

## SECTION

# V

## FINANCIAL STATEMENTS OF THE RETIREMENT AND PENSION FUND



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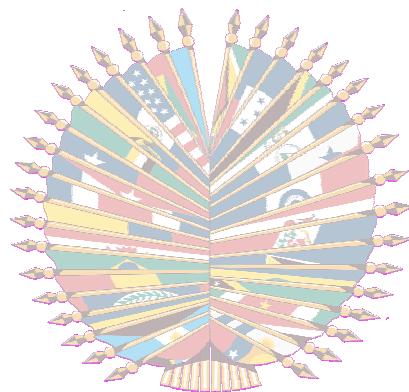
# CHAPTER 1

## FINANCIAL STATEMENTS OF THE RETIREMENT AND PENSION FUND

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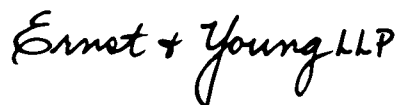
## Report of Independent Auditors

Retirement and Pension Fund Committee  
Organization of American States

We have audited the accompanying statements of net assets available for benefits to participants of the Organization of American States Retirement and Pension Fund (Plan) as of December 31, 2005 and 2004, and the related statements of changes in net assets available for the benefits to participants for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan at December 31, 2005 and 2004, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States.

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

March 24, 2006



## RETIREMENT AND PENSION FUND

### Statements of Net Assets Available for Benefits to Participants

December 31,	2005	2004
<b>Assets</b>		
Investments at fair value:		
Short-term investments	\$ 9,105,284	\$ 11,692,622
U.S. Government obligations	7,072,135	5,806,584
Corporate debt	—	1,458,904
Foreign government debt	—	2,027,856
Commingled equity trusts	182,350,813	183,619,515
Fixed index fund	87,522,134	85,361,287
Common stock	20,668,497	17,798,296
<i>Subtotal</i>	<i>306,718,863</i>	<i>307,765,064</i>
Accrued interest and dividends	32,774	45,369
Due from broker for securities sold	—	55,324
<b>Total Assets</b>	<b>306,751,637</b>	<b>307,865,757</b>
<b>Liabilities</b>		
Due to broker for securities purchased	23,402	—
Provident Plan participants' accounts	499,629	295,329
Administrative expenses payable	128,424	130,524
<b>Total Liabilities</b>	<b>651,455</b>	<b>425,853</b>
<b>Net Assets Available for Benefits</b>	<b>\$ 306,100,182</b>	<b>\$ 307,439,904</b>

### Statements of Changes in Net Assets Available for Benefits to Participants

December 31,	2005	2004
<b>Additions</b>		
Net appreciation in fair value of investments	\$ 19,316,253	\$ 30,166,006
Interests and dividends	894,431	996,225
Less investment expenses	(441,436)	(478,842)
<i>Sub-total 1</i>	<i>19,769,248</i>	<i>30,683,389</i>
Contributions		
Institutions	8,155,797	8,235,980
Participants	4,145,634	4,137,164
Participants' payments for purchase of years of participation	21,697	1,017,569
<i>Sub-total 2</i>	<i>12,323,128</i>	<i>13,390,713</i>
<b>Total Additions (Sub-total 1 + Sub-total 2)</b>	<b>32,092,376</b>	<b>44,074,102</b>
<b>Deductions</b>		
Payments to pensioners	(5,980,237)	(5,180,661)
Liquidations paid to participants (or their beneficiaries)	(26,618,071)	(25,816,219)
Interest credited to Provident Plan accounts	(18,865)	(8,337)
Administrative expenses	(814,925)	(780,500)
<b>Total Deductions</b>	<b>(33,432,098)</b>	<b>(31,785,717)</b>
<b>Net Increase (Decrease)</b>	<b>(1,339,722)</b>	<b>12,288,385</b>
<b>Net Assets Available for Benefits</b>		
Beginning of the Year	307,439,904	295,151,519
End of the Year	<b>\$ 306,100,182</b>	<b>\$ 307,439,904</b>

See accompanying notes





## NOTES TO FINANCIAL STATEMENTS

### 1. DESCRIPTION OF THE FUND

The activity of the Organization of American States Retirement and Pension Fund (the Fund) includes both the Retirement and Pension Plan (the Plan) and the Provident Plan. The following brief description of the Plan and the Provident Plan is provided for general information purposes only. The Plan and Provident Plan documents should be consulted for detailed information.

