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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Examination Of The Overseas Private Investment Corporation's Financial Statements For The Year Ended September 30, 1981

GAO examined the financial statements of the Overseas Private Investment Corporation for the year ended September 30, 1981. The examination was made in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Corporation at September 30, 1981, and the result of its operations, changes in its capital and reserves, and changes in its financial position for the year then ended in conformity with generally accepted accounting principles.



119430

GAO/ID-82-56  
SEPTEMBER 15, 1982

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

B-201607

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

This is our report on the examination of the Overseas Private Investment Corporation's comparative financial statements for fiscal years 1981 and 1980. The Corporation insures and guarantees U.S. private investments in friendly developing countries on a self-sustaining basis.

Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841-871) and in accordance with generally accepted government auditing standards.

In our opinion, the accompanying financial statements present fairly the Corporation's financial position at September 30, 1981 and 1980, 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.

Following our examination, we sent a report to the President of the Corporation which discusses weaknesses in the Corporation's financial reporting and administrative controls, and makes recommendations aimed at improving disclosure and oversight of the Corporation's financial activities (GAO/ID-82-33, August 16, 1982). We do not regard the weaknesses to be of sufficient materiality to adversely affect our opinion on the statements.

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

A handwritten signature in cursive script that reads "Milton J. Fowler".

Acting Comptroller General  
of the United States





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

February 17, 1982

B-201607

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, 1981 and 1980, 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. 841-871) and in accordance with generally accepted government auditing standards, and included such tests of the accounting records, internal accounting controls, compliance with the terms and provisions of laws and regulations, and other audit procedures as we considered necessary under the circumstances.

As explained in note 4 of the accompanying financial statements, Section 235(c) of the Foreign Assistance Act of 1961 (Act), as added by the Foreign Assistance Act of 1969 (22 U.S.C. 2195(c)), established an Insurance and Guaranty Reserve for the respective discharge of liabilities under the Corporation's insurance and guaranty contracts. At September 30, 1981, these reserves totaled \$664 million. (See notes 5 and 6.) 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, the Congress would have to appropriate funds to fulfill this pledge. The 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, 1981 and 1980, 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 applied on a basis consistent with that of the preceding year. Our study and evaluation of the Corporation's system of internal accounting controls disclosed no material weakness. Also, our tests showed that the Corporation was in compliance with terms and provisions of laws and regulations that could have materially affected its financial statements.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General  
of the United States

**OVERSEAS  
PRIVATE  
INVESTMENT  
CORPORATION**

1129 20th Street, N.W.  
Washington, D.C. 20527  
Telex-OPIC Wsh 89-2310



April 19, 1982

Mr. Frank M. Zappacosta  
Senior Group Director  
International Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Zappacosta:

The management of the Overseas Private Investment Corporation is responsible for preparation of the accompanying financial statements, including the notes thereto, for the fiscal years ended September 30, 1981 and 1980. The financial statements have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances, based on our best estimates and judgments and giving due consideration to materiality.

The Corporation maintains internal accounting control systems that are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, that transactions are executed in accordance with management's authorization and are properly recorded, and that accounting records are adequate for preparation of financial statements and other financial information.

Management believes that the Corporation's internal accounting controls provide an appropriate balance between the cost and expected benefits of specific control measures.

Management further warrants that, to the best of its knowledge and belief, it has complied with the terms of applicable laws and regulations and made appropriate disclosure of contingent liabilities that could have a material adverse effect upon the Corporation's financial position or operations.

The Corporation's Board of Directors is responsible for prescribing, amending and repealing the rules and regulations governing the manner in which the business of the Corporation may be conducted and in which the powers granted it by law may be exercised and enjoyed. Under the general direction of the Board of Directors, management of the Corporation has been delegated power and authority to conduct the business of the Corporation. Management is responsible for assuring

Frank M. Zappacosta

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that the financial statements of the Corporation have been prepared in conformity with law.

Sincerely yours,



C. Dale Duvall  
Treasurer

**Balance Sheet**

## Overseas Private Investment Corporation

At September 30	1981	1980
<b>Assets</b>		
Cash and investments:		
Cash	\$ 79,195,307	\$ 85,085,221
U.S. Treasury securities at cost plus accrued interest (Note 2)	<u>577,187,221</u>	<u>498,564,605</u>
	<b>656,382,528</b>	<b>583,649,826</b>
Direct Investment Fund loans outstanding less allowance for uncollectable loans of \$5,097,288 in 1981 and \$4,945,928 in 1980 (Note 3)	20,392,393	18,758,388
Accrued interest and fees	2,081,487	2,242,009
Accounts receivable	18,292,699	9,080,653
Prepaid reinsurance premiums	1,179,110	1,136,447
Furniture and equipment at cost less depreciation of \$281,840 in 1981 and \$213,996 in 1980	558,075	456,573
Leasehold improvements at cost less amortization of \$420,782 in 1981 and \$143,040 in 1980	764,512	953,235
Assets acquired in claims settlements	<u>45,363,989</u>	<u>52,359,535</u>
	<b><u>\$745,014,793</u></b>	<b><u>\$668,636,666</u></b>
<b>Liabilities, Capital and Reserves</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,100,062	\$ 1,439,797
Direct liabilities related to claims settlements	3,050,289	2,974,639
Participations in DIF loans	43,686	87,370
Unearned premiums	14,590,822	14,223,295
Fees held pending claims determinations	<u>459,097</u>	<u>344,739</u>
	<b>19,243,956</b>	<b>19,069,840</b>
Contingent liabilities (Notes 5 and 6)		
Capital and reserves:		
Capital held by U.S. Treasury (Note 3)	50,000,000	50,000,000
Insurance reserve (Notes 4 and 5)	530,954,045	452,707,754
Guaranty reserve (Notes 4 and 6)	133,390,969	123,592,606
Retained earnings (Note 7)	<u>11,425,823</u>	<u>23,266,466</u>
	<b>725,770,837</b>	<b>649,566,826</b>
	<b><u>\$745,014,793</u></b>	<b><u>\$668,636,666</u></b>

