

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 2011 through 31 December 2011. 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 2011 financial reporting period have been prepared in accordance with the IPSAS accounting standards for the second consecutive year. The reader should carefully review the Notes accompanying these new Statements in order to fully understand the impact of accounting policy changes on the financial position of the Organization, as well as changes to financial presentation. Prior year comparative figures for revenue and expense reflect the IPSAS accounting standards, which came into effect as of 1 January 2010.

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

The 2011 year has been very challenging for public health in the Region of the Americas. During 2011, the Organization faced enormous challenges, including the tsunami alerts along the Pacific Coast due to the magnitude 9.0 earthquake in Japan and the subsequent radiation spread risks as a consequence of the Fukuyama plant damage; floods that affected multiple countries in our Region, such as Brazil, Bolivia, Guatemala, Guyana, Honduras, Mexico, Nicaragua and the United States; as well as the extension of the cholera outbreak initiated in Haiti into the Dominican Republic, and the alert situation activated in all the neighboring Caribbean islands to prevent further spread. Over the years, PAHO has provided technical cooperation in disaster preparedness, which has enabled an increasing number of Member States to effectively respond to emergencies and disasters with their own resources.

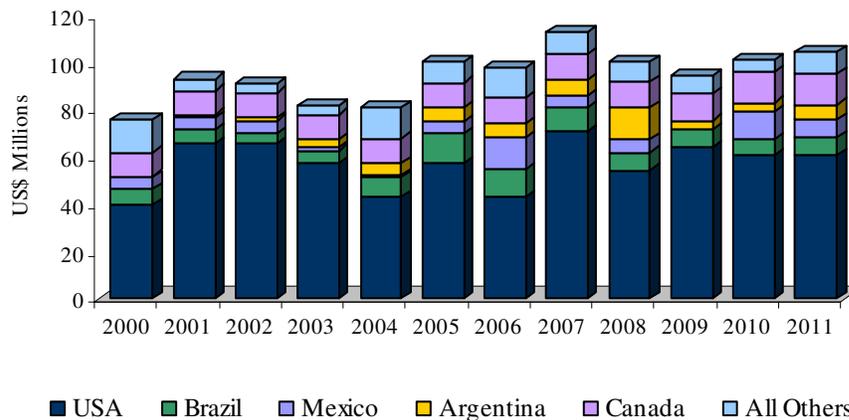
For the second consecutive year, PAHO's Financial Statements were prepared in accordance with IPSAS. Continued compliance with IPSAS remains a priority for the Organization. The changes to recording and reporting financial information are significant, but reflect best practices and are in line with the 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 (UNSA). 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. During the 2011 financial reporting period, new IPSAS requirements were integrated into the Organization's policies and systems, including the recognition of intangible assets (IPSAS 31).

The Organization's consolidated total revenue in 2011 reached \$838.5 million, \$94.1 million less than 2010. The decrease in revenue is primarily due to a decrease in the procurement of vaccines following the incorporation of the single pandemic flu vaccine into the regular seasonal flu vaccine composition. The Organization has continued to see an increase in the rate of receipt of Assessed Contributions with current 2011 Assessed Contributions receipts reaching \$75.0 million, not including the Centers. Furthermore, the payment of arrears reached \$29.1 million, resulting in total Assessed Contributions received of \$104.1 million. PAHO's revenue from Voluntary Contributions for public health programs reached \$197.0 million. The decrease in financial resources occurred in the Organization's procurement activities on behalf of Member States, which decreased from \$541.1 million in 2010 to \$455.9 million in 2011. The level of resources for the Organization's three Procurement Funds represents 54% of the Organization's total revenue. The World Health Organization funded-activities provided total revenue of \$79.1 million.

