

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 2012 through 31 December 2012. 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

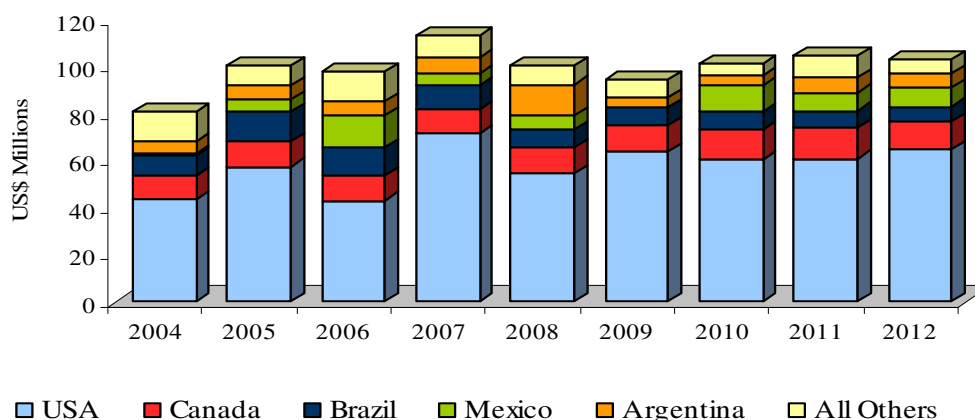
The Organization continued to provide technical cooperation in support of the public health challenges impacting the Region of the Americas in 2012. Natural disasters continue to plague our Region, including floods in Ecuador, Colombia and Peru, major earthquakes in Guatemala, Mexico and Costa Rica, as well as hurricanes Sandy and Isaac. Other challenges include the strengthening of the national immunization program in Haiti to mitigate health vulnerabilities caused by the 2010 earthquake and the cholera outbreak, the arrival of cholera in Cuba, and the avian flu outbreak in Mexico. PAHO provided technical cooperation in disaster preparedness to effectively respond to these emergencies with the financial support of its Member States and partners, exemplifying the cooperative efforts to strengthen the countries' response capacity. In addition, PAHO inaugurated the new Emergency Operations Center in June 2012, which has enhanced the Organization's ability to respond to challenges in public health crises and disasters.

The Organization's consolidated total revenue in 2012 reached \$978.6 million, which is the highest level of revenue in PAHO's history. The increase in revenue is primarily due to the increase in procurement services on behalf of Member States and the recognition of revenue from the transfer of the Expanded Textbook and Instructional Materials Program (PALTEX) to PAHO. Revenue to the Regular Budget totaled \$99.8 million. Revenue from Voluntary Contributions for public health programs totaled \$216.4 million. The Organization's procurement activities on behalf of Member States increased from \$455.9 million in 2011 to \$562.4 million in 2012. The level of resources for the Organization's three Procurement Funds represents 57% of the Organization's total revenue. Revenue for activities funded by the World Health Organization totaled \$61.6 million.

2. PAHO Regular Budget Segment: Financing

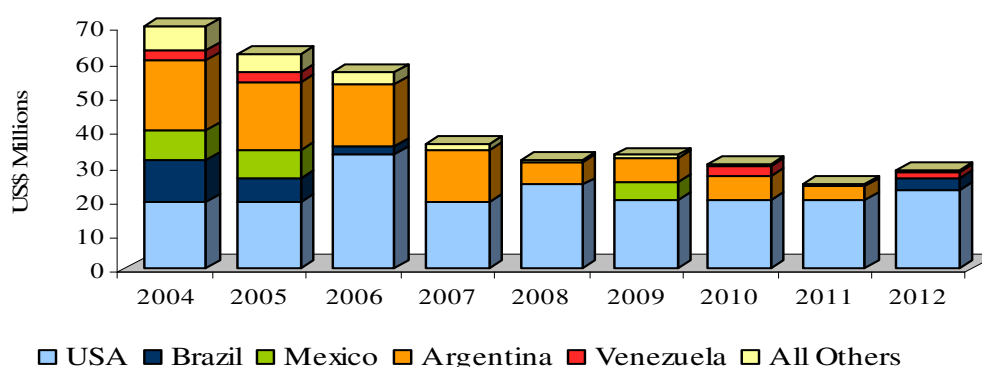
The PAHO Regular Budget Segment is comprised of the Member States' Assessed Contributions and Miscellaneous Revenue. In accordance with Resolution CD51.R11 adopted by the 51st Directing Council of the Pan American Health Organization, revenue from Assessed Contributions totaled \$106.2 million prior to the transfer of \$10.0 million to the Tax Equalization Fund. Revenue from Assessed Contributions was recorded in full on 1 January 2012, 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 2012 totaled \$78.3 million and \$23.9 million, respectively, not including the Centers. In 2012, the rate of collection of current year Assessed Contributions was 74%, compared with 76% for 2011. PAHO received payments toward Assessed Contributions from thirty-six Member States. Twenty-nine Member States paid their 2012 Assessed Contributions in full, four Member States made partial payments toward their 2012 Assessed Contributions, and three Member States made no payment toward their 2012 Assessed Contributions.

