



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

112445

B-197701

Handwritten initials

JUNE 5, 1980

To the President of the Senate and the
Speaker of the House of Representatives

CWO 02001

Attached is our report on the examination of financial statements of the Overseas Private Investment Corporation for fiscal years 1979 and 1978, as required by the Government Corporation Control Act (31 U.S.C. 841 et. seq.).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the President, Overseas Private Investment Corporation.

Thomas B. Staack
Comptroller General
of the United States

Attachment



112445

010733

ID-80-45
(487000)



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-197701

February 29, 1980

To the Board of Directors
Overseas Private Investment Corporation

We have examined the balance sheets of the Overseas Private Investment Corporation as of September 30, 1979 and 1978, and the related statements of income, changes in capital and reserves and changes in financial position for the years then ended. Our examinations were made pursuant to the Government Corporation Control Act (31 U.S.C. 841 *et seq.*) and in accordance with Comptroller General standards for financial and compliance audits, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 5 of the accompanying financial statements, Section 235(c) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2195), established an Insurance and Guaranty Reserve for the respective discharge of liabilities under the Corporation's insurance and guaranty contracts. At September 30, 1979, these reserves totaled \$519 million (Notes 6 and 7). In addition, Section 237(c) of the Act provides that the full faith and credit of the United States is pledged for the full payment and performance of the Corporation's insurance and guaranty liabilities. Thus, if claim settlements exceed available resources, Congress would have to appropriate funds to fulfill this pledge. Standing authority for such appropriations is contained in Section 235(f) of the Act.

In our opinion, the accompanying financial statements present fairly the financial position of the Overseas Private Investment Corporation as of September 30, 1979 and 1978, and the results of its operations, changes in its capital and reserves, and changes in its financial position for the years then ended in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method for accounting for claim settlements as described in Note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

A handwritten signature in black ink, appearing to read "Thomas B. Heath".

Comptroller General
of the United States

AGC002171

Statement of Income

Overseas Private Investment Corporation

For year ended September 30

	1979	1978
Revenues		
Political risk insurance premiums	\$30,992,954	\$31,069,931
Less premiums on shared risks	4,744,124	5,195,973
	<u>26,248,830</u>	<u>25,873,958</u>
Investment guaranty fees	1,692,331	2,353,192
Direct investment interest	1,464,066	1,331,872
Other income	94,617	306,211
	<u>29,499,844</u>	<u>29,865,233</u>
Interest	38,233,808	30,589,449
	<u>67,733,652</u>	<u>60,454,682</u>
Expenses		
Salaries and benefits	3,847,689	3,468,561
Loss on claim settlements: (Note 2)		
Political risk insurance	984,482	
Investment guaranties	642,830	
Provision for uncollectable DIF loans	1,600,000	1,600,000
Contractual services	1,458,381	1,789,362
Rent, communications and utilities	609,870	451,818
Travel	326,024	256,189
Printing and supplies	216,377	143,699
Depreciation and amortization	42,621	33,062
	<u>9,728,274</u>	<u>7,742,691</u>
Net Income	<u>\$58,005,378</u>	<u>\$52,711,991</u>

The accompanying notes are an integral part of this statement.

Balance Sheet
Overseas Private Investment Corporation

At September 30

1979 1978

Assets

Cash and investments:

Cash	\$ 78,856,552	\$ 71,498,541
U.S. Treasury securities at cost plus accrued interest, which approximates market (Note 3)	<u>428,489,417</u>	<u>372,159,782</u>
	507,345,969	443,658,323
Direct Investment Fund loans outstanding less allowance for uncollectable loans of \$3,345,928 in 1979 and \$3,600,000 in 1978 (Note 4)	19,602,259	17,920,837
Accrued interest and fees	3,122,526	1,256,284
Accounts receivable	9,626,582	6,078,135
Prepaid reinsurance premiums	1,070,809	1,172,301
Furniture and fixtures at cost less depreciation of \$174,258 in 1979 and \$157,348 in 1978 and amortized leasehold improvements	195,522	155,775
Assets acquired in claims settlements (Note 2)	<u>62,341,421</u>	<u>5,521,820</u>
	<u>\$603,305,088</u>	<u>\$475,763,475</u>

Liabilities, Capital and Reserves

Liabilities:

Accounts payable and accrued expenses	\$ 975,947	\$ 1,011,837
Direct liabilities related to claims settlements	4,706,820	5,521,820
Participations in DIF loans	131,054	680,988
Unearned premiums	13,285,709	15,553,119
Fees held pending claims determinations	397,008	2,442,739
	<u>19,496,538</u>	<u>25,210,503</u>
Contingent liabilities (Notes 6 and 7)		
Capital and reserves:		
Capital held by U.S. Treasury (Note 4)	50,000,000	50,000,000
Insurance reserve (Notes 5 and 6)	405,105,172	283,005,916
Guaranty reserve (Notes 5 and 7)	113,489,108	99,965,476
Retained earnings	15,214,270	17,731,580
	<u>583,808,550</u>	<u>450,552,972</u>
	<u>\$603,305,088</u>	<u>\$475,763,475</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in Capital and Reserves
Overseas Private Investment Corporation

