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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 Years Ended September 30, 1983 And 1982

GAO examined the financial statements of the Overseas Private Investment Corporation for the years ended September 30, 1983 and 1982. 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, 1983 and 1982, 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.



GAO/AFMD-84-28
DECEMBER 30, 1983

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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 report presents our opinion on the Overseas Private Investment Corporation's financial statements for the years ended September 30, 1983 and 1982. We made our examination pursuant to the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

The Corporation's mission is to encourage and facilitate the investment of private U.S. capital and the creation and expansion of private enterprise in friendly developing nations, principally by providing investment guaranties and insurance protection for U.S. companies.

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


Acting Comptroller General
of the United States





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

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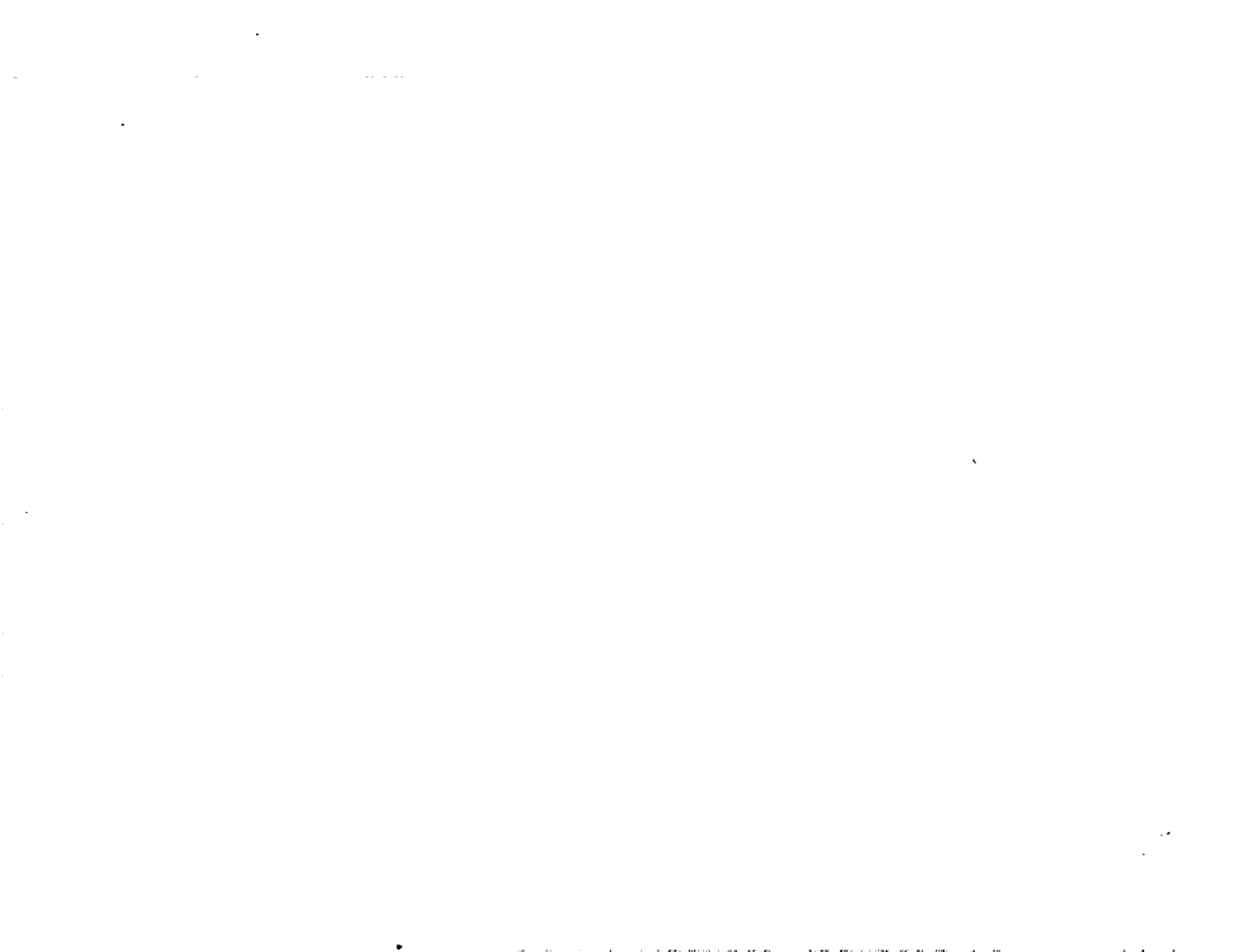
To the Board of Directors
Overseas Private Investment Corporation

We have examined the balance sheets of the Overseas Private Investment Corporation as of September 30, 1983 and 1982, and the related statements of income, changes in capital, reserves, and retained earnings, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Overseas Private Investment Corporation as of September 30, 1983 and 1982, and the results of its operations, the changes in its capital and reserves, and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

A handwritten signature in black ink, appearing to read "A. J. ...", written over a horizontal line.