Figure A: Assessed Contributions Collected



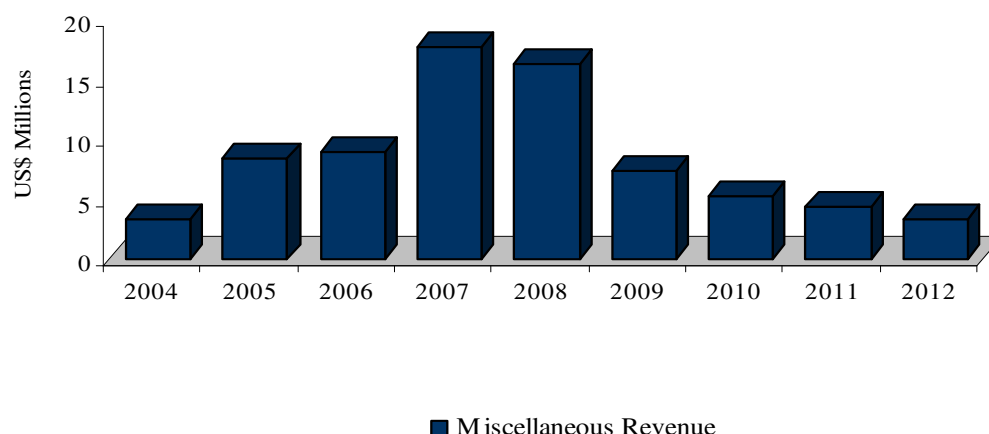
Total Assessed Contributions outstanding, including amounts due for previous financial periods, increased from \$24.0 million on 31 December 2011 to \$28.0 million on 31 December 2012. Each year the Delegates to the Directing Council or the Pan American Sanitary Conference review at length the financial 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 2013, there were not Member States 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 income 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 2012 was \$3.3 million and is comprised of \$3.8 million in investment revenue, investment management fees of \$0.4 million, a net loss of \$0.5 million on currency exchange, \$0.2 million in savings on prior periods obligations, and the receipt of \$0.2 million in other miscellaneous revenue. The difference between the budgeted Miscellaneous Revenue for 2012 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 risks to meeting the budgetary revenue.

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 \$98.2 million in 2012 compared to budgeted expense of \$102.2 million, resulting in a financial implementation rate of 96% for 2012. The Organization ended 2012 with a Financial Net Surplus from Operations of \$1.6 million in the PAHO Regular Budget Segment, which is available for implementation in the second year of the biennium.

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

	Actual	Budgeted*
Revenue:		
2012 Assessed Contributions	106.2	106.2
Less: Tax Equalization	(10.0)	(10.0)
Other Revenue	0.3	-
Miscellaneous Revenue	3.3	6.0
Total Revenue	99.8	102.2
Expenses:		
2012 Operating Expenses	(98.2)	(102.2)
Financial Net Surplus from Operations for 2012	1.6	-
Adjustments for non-budgetary items**	0.9	
Prior year adjustments	(0.4)	
WHO de-recognition of prior year expenses	(0.3)	
Budgetary Net Surplus from Operations for 2012	1.8	