2. PAHO Regular Budget Component: Financing

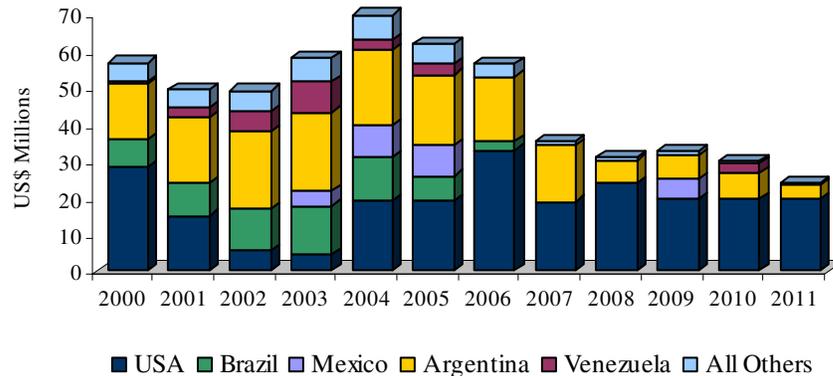
The PAHO Regular Budget Component is comprised of the Member States' Assessed Contributions and Miscellaneous Revenue. In accordance with Resolution CD49.R9 adopted by the 49th Directing Council of the Pan American Health Organization, revenue from Assessed Contributions totaled \$98.3 million prior to the transfer of \$5.1 million to the Tax Equalization Fund. With the transition to IPSAS, revenue from Assessed Contributions was recorded in full on 1 January 2011, the date it became due and payable. 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 2011 totaled \$75.0 million and \$29.1 million, respectively, not including the Centers. In 2011, the rate of collection of current year Assessed Contributions was 76%, compared with 73% for 2010. PAHO received payments toward Assessed Contributions from thirty-three Member States. Twenty-five Member States paid their 2011 Assessed Contributions in full, four Member States made partial payments toward their 2011 Assessed Contributions, and ten Member States made no payment toward their 2011 Assessed Contributions.

Figure 1: Assessed Contributions Collected



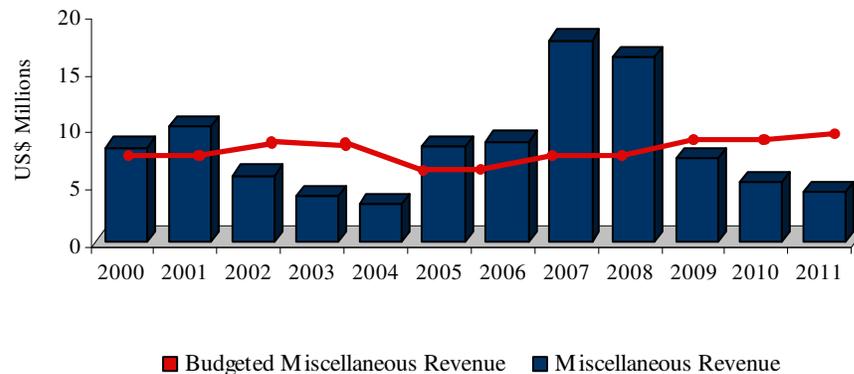
Total unpaid Assessed Contributions, including amounts due for previous financial periods, decreased from \$29.7 million on 31 December 2010 to \$24.0 million on 31 December 2011, and there are no arrears exceeding two years. Each year the Delegates to the Directing Council or the Pan American Sanitary 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 2012, there were two 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 to the PAHO Regular Budget supplements Member States' Assessed Contributions and includes a portion of investment income earned on the funds administered by the Organization, the gains and losses as a result of currency movements, and other miscellaneous revenue. Total Miscellaneous Revenue for 2011 was \$4.3 million and is comprised of \$3.7 million in investment income, a net loss of \$870 254 on currency exchange, and the receipt of \$1.5 million in other miscellaneous revenue. The difference between the budgeted Miscellaneous Revenue for 2011 of \$10.0 million and the actual amount realized is due to the ongoing low interest rate environment. Miscellaneous Revenue for the 2010-2011 biennium totaled \$9.5 million, reflecting the challenges in the global economic environment since the development of the Biennial Program and Budget for 2010-2011.

Figure 3: Miscellaneous Revenue



3. PAHO Regular Budget Segment: Implementation

Total expenses for PAHO Regular Budget activities in support of the implementation of international health programs reached \$107.4 million in 2011 compared to budgeted expense of \$103.2 million, resulting in a financial implementation rate of 104% for 2011, and an overall implementation for the 2010-2011 biennium of \$201.6 million or 98%. The Organization ended 2011 with a Net Deficit from Operations of \$9.3 million in the PAHO Regular Budget Segment. However, the Net Deficit from Operations for the 2010-2011 biennium was \$4.6 million due to the Net Surplus from Operations from 2010 (\$4.1 million) and the adjustments for non-budgetary items. The shortfall in Miscellaneous Revenue of \$10.5 million contributed to the \$4.6 million deficit for the 2010-2011 biennium.