*The accompanying notes are an integral part of this statement.*

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**Statement of Income**  
Overseas Private Investment Corporation

For the year ended September 30	1981	1980
<b>Revenues</b>		
Political risk insurance premiums	\$30,104,317	\$31,317,787
Less premiums on shared risks	<u>5,069,872</u>	<u>4,837,636</u>
	25,034,445	26,480,151
Investment guaranty fees	2,138,692	1,812,283
Direct investment interest	2,495,976	1,779,543
Other income	<u>109,805</u>	<u>61,690</u>
	29,778,918	30,133,667
Interest	<u>56,997,171</u>	<u>45,999,010</u>
	<u>86,776,089</u>	<u>76,132,677</u>
<b>Expenses</b>		
Salaries and benefits	4,365,600	4,151,027
Loss (Gain) on claim settlements:		
Political risk insurance	1,753,709	2,397,418
Investment guaranties	201,638	(103,498)
Provision for uncollectable DIF loans	1,000,000	1,600,000
Contractual services	1,129,824	471,794
Investment encouragement	361,816	258,894
Rent, communications and utilities	819,085	747,099
Travel	325,245	451,892
Printing and supplies	265,532	288,081
Depreciation and amortization	<u>349,630</u>	<u>111,694</u>
	10,572,079	10,374,401
<b>Net income</b>	<u>\$76,204,010</u>	<u>\$65,758,276</u>

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*The accompanying notes are an integral part of this statement.*

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**Statement of Changes in Capital and Reserves**

Overseas Private Investment Corporation

For the 2 years ended September 30, 1981	Capital	Insurance reserve	Guaranty reserve	Retained earnings	Total
<b>Balance</b>					
<b>September 30, 1979</b>	\$50,000,000	\$405,105,172	\$113,489,108	\$15,214,270	\$583,808,550
Net income				65,758,276	65,758,276
Adjustment for (loss) gain on claim settlements		(2,397,418)	103,498	2,293,920	
Transfers from retained earnings		<u>50,000,000</u>	<u>10,000,000</u>	<u>(60,000,000)</u>	
<b>Balance</b>					
<b>September 30, 1980</b>	\$50,000,000	\$452,707,754	\$123,592,606	\$23,266,466	\$649,566,826
Net income				76,204,010	76,204,010
Adjustment for (loss) gain on claim settlements		(1,753,709)	(201,638)	1,955,347	
Transfers from retained earnings		<u>80,000,000</u>	<u>10,000,000</u>	<u>(90,000,000)</u>	
<b>Balance</b>					
<b>September 30, 1981</b>	<u>\$50,000,000</u>	<u>\$530,954,045</u>	<u>\$133,390,969</u>	<u>\$11,425,823</u>	<u>\$725,770,837</u>

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*The accompanying notes are an integral part of this statement.*

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**Statement of Changes in Financial Position**  
**Overseas Private Investment Corporation**

For the year ended September 30	1981	1980
<b>Source of Funds</b>		
Net income	\$76,204,010	\$65,758,276
Depreciation and amortization	349,630	111,694
Provision for uncollectable DIF loans	<u>1,000,000</u>	<u>1,600,000</u>
	77,553,640	67,469,970
<b>Increase (decrease) in:</b>		
Unearned premiums	367,528	937,586
Fees held pending claims determinations	114,358	(52,269)
Direct liabilities related to claims settlements	75,650	(1,732,181)
<b>Decrease (increase) in:</b>		
Accrued interest and fees	160,522	880,517
Assets acquired in claims settlements	<u>6,995,546</u>	<u>9,981,886</u>
	<u>85,267,244</u>	<u>77,485,509</u>
<b>Application of Funds</b>		
Net disbursement on DIF loans	2,634,005	756,129
<b>Acquisition of:</b>		
Furniture and equipment	173,389	340,239
Leasehold improvements	89,020	985,741
<b>Increase (decrease) in:</b>		
Accounts receivable	9,212,046	(545,929)
Prepaid reinsurance premiums	42,663	65,638
<b>Decrease (increase) in:</b>		
Accounts payable and accrued expenses	339,735	(463,850)
Participations in DIF loans	<u>43,684</u>	<u>43,684</u>
	<u>12,534,542</u>	<u>1,181,652</u>
<b>Increase in cash and investments</b>	<u><u>\$72,732,702</u></u>	<u><u>\$76,303,857</u></u>

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*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: In accordance with generally accepted accounting principles, revenue from political risk insurance is recorded on a pro-rata basis over the contract period; all other revenue is recognized when earned. However, when interest income has become 90 days past due, related investments are placed on nonaccrual status, previously accrued interest, including that which has been capitalized, is reversed and interest income is recognized only when cash is received.