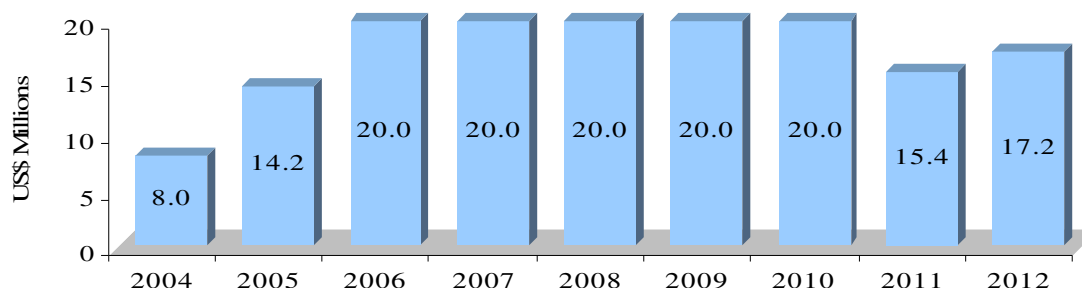
**For the purposes of actual vs. budget comparisons in this narrative, the budget figures represent one half of the Biennial Program and Budget to approximate annual budgetary figures.*

***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

At the beginning of the 2012 financial reporting period, the Organization's Working Capital Fund was \$15.4 million. As this is the first year of the biennium, the Net Surplus from Regular Budget Operations of \$1.6 million provides funding for the second year of the biennium. The Net Surplus is increased by the \$0.9 million from the adjustments for non-budgetary items and decreased by \$0.4 million from prior year adjustments and the de-recognition of \$0.3 million from WHO prior year expense. Thus, as of 31 December 2012, the Working Capital Fund totals \$17.2 million.

Figure D: Working Capital Fund



5. WHO Allocation and Other Sources Funds

The Pan American Health Organization implemented \$37.8 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 \$23.8 million in Other Sources Funds from WHO. Therefore, total implementation of WHO funds during 2012 reached \$61.6 million. In comparison, during 2011, the Organization implemented \$40.8 million in WHO Regular Budget Allocation funds and \$38.3 million in Other Sources Funds from WHO for a total of \$79.1 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 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 2012, PAHO's total revenue from Voluntary Contributions reached \$216.4 million. Revenue is composed of \$67.5 million from governments for external projects, \$5.9 million from international organizations, \$6.0 million from private and public sector organizations, \$136.0 million from governments for internal projects (\$118.2 million for Brazil), \$0.8 million for Emergency Preparedness and Disaster Relief, and \$0.2 million from Other Voluntary Contributions including the Caribbean Epidemiology Center (CAREC) and the Caribbean Food and Nutrition Institute (CFNI).

In 2012, the largest partners/stakeholders with respect to revenue from governments for external projects were Brazil (\$4.6 million), Canada (\$24.9 million), Spain (\$11.7 million), and the United States (\$21.4 million). Significant partners/stakeholders with respect to revenue from international organizations include the European Community (\$3.8 million), the International Bank for Reconstruction and Development (\$0.5 million), and the U.N. Trust Fund for Human Security (\$0.6 million). The largest private and public sectors partners/stakeholders with respect to revenue were the Bill Gates Foundation (\$1.3 million), the Global Alliance for Vaccine and Immunization (\$0.8), and the Pan American Health and Education Foundation (\$1.3 million).

The largest partners/stakeholders with respect to revenue for Emergency Preparedness and Disaster Relief were the Government of Canada (\$0.4 million) and the United Nations Office for the Coordination of Humanitarian Affairs (\$0.2 million).

7. Procurement on Behalf of Member States

During 2012, the total revenue for procurement services on behalf of Member States increased to \$562.4 million compared with \$455.9 million in 2011. 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 \$394.0 million in 2011 to \$482.0 million in 2012. This was due to the expansion of the national immunization programs and campaigns of seasonal influenza, HPV, Rotavirus, and Pneumococcal. 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 and vulnerable 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 \$48.6 million in 2011 to \$52.7 million in 2012, due to the increase in the demand for antiretrovirals and insecticides.

