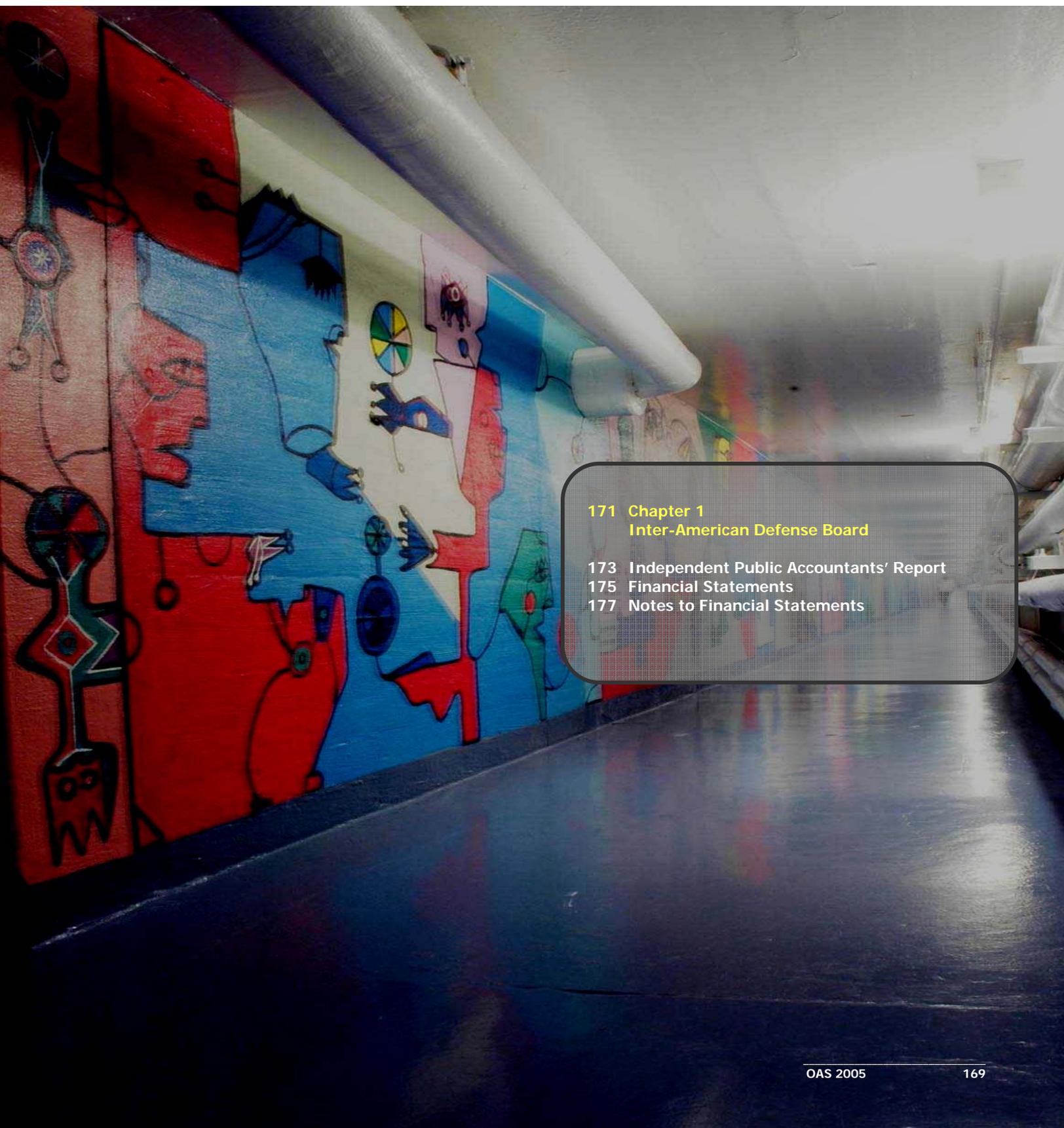


SECTION

IV

FINANCIAL STATEMENTS OF OTHER AGENCIES AND
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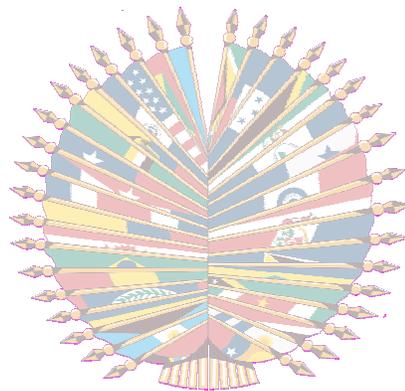
CHAPTER 1

INTER-AMERICAN DEFENSE BOARD

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INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