For the 2 years ended September 30, 1979

	Capital	Insurance reserve	Guaranty reserve	Retained earnings	Total
Balance September 30, 1977	\$50,000,000	\$229,947,973	\$100,143,976	\$ 4,869,589	\$384,961,538
Net Income				52,711,991	52,711,991
Payments on claims settlements		(69,340)	(1,249,305)		(1,318,645)
Recovered from prior year claims settlements (Note 2)		14,127,283	70,805		14,198,088
Transferred from retained earnings		39,000,000	1,000,000	(40,000,000)	
Balance September 30, 1978	50,000,000	283,005,916	99,965,476	17,581,580	450,552,972
Cumulative effect on prior years of accounting change for claims settlements (Note 2)		73,083,738	2,166,462		75,250,200
Net Income		(984,482)	(642,830)	59,632,690	58,005,378
Transfers from retained earnings		50,000,000	12,000,000	(62,000,000)	
Balance September 30, 1979	<u>\$50,000,000</u>	<u>\$405,105,172</u>	<u>\$113,489,108</u>	<u>\$15,214,270</u>	<u>\$583,808,550</u>

Statement of Changes in Financial Position
Overseas Private Investment Corporation

For the year ended September 30

	1979	1978
Source of Funds		
Net income	\$ 58,005,378	\$52,711,991
Depreciation and amortization	42,621	33,062
Provision for uncollectable DIF loans	1,600,000	1,600,000
	<u>59,647,999</u>	<u>54,345,053</u>
Cumulative effect of change in accounting policy (Note 2)	75,250,200	
Decrease (increase) in prepaid reinsurance	101,492	(384,487)
Net recoveries on claims settlements (Note 2)		12,879,443
	<u>134,999,691</u>	<u>66,840,009</u>
Application of Funds		
Net disbursement (reduction) on DIF loans	3,281,422	(1,606,078)
Additions to furniture and fixtures	82,368	17,144
Decrease (increase) in:		
Accounts payable and accrued expenses	35,890	880,215
Direct liabilities related to claims settlements	815,000	
Participation in DIF loans	549,934	878,059
Unearned premiums	2,267,410	(2,133,034)
Fees held pending claims determinations	2,045,731	(264,197)
Increase (decrease) in:		
Accrued interest and fees	1,866,242	(546,329)
Accounts receivable	3,548,447	339,238
Assets acquired in claims settlements	56,819,601	
	<u>71,312,045</u>	<u>(2,434,982)</u>
Increase in cash and investments	<u>\$ 63,687,646</u>	<u>\$69,274,991</u>

The accompanying notes are an integral part of this statement.

**Notes to the
Financial Statements**

Overseas Private
Investment Corporation

**Note 1: Summary of Significant
Accounting Policies**

The significant policies are summarized below:

Revenue Recognition: Revenue from political risk insurance is recorded on a pro-rata basis over the contract period. All other revenue is recognized when earned in accordance with generally accepted accounting principles.

Valuation of assets acquired in claims settlements: Debt of a foreign government acquired in the settlement of a claim is valued at the lower of its present value or the cost of acquisition. All other assets acquired in claims settlements are valued at the lower of management's estimate of the present value of the recovery on the asset or the cost of acquisition. Present value is determined at the time of acquisition using the composite yield for all U.S. Government securities.

Depreciation and amortization: Furniture and fixtures are depreciated on a straight-line basis over a 10-year life. Leasehold improvements are amortized over the life of the related lease.

Note 2: Change in Accounting Principle

Prior to Fiscal Year 1979, payments to Investors on claims settlements were charged directly to the applicable Insurance or Guaranty Reserve. Recoveries made in the course of liquidating assets acquired in the settlement of claims were

credited to the Reserve against which the related claims payments were charged. Assets acquired in connection with claims settlements were not recognized on the Balance Sheet, but were reflected in the Notes to the financial statements.

Effective October 1, 1978, OPIC adopted the policy of recognizing assets acquired in claims settlements in the Balance Sheet and the net loss on claims settlements as a reduction in earnings. Such losses reflect the net amount by which claims settlement payments exceed the value of the assets acquired in connection with such settlements. The effect of this change in policy was to increase the Insurance Reserve by \$56.2 million and the Guaranty Reserve by \$3.2 million at September 30, 1979. The assets acquired in claims settlements were composed primarily of obligations of the Government of Chile.