PAN AMERICAN HEALTH ORGANIZATION
 FINANCIAL REPORT OF THE DIRECTOR and REPORT OF THE EXTERNAL AUDITOR
 1 January 2011 – 31 December 2011

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

	Actual	Budgeted*
Revenue:		
2011 Assessed Contributions	98.3	98.3
<i>Less:</i> Tax Equalization	(5.1)	(5.1)
Other Revenue	0.6	-
Miscellaneous Revenue	4.3	10.0
Total Revenue	98.1	103.2
Expense:		
2011 Operating Expense	(107.4)	(103.2)
Net Deficit from Operations for 2011	(9.3)	-
Net Surplus from Operations for 2010	4.1	
Adjustments for non-budgetary items**	0.6	
NET DEFICIT from Operations for 2010-2011	(4.6)	

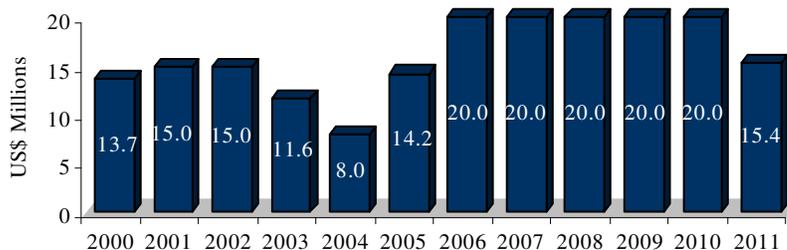
**For the purposes of actual vs. budget comparisons in this narrative, the budget figures represent one half of the Biennial Program and Budget to approximate annual budgetary figures.*

***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 expense for the purposes of calculating the Regular Budget Appropriation surplus or deficit.*

4. Working Capital Fund

At the beginning of the 2011 financial reporting period, the Organization's Working Capital Fund was fully funded at its authorized level of \$20.0 million. In accordance with Financial Regulation 4.5, any deficit of revenue over expenses of the Regular Budget appropriation at the end of the current budgetary period shall be funded first by the Working Capital Fund to the extent possible, and then by borrowing or by other authorized means. Therefore, the net balance of the Working Capital Fund as of 31 December 2011 equals \$15.4 million, after funding the \$4.6 million deficit from the 2010-2011 biennium. However, as \$1.2 million of the Working Capital Fund is encumbered as a guarantee for the PALTEX loan, the net Fund balance available for funding public health programs is \$14.2 million.

Figure 4: Working Capital Fund



5. WHO Allocation and Other Sources Funds

The Pan American Health Organization implemented \$40.8 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 \$38.3 million in Other Sources Funds from WHO. Therefore, the total WHO funding implementation by the Organization during 2011 reached \$79.1 million. In comparison, during 2010, the Organization implemented \$39.5 million in WHO Regular Budget Allocation funds and \$42.9 million in Other Sources Funds from WHO for a total of \$82.4 million. Thus, the implementation for the 2010-2011 biennium reached \$161.5 million, which was \$17.1 million greater than the level for the 2008-2009 biennium.

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 was established on 1 January 2010 and 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 2011, PAHO's total revenue from Voluntary Contributions reached \$197.0 million. Revenue is composed of \$73.2 million from governments for external projects, \$5.6 million from international organizations, \$7.3 million from private and public sector organizations, \$100.4 million from governments for internal projects (\$92.6 million for Brazil), \$10.3 million for Emergency Preparedness and Disaster Relief, \$7 720 from other voluntary contributions, and \$173 393 for the Caribbean Food and Nutrition Institute (CFNI).

In 2011, the largest partners/stakeholders with respect to revenue from governments for external projects were Brazil (\$6.5 million), Canada (\$17.9 million), Mexico (\$1.7 million), Spain (\$20.9 million), Sweden (\$1.6 million), and the United States (\$19.5 million). Significant partners/stakeholders with respect to revenue from international organizations include the European Community (\$2.4 million), the Inter-American Development Bank (\$993 535), the International Bank for Reconstruction and Development (\$618 706), and the U.N. Trust Fund for Human Security (\$629 832). The largest private and public sectors partners/stakeholders with respect to revenue were the Global Alliance for Vaccine and Immunization (\$986 849), the Pan American Health and Education Foundation (\$2.6 million), and World Diabetes Foundation (\$373 648).