The Board of External Auditors
Inter-American Defense Board

We have audited the accompanying statement of financial position of the Inter-American Defense Board (the Board), as of December 31, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Board as of and for the year ended December 31, 2004 were audited by other auditors whose report dated April 1, 2005 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2005, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

March 22, 2006

SB & Company, LLC

INTER-AMERICAN DEFENSE BOARD

| Statements of Financial Position | | |
|-----------------------------------------|-------------------|-------------------|
| As of December 31 | 2005 | 2004 |
| Assets | | |
| Cash and cash equivalents | \$ 432,862 | \$ 155,278 |
| Prepaid expenses and other assets | 47,915 | 80,457 |
| Total current assets | 480,777 | 233,185 |
| Equipment | 684,278 | 680,307 |
| Furniture | - | 133,593 |
| Less: accumulated depreciation | 684,278 | 794,450 |
| Total property and equipment | - | 19,450 |
| Total assets | \$ 480,777 | \$ 252,635 |
| Liabilities and net assets | | |
| Accounts payable | \$ 50,262 | \$ 21,742 |
| Accrued leave | 45,220 | 53,583 |
| Total liabilities | 95,482 | 75,325 |
| Unrestricted Net Assets | 385,295 | 177,310 |
| Total liabilities and net assets | \$ 480,777 | \$ 252,635 |

| Statements of Activities | | |
|---------------------------------------------------------|-------------------|-------------------|
| For the years ended December 31 | 2005 | 2004 |
| Revenue | | |
| Funding received from OAS | \$ 1,486,900 | \$ 1,486,900 |
| In-kind contribution | 3,876,552 | 2,492,000 |
| Reimbursement income | 335,550 | 563,698 |
| Interest and other income | 201,883 | 56,221 |
| Total revenue | 5,900,885 | 4,598,819 |
| Net assets released from restrictions | - | 44,000 |
| Total revenue and net assets released from restrictions | 5,900,885 | 4,642,819 |
| Expenses | | |
| Personnel | 566,313 | 634,185 |
| Other general and administrative | 387,051 | 315,893 |
| Depreciation | 19,450 | 36,121 |
| In-kind expense | 3,876,552 | 2,492,000 |
| Reimbursement expense | 335,550 | 563,698 |
| Contracts | 507,984 | 563,495 |
| Total expenses | 5,692,900 | 4,605,392 |
| Change in unrestricted net assets | 207,985 | 37,427 |
| Net assets released from restrictions | - | (44,000) |
| Change in temporarily restricted net assets | - | (44,000) |
| Increase (decrease) in net assets | 207,985 | (6,573) |
| Unrestricted net assets, beginning of year | 177,310 | 183,883 |
| Unrestricted net assets, end of year | \$ 385,295 | \$ 177,310 |

See accompanying notes

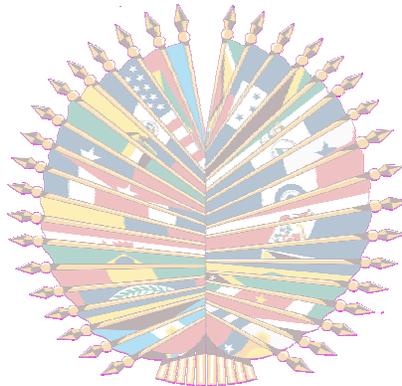
INTER-AMERICAN DEFENSE BOARD

Statements of Cash Flows

For the years ended December 31

| | 2005 | 2004 |
|---------------------------------------------------------|-------------------|-------------------|
| Operating activities | | |
| Change in net assets | \$ 207,985 | \$ (6,573) |
| Depreciation | 19,450 | 36,121 |
| Prepaid expenses and other assets | 32,542 | 9,047 |
| Account payable | 28,520 | 18,884 |
| Accrued leave | (8,363) | (18,193) |
| <i>Net cash provided by operating activities</i> | 280,134 | 39,286 |
| Investing Activities | | |
| Purchase of property and equipment | - | (10,302) |
| Increase in cash and cash equivalents | 280,134 | 28,984 |
| Cash and cash equivalents, beginning of the year | 152,728 | 123,744 |
| <i>Cash and cash equivalents, end of year</i> | \$ 432,862 | \$ 152,728 |

See accompanying notes



NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

The Inter-American Defense Board (the Board) was established on March 30, 1942 and designated, by executive order, as a public international organization on March 26, 1951 by the General Assembly of the Organization of American States. The Board is comprised of military officers representing the highest echelons of their nation's defense establishments. The mission of the Board is to maintain the collective self-defense of the Western Hemisphere with peace and security as primary objectives.

The Inter-American Defense College (the College) was established in 1962 as a sub-organization of the Board. Its primary goal is the preparation of future military and civilian leaders for leadership roles in the hemisphere.