**General:** The Plan is a contributory retirement plan maintained for the benefit of most staff members of the Organization of American States (OAS) and other affiliated institutions. Compulsory contributions are shared two-thirds by the institution and one-third by the staff member.

The Provident Plan is a contributory savings plan established for the benefit of employees under short-term contracts. Compulsory contributions by the employer and the participant are made in equal amounts, and the balances in the accounts are fully vested in the name of the participants. The total of the accumulated funds in the Provident Plan participants' accounts may only be withdrawn at the time of death, transfer to another qualified Plan, or separation.

**Funding Policy:** The Plan and the Provident Plan are funded by the General Secretariat, other affiliated institutions and compulsory participants' contributions at fixed percentages of their annual pensionable remunerations. A portion of the income earned on the Fund's investments is allocated semiannually to the Plan and the Provident Plan participants' accounts at rates determined by the Retirement and Pension Fund Committee (Committee). The remaining portion, if any, is retained in the Fund's General Reserve for operational costs and to ensure the Fund's sustainability. Interest credited to participants' accounts as determined by the Committee was 6% both in 2005 and 2004. Plan participants' accumulated contributions were \$84,543,710

and \$87,042,472 at December 31, 2005 and 2004, respectively, including interest credited at rates determined by the Committee, compounded semiannually.

**Benefits:** Amounts included in participants' Plan accounts may only be withdrawn at the time of death or separation. Participants leaving the Plan before mandatory retirement age are entitled to receive the amount of their personal credits (contributions plus interest) and a percentage of the institutional credit (employer's contributions plus interest) based upon the vesting provisions of the Plan.

The vesting provisions of the Plan provide that participants with less than four years of participation receive, in addition to 100% of their personal credits, 35% of the institutional credit. Participants with four, but less than five, years of participation receive 40% of the institutional credit. Participants receive an additional 20% of the institutional credit for each additional year in excess of four. They are fully vested in their institutional credits after seven years of participation.

Minimum conditions for retirement are fifty-five years of age and fifteen years of participation in the Plan. Upon retiring, participants in the Plan are entitled to a pension payable for life with the option of taking up to 1/3 of the actuarial value of their pension in a one time lump-sum payment. Participants who joined the Plan before January 1, 1982 may elect, instead of the preceding benefit, a life annuity based on the total sum standing to their credit in their accounts. Alternatively, at their request, the Committee has the discretion to substitute some other form of benefit of equivalent value.

The Plan provides for minimum pension benefits. The minimum life pension for a participant at age sixty-five, with not less than fifteen years of participation in the Plan, is an annual amount equal to 2% of the average annual pensionable remuneration for the thirty-six consecutive months of highest pensionable remuneration (within the last

five years of remunerated participation). This amount is then multiplied by the number of years of participation up to a maximum of thirty, and 1 2/3% additional for every year of participation in excess of thirty but no more than forty.

The same method is used to determine the amount of the voluntary retirement pension due to participants who elect this form of retirement which is applicable to participants fifty-five years of age or older, but less than sixty-five, whose years of participation and age, when added, total not less than eighty-five (rule of 85). Certain actuarial reductions are made for retirement of participants who do not satisfy either the conditions for compulsory retirement or the rule of 85. Cost-of-living adjustments to pensions are contemplated in the Plan.

**Death Benefits:** Upon death of a pensioner (or a participant with not less than five years of participation who dies while in active service), the pensioner's surviving spouse and minor or disabled children are entitled to a pension, as defined in the Plan. When an active participant dies with less than five years of participation, the surviving spouse and the minor or disabled children, if any, receive the total of the accumulated funds in the participant's account. Also, for a participant who dies while in active service with no surviving spouse or children, the Plan authorizes payment of the respective personal credit (personal contributions and its accrued interest) to the designated beneficiaries.

**Disability Benefits:** Participants with five or more years of participation in the Plan, whose services are terminated because of physical or mental disability, receive annual disability benefits, in the form of a life pension, as defined in the Plan. Participants who have less than five years of participation receive the total of the accumulated funds in their accounts. A participant who joined the Plan before January 1, 1982 may elect to be covered instead by alternative provisions on disability retirement as defined in the Plan.

**Fund Termination:** If the Fund is terminated, every participant, regardless of length of participation, is entitled to all the contributions credited to his or her account and the increment thereon.

Except to correct any actuarial errors, no part of the contribution to the Plan made by the General Secretariat of the OAS or any other affiliated institution, or of the increment thereon, shall revert to the general funds of the institution or be used for any other purpose than the exclusive benefit to the participants or their beneficiaries.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting:** The accompanying financial statements have been prepared on the accrual basis of accounting. Benefits are recorded when paid.