The largest partners/stakeholders with respect to revenue for Emergency Preparedness and Disaster Relief were the Governments of Canada (\$1.1 million), the United Kingdom (\$3.6 million), and the United States of America (\$5.1 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 2011, the total revenue for procurement services on behalf of Member States decreased to \$455.9 million compared with \$541.1 million in 2010. 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. 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, decreased from \$510.6 million in 2010 to \$394.0 million in 2011. This was due to the decrease in the procurement of the H1N1 vaccine, which was incorporated into the 2010-2011 seasonal influenza vaccine. Through this significant support to Member States' vaccination programs, the Organization contributes to the challenge of ensuring equal access to health services for the most neglected, vulnerable, marginalized, and excluded populations in 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 lower, more stable prices, to improve availability of strategic supplies, and to

enhance planning capacity for procuring and distributing products. These strategic supplies focused on combating malaria, tuberculosis, leishmaniasis, dengue, and HIV/AIDS. Revenue for the Fund increased from \$21.7 million in 2010 to \$48.6 million in 2011, due to the expansion of the list of medicines covered by the Fund and to the increase in the demand for malaria, tuberculosis, and leishmaniasis medicines.

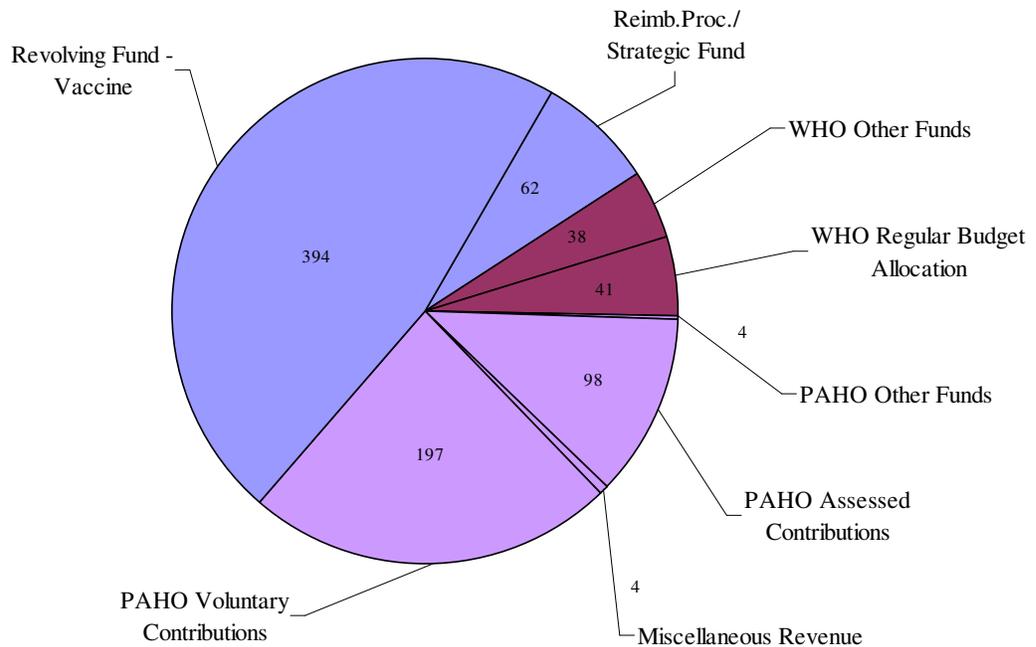
During the same period, funding for the purchase of medical supplies, medical equipment, and literature, processed through the Reimbursable Procurement on Behalf of Member States Fund, increased from \$8.8 million in 2010 to \$13.3 million in 2011.