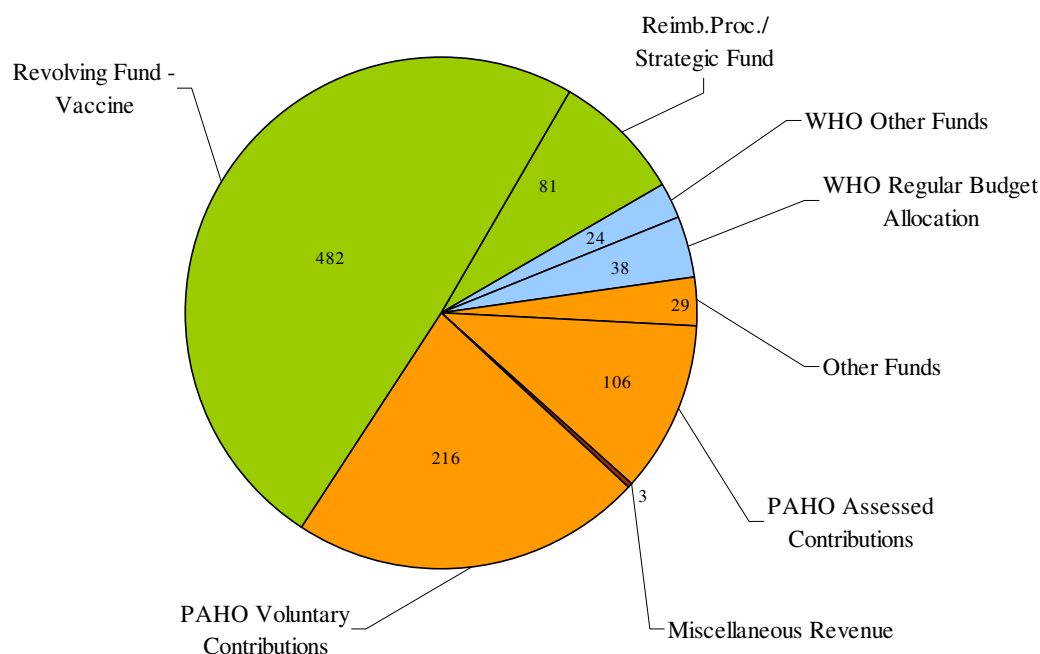
During the same period, funding for the purchase of medical supplies, medical equipment, and literature, processed through the Reimbursable Procurement on Behalf of Member States Fund, increased from \$13.3 million in 2011 to \$27.7 million in 2012, due to the increase in the demand for contraceptives.

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, Panama, Paraguay, Peru, and Venezuela.

8. Total Regular Budget and Other Sources Funding Implementation

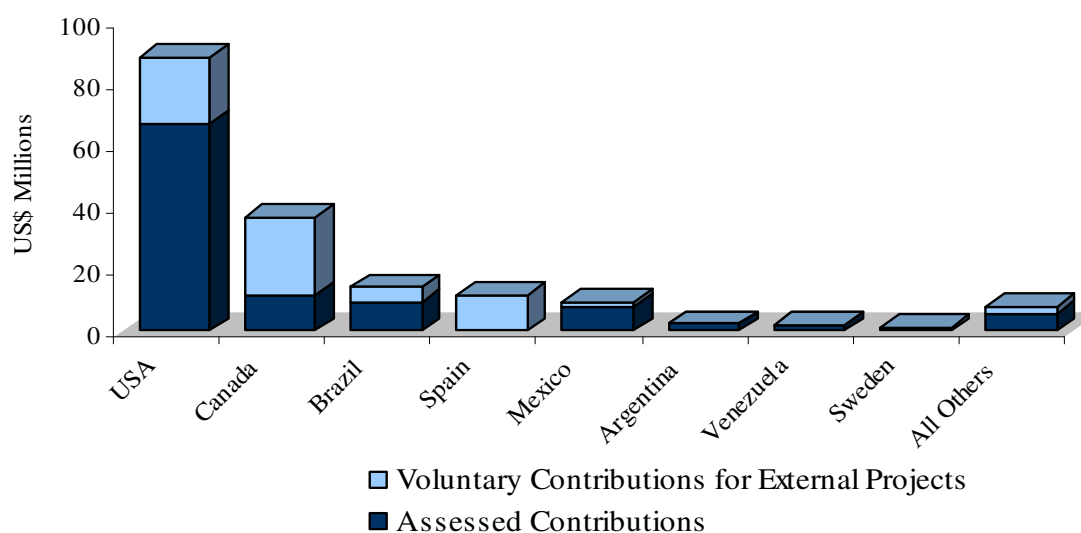
Total revenue in 2012 for all PAHO activities, net of eliminations, reached \$978.6 million, which represents a 17% increase from revenue for 2011 of \$838.5 million. As noted above, the primary factor in the increase in total revenue was the increase in the procurement of vaccines.