**Investment Valuation and Income Recognition:** Common stocks, fixed income indices and debt securities are valued at fair market value measured by the quoted price of the active market on which the security is traded as of the latest trade date prior to year-end. Short-term investments are reported at cost, which approximates fair value. Commingled equity trusts are valued by obtaining a price from their issuer.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**Actuarial Present Value of Accumulated Plan Benefits:** Accumulated plan benefits are those estimated future periodic payments, including lump sum distributions that are attributable under the Plan's provisions to the participants or their beneficiaries. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, and (b) present employees or their beneficiaries. The actuarial present value of accumulated plan benefits is determined by the consulting actuaries, Buck Consultants.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### 3. INVESTMENTS

The Fund's investment portfolio is managed by State Street Global Advisors; The Northern Trust Company; Barclays Global Investors; Aberdeen Asset Management; Lord, Abbett & Co., and Graham, Mayo, Van Oterloo & Co, LLC (GMO), within the investment policy guidelines established by the Committee. The Committee also retains the firm Buck Consultants as investment advisors.

State Street Global Advisors manages the domestic passive equity (large and medium capitalization) and the long-term passive bond portfolios. They also act as custodian for both portfolios. Lord, Abbett & Co. manages the active small cap portion of the domestic equity portfolio and the Northern Trust Company acts as custodian for this portfolio. The Northern Trust Company manages and acts as the custodian for the short-term fixed-income investment portfolio. Aberdeen Asset Management§ manages the active portion of the long-term bond portfolio. Barclays Global Investors manages and acts as custodian of the passive international equity portfolio. GMO manages and acts as custodian for the active portion of the international equity portfolio.

Buck Consultants performs the monitoring of the investment managers and investment returns to assure compliance with the Committee's established policies. Buck Consultants also presents Quarterly reports to the Committee.

The fair value of individual investments that represent 5% or more of the Fund's net assets are as follows:

§ Aberdeen Asset Management has its own custody agreement with State Street Bank and Trust Company. The Fund, as well, monitors its activities through the Northern Trust Company

#### Individual Investments that Represent 5% or more of the Fund's net assets (As of December 31, 2005)

Individual Investments	2005
Russell 1000 Index	\$ 123,131,036
Aberdeen Core Plus Fixed Income Fund**	23,715,367
SSGA Passive Bond Fixed Income Fund	53,195,622
EAFE EQ Index FD ex-Japan	34,358,147

The classification of investments by portfolio and financial instruments is presented as follows:

#### Classification of Investments by Portfolio – 2005 (In thousands)

	Short Term Portfolio	Fixed Term Portfolio	Domestic Equity Portfolio	International Equity Portfolio	Total
Short-Term Investments	\$8,269	\$0	\$836	–	\$9,105
U.S. Government and Agency Issues	55	7,017	–	–	7,072
Corporate Bonds	–	–	–	–	0
Miscellaneous Bonds	–	–	–	–	0
Fixed Income Index	–	87,522	–	–	87,522
Commingled Equity Trust / Common Stocks	–	–	143,800	59,220	203,020
Totals	\$8,324	\$94,539	\$144,636	\$59,220	\$306,719

#### Classification of Investments by Portfolio – 2004 (In thousands)

	Short Term Portfolio	Fixed Term Portfolio	Domestic Equity Portfolio	International Equity Portfolio	Total
Short-Term Investments	\$4,004	\$6,899	\$789	–	\$11,692
U.S. Government and Agency Issues	5,807	–	–	–	5,807
Corporate Bonds	1,459	–	–	–	1,459
Miscellaneous Bonds	2,028	–	–	–	2,028
Fixed Income Index	–	85,361	–	–	85,361
Commingled Equity Trust / Common Stocks	–	–	145,375	56,043	201,418
Totals	\$13,298	\$92,260	\$146,164	\$56,043	\$307,765

\*\* During the year 2004, this investment corresponded to Deutsche Core Plus Fixed Income Fund.

These tables facilitate the understanding of the composition and nature of the investment structure of the Fund. Also, the listing of investment assets in the Statement of Net Assets Available for Benefits to Participants follows the classification by financial instruments in full compliance with accounting principles generally accepted in the United States.