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, Honduras, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

8. Total Regular Budget and Other Sources Funding Implementation

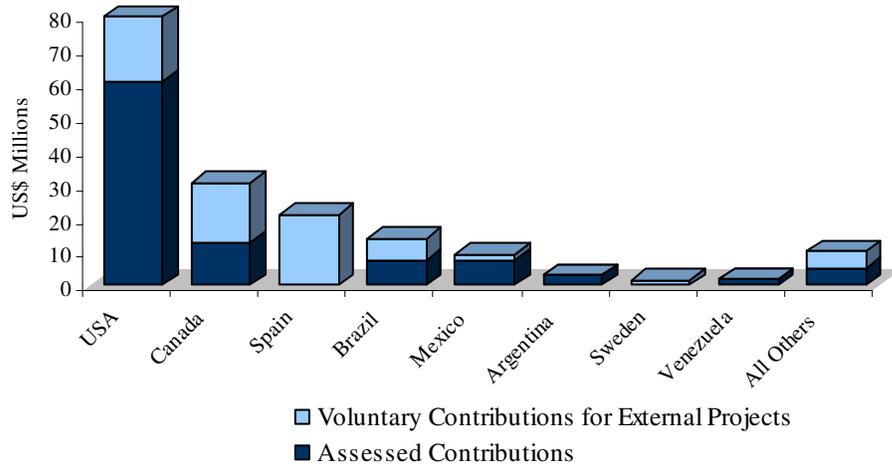
Total revenue in 2011 for all PAHO activities, net of eliminations, reached \$838.5 million, which represents a 10% decrease from revenue for 2010 of \$932.6 million. As noted above, the primary factor in the decrease in total revenue was the decrease in the procurement of vaccines.

Figure 5: PAHO/AMRO Revenue for 2011 Program Activities (US\$ millions)



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 for the Organization's activities.

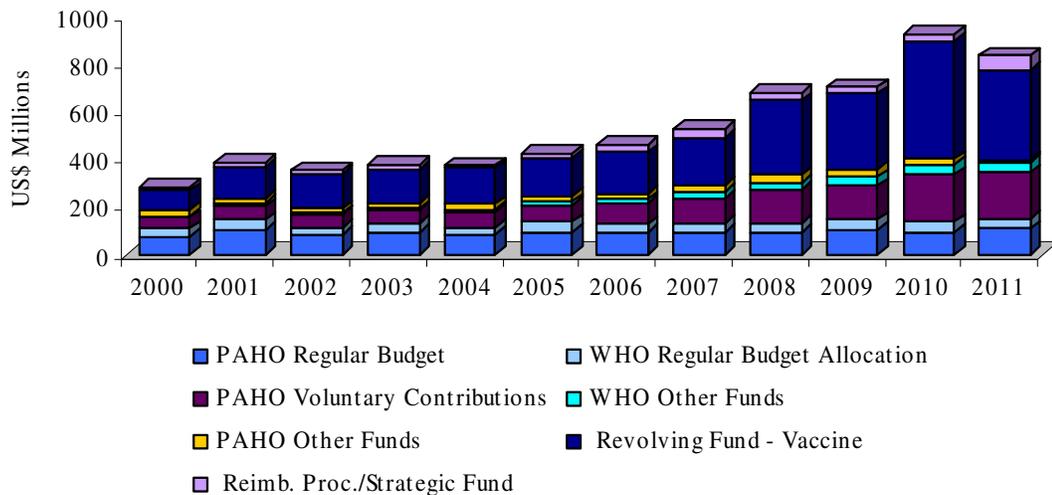
Figure 6: 2011 Assessed Contributions & Voluntary Contributions for External Projects