The Board is an affiliated agency of the Organization of American States (OAS) and receives a substantial portion of its operating budget from the OAS; however, the two organizations maintain separate management structures. The Board has experienced a continuous decrease in its budget due to decreases in funding provided by the OAS. In response to the lower budgets, the Board has had to dramatically reduce its civilian work force from 87 civilian personnel in 1987 to 6 civilian personnel at the end of fiscal year 2005.

The administration has reduced expenses and personnel costs to absolute minimal levels and further reductions may compromise the organization's ability to adequately perform its mission. The lack of civilian personnel is affecting the institutional memory of the organization as well as program continuity which is a serious management challenge.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Board's financial instruments consist of cash and cash equivalents, accounts receivable (included in prepaid and other assets), accounts payable and accrued expenses. In management's opinion, the carrying amounts of these financial instruments approximate their fair value as of December 31, 2005 and 2004.

Cash and cash equivalents

The Board considers all highly liquid investments with maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents consist of money market funds as of December 31, 2005 and 2004.

Accounts receivable

Accounts receivable which are included in prepaid expenses and other assets as of December 31, 2005 and 2004, consist primarily of amounts related to costs incurred by the Board which are reimbursable by U.S. Department of Defense (DOD).

Equipment and Furniture

Equipment and furniture are stated at cost, net of accumulated depreciation. Depreciation expense is

recognized using the straight-line method over the estimated useful life of the assets. The useful life of furniture and printing equipment is estimated at ten years and the useful life of other equipment, including computer equipment, is estimated at three years.

3. INCOME TAXES

The Board is a public international organization and as such, is exempt from paying U.S. Government income tax.

4. PENSION PLAN AND EMPLOYEE BENEFITS

All of the employees of the Board participate in a contributory multi-employer pension plan administered by the Retirement and Pension Plan Committee of the OAS. Contributions to the Plan by the Board and employees are based on fixed percentages of annual pensionable salaries in accordance with United Nations tables and approximated \$79,462 and \$101,180 in fiscal years 2005 and 2004, respectively.

The Board provides certain benefits to its employees, which accrue to them during periods of employment and are payable upon separation. All employees are entitled to accrued leave and certain employees receive terminal pay, merit awards, and special leave. The payments made during 2005 and 2004 for these benefits amounted to approximately \$12,214 and \$57,669, respectively.

5. FUNDING

Funding received from the OAS in the form of direct cash contributions decreased from \$1,741,144 in 2003 to \$1,486,900 in both 2004 and 2005. The OAS has currently appropriated \$1,416,200 for 2006, a \$70,700 decrease. The Board relies upon the OAS for funding for all its operating activities and is dependent upon the continued financial support of the OAS.

The headquarters of the Board is a building owned by the General Secretariat of the OAS; therefore, expenditures

incurred for the building renovation and improvements are not capitalized by the Board.

6. PROGRAM EXPENSES

The Board's expenses were primarily for four functions; the Council of Delegates, the International Staff, the Inter-American Defense College, and Administrative Support.

The OAS funding expenses incurred during 2005 were calculated approximately as follows:

- Council of Delegates - \$ 282,000
- International Staff - \$ 172,000
- Inter-American Defense College - \$894,000
- Administrative Support - \$139,000

7. IN-KIND CONTRIBUTIONS

The Board received in-kind contributions from the OAS, DoD, and Member states totaling approximately \$3,876,552 and \$2,492,000 for the years ending December 31, 2005 and 2004, respectively. These in-kind contributions were valued at the fair market value and represented the use of office space and transportation provided to the Board and College by the DoD. The OAS accounted for approximately \$3,379,200 or 87% and \$2,492,000 or 99% of the total in-kind contributions for the years ended December 31, 2005 and 2004, respectively. The DOD and other Member states supported Board and College related travel and transportation expenses including the cost of using U.S. aircraft and in-country ground transportation for student trips totaling approximately \$332,000 and \$548,000 for the years ended December 31, 2005 and 2004, respectively. These figures do not include the services provided for approximately 90 military personnel and delegates as the Board deems it impractical to measure the value of those contributions.

The Board sought and received support from DOD for several funded seminars and support for ongoing IADC activities. This support was approximately \$63,000 and \$235,000 for the years ended December 31, 2005 and 2004, respectively,

and is included in reimbursement income. These new initiatives were in addition to the normal operations and curriculum of the College providing greater participation opportunities to all OAS Member states. While the Board intends to continue seeking external funding for such events, all future contributions will be subject to individual event approval by the DOD agency providing the funding. A significant portion of the DOD funding may not be received in 2006. The Board received \$43,000 for its scholarship program (IMET). The support was directed to the efforts to bring students from OAS member countries that can not participate at the College for lack of funding.

8. COMMITMENTS AND CONTINGENCIES

The Board is not subject to any lawsuits which management believes will have a material adverse effect on the Board's financial condition.