Acting Comptroller General
of the United States



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REPORT ON INTERNAL ACCOUNTING CONTROLS

As part of our examination of the Overseas Private Investment Corporation's financial statements for the years ended September 30, 1983 and 1982, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting control for the year ended September 30, 1983. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- Expenditures
- Financial reporting
- Guaranty
- Insurance revenue
- Insurance claims
- Investment
- Loan
- Payroll

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Overseas Private Investment Corporation's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the Overseas Private Investment Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Overseas Private Investment Corporation taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the following conditions that we believe may materially affect the Corporation's financial statements:

- The Corporation's internal control system, including written operating policies and procedures, current accounting manual and functions statements, and vulnerability assessments, was not adequately defined or documented.
- Adjustment data entered into the Corporation's automated accounting system often lacked sufficient description and evidence of review.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the fiscal year 1983 and 1982 financial statements, and this report does not affect our report on the financial statements.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Overseas Private Investment Corporation for the years ended September 30, 1983 and 1982. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1983.

In our opinion, the Overseas Private Investment Corporation complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the Corporation's financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the Corporation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Balance Sheet

Overseas Private Investment Corporation

At September 30 (In Thousands)	1983	1982
Assets		
Cash and investments:		
Cash _____	\$ 31,364	\$ 24,433
U S. Treasury securities at cost plus accrued interest (Note 2) _____	<u>752,981</u>	<u>664,684</u>
	784,345	689,117
Direct Investment Fund loans outstanding less allowance for uncollectable loans of \$4,804 in 1983 and \$6,097 in 1982 (Note 3) _____	28,366	28,346
Accrued interest and fees _____	2,596	2,586
Accounts receivable _____	8,338	11,749
Prepaid reinsurance premiums _____	1,277	1,232
Furniture and equipment at cost less depreciation of \$439 in 1983 and \$334 in 1982 _____	841	576
Leasehold improvements at cost less amortization of \$1,133 in 1983 and \$826 in 1982 _____	360	587
Assets acquired in claims settlements _____	<u>45,064</u>	<u>44,486</u>
	<u>\$871,187</u>	<u>\$778,679</u>
Liabilities Capital and Reserves		
Liabilities		
Accounts payable and accrued expenses _____	\$ 6,404	\$ 2,614
Return of appropriated funds to the U.S. Treasury (Note 7) _____	56,000	
Direct liabilities related to claims settlements _____	6,873	1,980
Unearned premiums _____	15,789	14,546
Fees held pending claims determinations _____	<u>128</u>	<u>223</u>
	85,194	19,363
Contingent liabilities (Notes 5 and 6)		
Capital and reserves.		
Capital held by U S. Treasury _____	50,000	50,000
Insurance reserve (Notes 4 and 5) _____	587,784	558,676
Guaranty reserve (Notes 4 and 6) _____	136,307	137,415
Retained earnings (Note 7) _____	<u>11,902</u>	<u>13,225</u>
	<u>785,993</u>	<u>759,316</u>
	<u>\$871,187</u>	<u>\$778,679</u>

The accompanying notes are an integral part of this statement

Statement of Income

Overseas Private Investment Corporation

For the year ended September 30 (In Thousands)

	1983	1982
Revenues		
Political risk insurance premiums _____	\$ 31,614	\$ 31,077
Less premiums on shared risks (Note 5C) _____	<u>6,093</u>	<u>5,446</u>
	25,521	25,631
Investment guaranty fees _____	3,352	2,690
Direct investment interest _____	3,075	2,216
Interest on U S. Treasury securities _____	61,463	65,977
Other interest and income _____	<u>4,097</u>	<u>4,175</u>
	<u>97,508</u>	<u>100,689</u>
Expenses		
Salaries and benefits (Note 8) _____	5,464	5,031
Loss on claims settlements		
Political risk insurance _____	892	2,278
Investment guaranties _____	1,108	1,976
Provision for uncollected DIF loans _____	1,000	1,000
Contractual services _____	2,984	3,617
Investment encouragement _____	660	774
Rent, communications and utilities (Note 9) _____	1,099	970
Travel _____	551	531
Printing and supplies _____	317	303
Depreciation and amortization _____	425	494
Miscellaneous and other expenses _____	<u>331</u>	<u>170</u>
	<u>14,831</u>	<u>17,144</u>
Net Income	<u>\$ 82,677</u>	<u>\$ 83,545</u>

The accompanying notes are an integral part of this statement

Statement of Changes in Capital, Reserves and Retained Earnings

Overseas Private Investment Corporation

For the 2 years ended September 30, 1983 (In Thousands)	Capital	Insurance Reserve	Guaranty Reserve	Retained Earnings	Total
Balance					
September 30, 1981	\$ 50,000	\$530,954	\$133,391	\$ 11,426	\$725,771
Net Income				83,545	83,545
Loss on claims settlements		(2,278)	(1,976)	4,254	
Transfers from retained earnings		30,000	6,000	(36,000)	
Return of appropriated funds (Note 7)				(50,000)	(50,000)
Balance					
September 30, 1982	50,000	558,676	137,415	13,225	759,316
Net Income				82,677	82,677
Loss on claims settlements		(892)	(1,108)	2,000	
Transfers from retained earnings		30,000		(30,000)	
Return of appropriated funds (Note 7)				(56,000)	(56,000)
Balance					
September 30, 1983	\$ 50,000	\$587,784	\$136,307	\$ 11,902	\$785,993