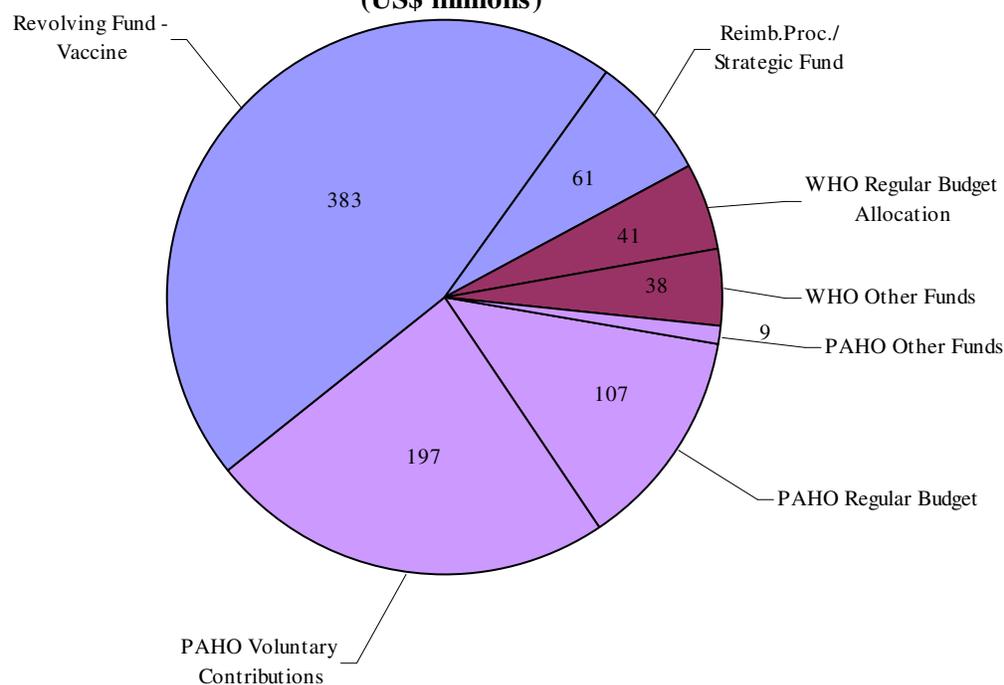
9. Expenses by Source of Fund

PAHO's total consolidated expense, reflecting disbursements and accrued liabilities, decreased by 10% to \$836.3 million in 2011 from \$927.3 million in 2010. This decrease is attributable to the H1N1 vaccine being included in the 2011 seasonal influenza vaccine.

Figure 7: Expenses by Source of Funds



**Figure 8: PAHO/AMRO Expenses for 2011 Program Activities
 (US\$ millions)**



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

Table 2. PAHO Consolidated Expense Categories

Staff and Other Personnel Costs	\$162.9
Supplies, Commodities, Materials	468.7
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization	(0.4)
Contractual Services	106.6
Travel	53.4
Transfers and Grants to Counterparts	33.2
General Operating and Other Direct Costs	11.9
Total PAHO Expenses	<u><u>\$836.3</u></u>

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 in order to strengthen public health in the countries of the Americas. 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 benefiting from the conditions in the financial markets. During 2011, despite the international financial climate, the investment portfolio remained stable and earned income of \$3.7 million.

In accordance with IPSAS, 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 2011 were \$593.6 million, an increase of \$109.1 million over the cash and investment balance as of 31 December 2010. 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 Contribution 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. Performance of the Centers Administered by PAHO

Caribbean Epidemiology Center (CAREC)

CAREC's total revenue and expense were \$3.1 million and \$2.7 million, respectively, resulting in a net surplus of \$390 761. Accrued Revenue from Assessed Contributions totaled \$2.6 million. Receipts of current year assessments reached \$2.0 million or 78% of the Assessed Contributions due with respect to 2011. Receipts of arrears amounted to \$776 082 or 22% of the total arrears as of 1 January 2011.

Caribbean Food and Nutrition Institute (CFNI)

CFNI's total revenue and expense were \$597 732 and \$436 805, respectively, resulting in a net surplus of \$160 927. Accrued Revenue from Assessed Contributions totaled \$412 269. Receipts of current year assessments reached \$239 117 or 58% of the Assessed Contributions due with respect to 2011. Receipts of arrears amounted to \$46 590 or 3% of the total arrears as of 1 January 2011. CFNI recognized \$173 393 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").

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. These summaries were previously included in the Financial Report of the Director.

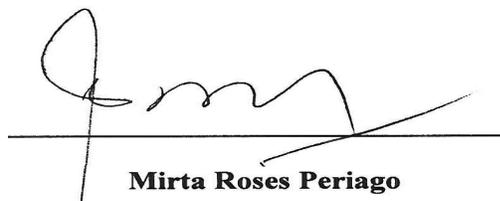
13. Accounting Policies and Basis of Preparation

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 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 2012. No other authority has the power to amend the Financial Statements after issuance. (Reference: IPSAS 14, paragraph 26).



A handwritten signature in black ink, appearing to read 'Mirta', is written over a horizontal line. The signature is fluid and cursive.

Mirta Roses Periago

Director

Pan American Health Organization