these managers will result in an overall increase in the yield of the portfolio reflecting the more efficient investment of liquid resources currently held in money markets and other short-term instruments. However, there will also be an increase in investment fees as a result of the additional expertise.

In accordance with best practices and IPSAS, beginning in 2010 the Statement of Financial Position will reflect the actual market value of the investment portfolio as of the reporting date. This figure is not a cash item or actual gain or loss, but reflects the change in the market value of individual instruments in the portfolio that are available for sale. Any "unrealized" gain or loss resulting from the 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 2010 were \$484.5 million, an increase of \$28.2 million over the cash and investment balance as of 31 December 2008. Furthermore, monthly cash disbursements increased from \$55.5 million to \$75.1 million, representing a 35% increase in activities. The term of the various investments in the portfolio reflect the nature and liquidity needs of the activities 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 activities on behalf of Member States, the implementation of partner/stakeholder agreements, and other activities for which cash has yet to be disbursed. Long-term investments (from one to five years) represent special funds held in reserve and long-term liabilities of the Organization, including future entitlements of current staff members for termination and repatriation.

11. Performance of the Centers Administered by PAHO

Caribbean Epidemiology Center (CAREC)

Assessed contributions receipts for 2010 reached \$1.9 million or 74% of the 2010 assessed contributions. Receipts on arrears amounted to \$957 525 or 25% of the total assessed contributions arrears as of 1 January 2010. CAREC total revenue and expense was \$3.0 million and \$2.3 million, respectively, resulting in a net surplus of \$668 312.

Caribbean Food and Nutrition Institute (CFNI)

Assessed contributions receipts for 2010 reached \$239 053 or 58% of the 2010 assessed contributions. Receipts on arrears amounted to \$162 871 or 11% of the total assessed contributions arrears as of 1 January 2010. CFNI total revenue and expense was \$602 157 and \$499 384, respectively, resulting in a net surplus of \$102 773. CFNI implemented \$175 719 in voluntary contributions revenue.

12. Financial Statements

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

- *The Statement of Financial Position* (former “Statement of Assets, Liabilities, and Reserves and Fund Balances”) measures the financial strength of PAHO and displays in monetary value the assets and liabilities as of the end of the financial reporting period.
- *The Statement of Financial Performance* (former “Statement of Income and Expenditure and Changes in Fund Balances”) 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.
- *The Statement of Changes in Net Assets/Equity* (new) 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.
- *The Cash Flow Statement* (former “Statement of Cash Flow”) explains the changes in the cash position of PAHO by reporting the cash flows classified by operating, investing, and financing activities.
- *A Comparison of Budget and Actual Amounts* (former “Statement of Regular Budget Appropriation”) reflects actual utilization of revenue in comparison with the Biennial Program and Budget Plan approved by the 50th Directing Council in 2009.
- *Notes, comprising a summary of significant accounting policies and other explanatory notes* (former “Explanatory Notes to Financial Statements”).

However, 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, Procurement Funds, and the Voluntary Contributions Funds. These summaries were previously included in the Financial Report of the Director.

13. 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 the International Public Sector Accounting Standards (IPSAS), using the fair value

**PAN AMERICAN HEALTH ORGANIZATION
FINANCIAL REPORT OF THE DIRECTOR and REPORT OF THE EXTERNAL AUDITOR
1 January 2010 – 31 December 2010**

valuation convention. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

The Organization previously prepared its financial reports on the modified cash basis under the United Nations' System Accounting Standards (UNSAS). Based on the decision to change to accrual accounting under IPSAS, amendments to the Financial Regulations and Financial Rules were made and adopted by the Directing Council at its 49th meeting on 28 September 2009 and by the 145th Executive Committee on 2 October 2009, to become effective 1 January 2010. The financial reporting period is 1 January through 31 December annually with an approved Biennial Program and Budget Plan.

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 authorized 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 CSP26.R6 in September 2002. This issuance approval is dated 15 April 2011. No other authority has the power to amend the Financial Statements after issuance. (Reference: IPSAS 14, paragraph 26).


8-11-2011
Mirta Roses Periago
Director
Pan American Health Organization