Figure E: PAHO/AMRO Revenue for 2012 Program Activities (US\$ millions)



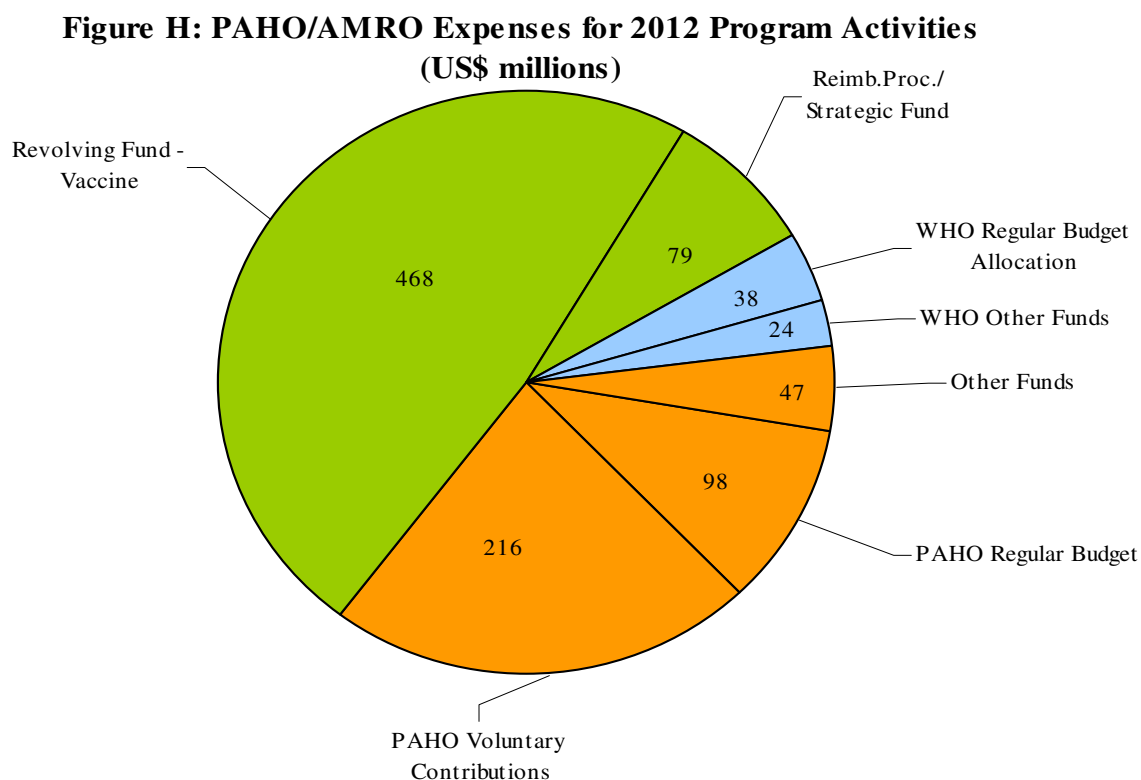
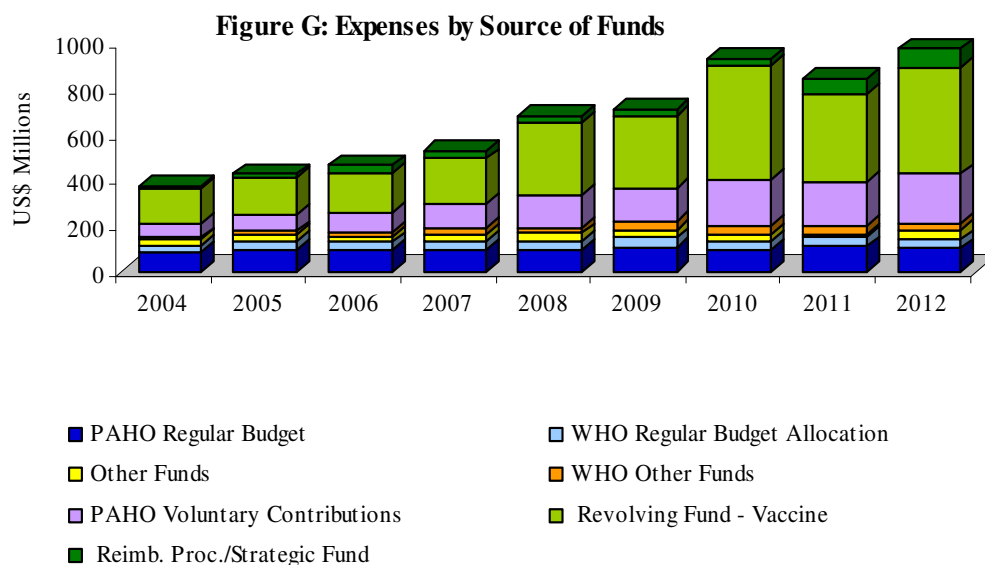
Total revenue attributable to eight Member States, partners, or stakeholders, including Assessed Contributions and Voluntary Contributions from governments for external projects, is shown below. This chart indicates that the Organization relies heavily on a relatively small number of Member States and partners/stakeholders as a major source of financing for the Organization's activities.