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 equipment are depreciated on a straight-line basis over a 10-year life. Leasehold improvements are amortized over the life of the related lease.

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.

**Note 2: 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 \$560,957,642 and \$491,738,097 at September 30, 1981 and 1980, respectively. Of these funds \$560,394,703 and \$491,596,301, respectively, represent the original cost of investments included in the Balance Sheet.

**Note 3: Direct Investment Fund**

The FAA authorized the establishment of a Direct Investment Fund (DIF), that consisted 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. During 1976 OPIC increased the DIF by \$10,000,000 in connection with transfer of \$10,000,000 from retained earnings to capital held by the U.S. Treasury. For each fiscal year beginning in 1982, OPIC is required to increase the DIF by, and make loans in the amount of, principal and interest repayments received during the previous year and at least ten percent of net income for the previous year. Such funds shall be used to make loans to eligible projects to the extent or in the amounts provided in Congressional appropriations.

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

	September 30 1981	1980
Appropriated DIF capital	\$40.0	\$40.0
Transfer from earnings	10.0	10.0
Net losses including \$5.1 allowance for uncollectable loans for 1981; \$4.9 for 1980	(7.5)	(6.5)
Uncommitted funds	(7.8)	(14.5)
Outstanding commitments	34.7	29.0
Undisbursed portion	(9.2)	(5.4)
Net loans outstanding	\$25.5	\$23.6

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 \$43,686 and \$87,370 at September 30, 1981 and 1980, 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 6).

**Note 4: 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, 1981, available for transfer to the Insurance or Guaranty Reserves, were \$11,425,823.

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 5: Insurance Reserve**

The Insurance Reserve at September 30, 1981 totaled \$530,954,045. 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, and (C) outstanding investment insurance contracts. These three categories of contingent obligations are discussed in more detail in the balance of this Note.

(A) Claims Settlement Guaranties Pursuant to Sections 237(i) 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 obliga-

tions. These claims settlement guaranties represent contingent obligations backed by the Insurance Reserve.

The contingent liability at September 30, 1981, under these guaranties, including liability as to interest, was \$100,295,000. 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
1982	\$ 34,320
1983	31,905
1984	21,419
1985-8	12,651
	<u>\$100,295</u>

Of the total contingent liability under claims settlement guaranties, \$92,315,000 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**

At September 30, 1981, the total amount of compensation formally requested in connection with investment insurance contract claims for which no determination of liability has yet been made is approximately \$17,000,000. There are 5 claims filed under inconvertibility coverage, 9 under expropriation, and 2 under war/revolution/insurrection.

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 not recording liability related 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 \$3.0 billion (Note 5C).

**(C) Political Risk Investment Insurance**  
OPIC issues investment insurance under limits fixed by the legislative authorization of the FAA and prior authorities. The utilization of these authorized amounts at September 30, 1981, (excluding obligations under guaranties issued in settlement of claims) was as follows, in millions:

	Total	Uncom- mitted	Out- standing
Prior authorities	\$1,890		\$1,890
FAA Section 235	7,500	\$3,991	3,509
	<u>\$9,390</u>	<u>\$3,991</u>	<u>\$5,399</u>

Effective October 1, 1981, the FAA provides that OPIC can issue insurance coverage only to the extent or in the amounts provided in Congressional appropriation acts.

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, 1981, 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 of OPIC as to claims at September 30, 1981, is \$3.0 billion.

**Note 6: Guaranty Reserve**

The Guaranty Reserve at September 30, 1981, totaled \$133,390,969. 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, 1981, the Guaranty Reserve exceeded by \$54 million the required minimum reserve. (See Note 4 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 participations in DIF loans. Effective October 1, 1981, the FAA provides that guaranties may be issued only to the extent or in the amounts provided in Congressional appropriation acts. The outstanding commitments at September 30, 1981, were as follows, in millions:

	Prior Authority	FAA 234(b) and 235	Total
Legislative authorization	\$ 9.9	\$750.0	\$759.9
Uncommitted	—	442.6	442.6
Total outstanding commitments	<u>\$ 9.9</u>	<u>\$307.4</u>	<u>\$317.3</u>
Currently at risk, net of unfunded commitments	<u>\$ 9.9</u>	<u>\$121.7</u>	<u>\$131.6</u>

**Note 7: Return of Appropriated Funds**

Commencing in fiscal year 1982, Section 240B of the FAA requires OPIC, in each fiscal year, to pay to the United States Treasury an amount equal to 25 percent of its net income after making suitable provisions for transfers to Reserves and Capital until the \$106 million aggregate amount appropriated to OPIC has been repaid.





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