Note 3: Investments in U.S. Treasury Securities

In conformance with Section 239(d) of the Foreign Assistance Act of 1961, as amended (FAA), investments in U.S. Treasury securities are limited to funds derived from fees and other revenues. The funds available for investment were \$419,401,855 and \$364,043,736 at September 30, 1979 and 1978 respectively. Of these funds \$418,992,373 and \$364,043,185 respectively, represent the original cost of investments included in the Balance Sheet.

Note 4: Direct Investment Fund

The FAA authorized the establishment of a Direct Investment Fund (DIF), that consisted initially of the \$40,000,000 paid in as capital of the Corporation, to make loans on terms and conditions established by OPIC. The DIF is charged with realized losses and credited with realized gains and such additional sums as determined by the Board of Directors. OPIC has increased

the DIF by \$10,000,000 in connection with the transfer of \$10,000,000 from retained earnings to capital held by the U.S. Treasury.

The status of the DIF was as follows, in millions:

	September 30	
	1979	1978
Appropriated DIF Capital	\$40.0	\$40.0
Transfer From Earnings	10.0	10.0
Net losses	(4.9)	(3.3)
Uncommitted funds	(18.6)	(15.0)
Outstanding commitments	26.5	31.7
Undisbursed portion	(3.7)	(10.9)
Net loans outstanding	\$22.8	\$20.8

Proceeds received from the sale of participations were credited to the DIF for further lending in accordance with Sections 231(c), 235(b) and 239(d) of the FAA. The figures above are net of such participations, which amounted to \$131,054 and \$680,988 at September 30, 1979 and 1978 respectively. Pursuant to provisions of Sections 239(d) and 234(b) of the FAA, OPIC has guaranteed full payment of the participated portion of DIF loans. This liability for outstanding participations is included in the amount of investment guaranties outstanding (Note 7).

Note 5: Statutory Reserves and Full Faith and Credit

Section 235(c) of the FAA established a fund with separate accounts known as the Insurance Reserve and the Guaranty Reserve for the respective discharge of liabilities under investment insurance and under guaranties issued under Section 234(b) of the FAA and similar predecessor guaranty authority. Both Reserves may be replenished or increased by transfers from retained earnings or by new Congressional appropriations. Retained earnings at September 30, 1979, available for transfer to the Insurance or Guaranty Reserve, were \$15,214,270.

Should funds at any time not be sufficient to discharge obligations arising under investment insurance or guaranties, as the case may be, Congress would have to appropriate funds to fulfill the pledge of full faith and credit to which such obligations are entitled. Standing authority for such appropriations is contained in Section 235(f) of the FAA.

All investment insurance issued by OPIC, all guaranties issued by OPIC in connection with the settlement of claims under investment insurance and all guaranties referred to in the first paragraph above constitute obligations of the United States of America. The full faith and credit of the United States of America is pledged for the full payment and performance of such obligations.

Note 6: Insurance Reserves

The Insurance Reserve at September 30, 1979 totaled \$405,105,172. Charges against the Insurance Reserve could arise from contingent obligations under (A) guaranties issued in settlement of claims arising

under investment insurance contracts, (B) pending claims under investment insurance contracts, (C) unresolved disputed claims and (D) outstanding investment insurance contracts. These four categories of contingent obligations are discussed in more detail in the balance of this Note.

(A) Claims settlement guaranties

Pursuant to Sections 237(j) and 239(d) of the FAA, OPIC has in some instances settled claims arising under investment insurance contracts by issuing payment guaranties of host government obligations. These claims settlement guaranties represent contingent obligations backed by the Insurance Reserve.

The contingent liability at September 30, 1979 under these guaranties, including liability as to interest, was \$156,086,000. If the principal obligors default in full, and if OPIC does not exercise certain prepayment rights, OPIC would be liable during the following fiscal years for the following amounts, in thousands:

Fiscal year	Contingent liability
1980	\$23,065
1981	30,344
1982	36,494
1983	32,269
1984-8	33,914
	<u>\$156,086</u>

Of the total contingent liability under claims settlement guaranties, \$144,072,715 represents guaranties of obligations either incurred by the Government of Chile in compensation agreements with OPIC insureds or recognized by the Government of Chile in respect of debt previously insured by OPIC.

Also, in connection with the settlement of one claim, OPIC entered into an indemnity agreement with an insured in 1978 which could result in OPIC liability of up to \$8 million.

(B) Pending Claims

OPIC follows a policy of recording investment insurance contract claims as financial liabilities only upon determination that a liability exists and where the amount of such liability can be reasonably estimated. In the case of most expropriation claims, the expropriatory action must continue for a period of one year before the claim matures. Formal applications for compensation are generally filed only with respect to mature claims and specify the particular events which have occurred and which, in the opinion of the investor, subject OPIC to liability.