Figure F: 2012 Assessed Contributions & Voluntary Contributions for External Projects



9. Expenses by Source of Fund

PAHO's total consolidated expenses, reflecting disbursements and accrued liabilities, increased by 16% to \$969.7 million in 2012 from \$836.3 million in 2011. This increase is attributable to the increase in the procurement of vaccines.



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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	\$187.3
Supplies, Commodities, Materials	564.6
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization	1.1
Contractual Services	92.9
Travel	69.0
Transfers and Grants to Counterparts	42.8
General Operating and Other Direct Costs	12.0
Total PAHO Expense	<u>\$969.7</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. 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, maximizing the yield on the portfolio. During 2012, despite the challenging international financial climate, the investment portfolio remained stable and earned income of \$3.4 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 2012 were \$622.1 million, an increase of \$28.4 million over the cash and investment balance as of 31 December 2011. 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 expenses were \$3.1 million and \$4.9 million, respectively, resulting in a net deficit of \$1.8 million. Accrued Revenue from Assessed Contributions totaled \$2.6 million. Receipts of current year assessments reached \$2.1 million or 81% of 2012 Assessed Contributions. Receipts of arrears amounted to \$0.5 million or 15% of the total arrears as of 1 January 2012.

Caribbean Food and Nutrition Institute (CFNI)

CFNI's total revenue and expenses were \$0.6 million and \$0.3 million, respectively, resulting in a net surplus of \$0.3 million. Accrued Revenue from Assessed Contributions totaled \$0.4 million. Receipts of current year assessments reached \$0.2 million or 56% of 2012 Assessed Contributions. Receipts of arrears amounted to \$0.3 million or 20% of the total arrears as of 1 January 2012.

The Twenty-Eighth Conference of Heads of Government of the Caribbean Community (CARICOM), held in July 2007, approved the integration of the five Caribbean Regional Health Institutions (RHI) into a single Caribbean Public Health Agency (CARPHA). The five RHI include the Caribbean Epidemiology Center (CAREC), the Caribbean Food and Nutrition Institute (CFNI), the Caribbean Environmental Health Institute (CEHI), the Caribbean Regional Drug Testing Laboratory (CRDTL), and the Caribbean Health Research Council (CHRC).

Effective 31 December 2012, CAREC and CFNI were closed and their existing rights, obligations, assets and liabilities were transferred to CARPHA in accordance with the instructions of PAHO's Directing Council Resolution CD50.14 and pursuant to the PAHO-CARPHA Transfer Agreement.

12. 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 51st 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.

13. Other Highlights

After-Service Health Insurance (SHI) liability

The After-Service Health Insurance Fund, established in 2010, reflects the financing and liability of the Organization for the current and prior staff members' health insurance for future years. The Defined Benefit Obligation as of 31 December 2012, as calculated by Aon Hewitt Corporation, increased to \$305.5 million. As the Organization's After-Service Health Insurance Fund

had assets of \$39.3 million, the net liability for After-Service Health Insurance increased to \$266.2 million as of 31 December 2012.

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 America 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, such as 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. The fair value of the assets acquired was \$17.8 million from the transfer of cash, inventory and the inventory management system. These assets were recognized as an operational gain in this financial period. Revenue generated from sales of materials from 1 April through 31 December 2012 reached \$3.6 million, resulting in total revenue of \$21.4 million for 2012.

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 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.

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 2013. No other authority has the power to amend the Financial Statements after issuance. (Reference: IPSAS 14, paragraph 26).



Carissa F. Etienne

Director

Pan American Health Organization