Net realized and unrealized appreciation/(depreciation) for the years ended December 31, 2005 and 2004 is as follows:

<b>Net Realized and Unrealized Appreciation/(Depreciation)</b> (Years ended on December 31)		
Type of Asset	2005	2004
Fixed Income Index	\$4,607,337	\$6,017,348
U.S. Government and Agency Issues	(1,355)	(23,853)
Corporate Bonds	(2,490,667)	1,141,846
Miscellaneous Bonds	73,902	1,804,463
Commingled Equity Trusts/Common Stocks	17,127,036	21,226,201
<b>Total</b>	<b>\$19,316,253</b>	<b>\$30,166,005</b>

Certain 2004 amounts have been reclassified to conform with the 2005 presentation.

#### 4. ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS

The following table shows the values of the assumptions used for the actuarial valuation of the Fund as of December 31, 2005 and 2004. These assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

#### Actuarial Valuations Assumptions (Years ended on December 31)

Assumption on:	2005	2004
<b>Mortality</b>	United Nations Mortality tables – Male and Female 2000.	United Nations Mortality tables – Male and Female 2000.
<b>Retirement</b>	2.5 times the rates used in 1996 and 2002. 90% for ages 65–69 with 15 or more years of service.	2.5 times the rates used in 1996 and 2002. 90% for ages 65–69 with 15 or more years of service.
<b>Interest</b>	8.0% of which 4.0% is assumed to be credited to participants' accounts.	8.0% of which 4.0% is assumed to be credited to participants' accounts.
<b>Retirement benefit election</b>	75% participants assumed to elect full commutation with the remaining 25% assumed to take their benefit in the form of annuity.	75% participants assumed to elect full commutation with the remaining 25% assumed to take their benefit in the form of annuity.
<b>Operational costs</b>	0.4%	0.4%

The actuarial present value of accumulated plan benefits, and benefit information for December 31, 2005 and 2004 are shown in the following table:

#### Actuarial Present Value of Accumulated Plan Benefits (In Thousands)

	2005	2004
Vested Benefits		
Participants	\$162,137	\$171,888
Pensioners	56,915	54,321
Vested Benefits, Sub-total	219,052	226,209
Non-Vested Benefits	41,684	44,203
Total Actuarial Present Value of Accumulated Plan Benefits	<b>\$260,736</b>	<b>\$270,412</b>

The following reconciliation sets forth the reasons for the change in the total actuarial present value of accumulated plan benefits for the years ended December 31, 2005 and 2004:

**Reconciliation of the Total Actuarial Present Value of the Accumulated Plan Benefits**  
(In Thousands)

	2005	2004
Total Actuarial Present Value of Accumulated Plan Benefits at the Beginning of the Year	\$270,412	\$273,483
Increase (decrease) attributable to:		
Interest earned on accumulated Plan benefits	20,333	21,912
Benefits paid	(33,125)	(32,031)
Benefits accumulated	3,116	(15,833)
Assumption changes	—	5,302
Plan/Policy changes	—	17,471
Changes in 415 limit	—	108
<i>Total Actuarial Present Value of Accumulated Plan Benefits at the End of the Year</i>	<b>\$260,736</b>	<b>\$270,412</b>

## 5. MONEY MARKET ACCOUNT

The Fund has an operational money market account with Merrill Lynch from which liquidation and annuitant payments are made. This account is considered to be part of the investment portfolio maintained by the Fund and is included as part of cash and cash equivalents when calculating the investment allocation in accordance with the investment policy guidelines established by the Committee. Money market account balances were \$2,751,885 and \$3,684,070 at December 31, 2005 and 2004, respectively.

## 6. SECURITIES LENDING

The Fund participates in a securities lending program administered by The Northern Trust Company (Northern). Certain securities of the Fund are loaned to participating brokers who provide collateral, in the form of cash, government securities, or irrevocable bank letters of

agreement, valued at 102% of the market value of the securities on loan. The collateral is invested on behalf of the Fund and the associated investment income, net of the amount rebated to the borrower as a return on the collateral, is shared 60/40 and 50/50 between the Fund and Northern for government securities and corporate securities, respectively. The Fund and Northern have economic risk if the return earned on the invested collateral is less than the agreed rebate to the borrower. This risk is managed by investing the collateral in a pool of low risk, short term investment securities. The Fund retains ownership of the loaned securities and the right to recall them at any time. Accordingly, the loaned securities included in the net assets of the Fund as of December 31, 2005 and as of December 31, 2004 were \$212,249 and \$7,332,742 respectively.

## 7. INCOME TAX STATUS OF THE PLAN

As an international organization, the OAS is exempt from U.S. federal income taxes and such exemption applies to the Retirement and Pension Fund of the OAS.