The total amount of compensation requested in connection with formal applications for which no determination has yet been made is approximately \$15 million. There are eleven claims filed under inconvertibility coverage, six under expropriation, one under war/revolution/insurrection, and one under expropriation and/or inconvertibility.

In addition to requiring formal applications for claimed compensation, the contracts require investors to notify OPIC promptly of host government action which the investor has reason to believe is or may become an expropriatory action. Careful investor compliance with this notice provision will sometimes result in their filing notice of events that do not mature into expropriatory actions.

The highly speculative nature of these notices both as to the likelihood that the event referred to will constitute expropriatory action and the amount of compensation, if any, that may become due leads OPIC to follow a consistent policy of making no reference to such notices in its financial statements. Any claims that might arise from these situations are, of course, encompassed in management's estimate that maximum potential exposure, prior to reinsurance, under existing investment insurance contracts is \$3.2 billion (Note 6D).

(C) Unresolved disputed claims

The claim of Revere Copper and Brass Incorporated (Revere) for expropriatory action arising from an investment in Jamaica, which, in accordance with the insurance contract had been submitted to arbitration for a final decision, was decided on August 24, 1978. Two of three neutral arbitrators found OPIC liable to Revere. The arbitrators finding liability set compensation at \$1,131,144 plus expenses of arbitration, rather than the more than \$90 million claimed by Revere. On September 26, 1978 Revere filed a motion in federal district court in the District of Columbia to modify or vacate that portion of the arbitral award fixing the amount of compensation. By a December 8, 1978 order, the court denied Revere's motion. Revere appealed the decision to the U.S. Court of Appeals for the District of Columbia. By a February 26, 1980 decision, the judgment of the district court was affirmed. Revere has until May 26, 1980 to apply to the U.S. Supreme Court for appellate review.

(D) Political Risk Investment Insurance

OPIC issues investment insurance under limits fixed by the legislative authorization in the FAA and prior authorities. The utilization of these authorized amounts at September 30, 1979 (excluding obligations under guaranties issued in settlement of claims) was as follows, in millions:

	Total	Uncom- mitted	Out- standing
Prior author- ities	\$2,427		\$2,427
FAA Section 235	\$7,500	\$4,337	3,163
	<u>\$9,927</u>	<u>\$4,337</u>	<u>\$5,590</u>

OPIC, as did its predecessors, insures the same investment against three different risks (inconvertibility of currency, expropriation, and war, revolution or insurrection). Under some contracts issued by predecessors, theoretically an investor could make successive claims under more than one coverage with respect to the same investment, thereby collecting aggregate compensation exceeding any single coverage amount. The outstanding amount reflects this theoretical possibility and in addition includes provision for insurance as to which OPIC is not currently at risk but is contractually obligated to provide upon the investor's future request to cover increases in retained earnings and accrued interest.

The outstanding amount pursuant to legislative authorizations is of little use in evaluating realistically the maximum exposure at September 30, 1979 to insurance claims, because it includes insurance for which OPIC is not currently at risk and because it is improbable that multiple payments would be made for each investment. Management believes that a more accurate representation of maximum potential exposure to future claims arising from existing investment insurance contracts can be obtained by assuming that only one claim would be brought under each contract and that the coverage under which the claim would be brought would be the coverage with the highest amount of current insurance in force. Based on this assumption, management believes the maximum potential liability to claims at September 30, 1979 is \$3.2 billion.

Note 7: Guaranty Reserve

The Guaranty Reserve at September 30, 1979 totaled \$113,489,108 and OPIC has cash and U.S. Treasury securities in excess of this amount. Section 235 of the FAA requires OPIC to have, at the time OPIC commits itself to issue any guaranty under Section 234(b) of the FAA, a Guaranty Reserve equal to at least 25 percent of guaranties then issued and outstanding or committed under 234(b) and prior authorities. At September 30, 1979, the Guaranty Reserve exceeded by \$74.4 million the required minimum reserve. (See Note 5 for description of the Guaranty Reserve and full faith and credit status of guaranties.) Guaranties under prior authorities and Section 234(b) of the FAA include guaranties of debt, equity, and participation in DIF loans. The outstanding commitments at September 30, 1979 were as follows, in millions:

	Prior authority	FAA 234(b) and 235	Total
Legis- lative author- ization	\$21.0	\$750.0	\$771.0
Uncom- mitted		614.8	614.8
Total outstand- ing com- mitments	<u>\$21.0</u>	<u>\$135.2</u>	<u>\$156.2</u>
Currently at risk, net of payments	<u>\$21.0</u>	<u>\$ 71.1</u>	<u>\$ 92.1</u>