The accompanying notes are an integral part of this statement

Statement of Changes in Financial Position

Overseas Private Investment Corporation

For the year ended September 30 (In Thousands)	1983	1982
Source of Funds		
Net income _____	\$ 82,677	\$ 83,545
Depreciation and amortization _____	425	494
Provision for uncollectable DIF loans _____	<u>1,000</u>	<u>1,000</u>
	84,102	85,039
Increase (decrease) in		
Accounts payable and accrued expenses _____	3,790	1,514
Return of appropriated funds to the U S Treasury _____	56,000	
Unearned premiums _____	1,243	(45)
Direct liabilities related to claims settlements _____	4,893	(1,101)
Decrease in		
Accounts receivable _____	<u>3,411</u>	<u>6,544</u>
	<u>153,439</u>	<u>91,951</u>
Application of Funds		
Net disbursement on DIF loans _____	1,020	8,954
Acquisition of		
Furniture and equipment _____	382	107
Leasehold improvements _____	80	228
Return of Appropriated Funds _____	56,000	50,000
Increase (decrease) in		
Prepaid reinsurance premiums _____	45	52
Accrued interest and fees _____	10	505
Assets acquired in claims settlements _____	579	(910)
Decrease (increase) in		
Fees held pending claims determinations _____	95	236
Participation in DIF Loans _____		<u>44</u>
	<u>58,211</u>	<u>59,216</u>
Increase in cash and investments _____	\$ <u>95,228</u>	\$ <u>32,735</u>

The accompanying notes are an integral part of this statement

Notes to the Financial Statements

Overseas Private Investment Corporation

Statement of Corporate Purpose

The Overseas Private Investment Corporation (OPIC) is a self-sustaining U S Government agency that encourages U S private investment in the developing countries, primarily by issuing political risk insurance, investment guaranties and direct loans

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, except that interest income and guaranty fees which are more than 90 days past due are 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 recovery or cost of acquisition. Present value of U S Treasury securities is determined at the time of acquisition using composite yields.

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 records investment insurance contract claims as financial liabilities only upon determination that a liability exists and only when such amounts 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 \$743.7 million and \$649.4 million at September 30, 1983 and 1982, respectively. Of these funds, \$743.6 million and \$648.8 million, 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), which consisted of the \$40 million paid in as capital of the corporation, to make loans on terms and conditions established by OPIC, to the extent provided in advance by the appropriation acts. 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 million. For each fiscal year beginning in 1982, OPIC is required by statute to increase the DIF by the principal and interest repayments received during the previous year and at least ten percent of net income for the previous year. OPIC increased the DIF by \$13.6 million in FY 1983 and by \$13.3 million in FY 1982 resulting in a total of \$26.9 increase in the DIF authority in compliance with this statutory authority.

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

September 30	1983	1982
DIF appropriation	40.0	40.0
Corporate increases	36.9	23.3
Net losses including allowance for uncollectable loans of \$4.8 in 1983, \$6.1 in 1982	(9.5)	(8.5)
Unused authority	(24.5)	(13.6)
Outstanding commitments	42.9	41.2
Undisbursed commitments	(9.7)	(6.8)
DIF loans outstanding	\$33.2	\$34.4

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. At September 30, 1983 and 1982, retained earnings available for transfer to the Insurance or Guaranty Reserves were \$11.9 million and \$13.2 million, respectively.

Should funds at any time not be sufficient to discharge obligations arising under investment insurance or guaranties, and if OPIC exceeds its \$100 million borrowing authority, 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, 1983 and 1982, totaled \$587.8 million and \$558.7 million, respectively. 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 obligations. These claims settlement guaranties represent contingent obligations backed by the Insurance Reserve.

The contingent liability at September 30, 1983, under the guaranties, including liability as to interest, was \$34.1 million. 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 millions:

Fiscal year	Contingent liability
1984	\$ 21.4
1985	5.8
1986	5.5
1987	0.7
1988	0.7
	<u>\$ 34.1</u>

Of the total contingent liability under claims settlement guaranties, \$30.0 million 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 \$7.6 million.

(B) Pending Claims

At September 30, 1983, 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 \$5.5 million. There are three claims filed under inconvertibility coverage and one under expropriation.

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, if any, of compensation that may become due, leads OPIC to follow a consistent policy of not recording a 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 \$3.4 billion (Note 5C).

(C) 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, 1983, (excluding obligations under guaranties issued in settlement of claims) was as follows, in millions

	Total	Uncommitted	Outstanding
Prior authorities	\$1,241		\$1,241
FAA Section 235	<u>7,500</u>	<u>\$3,172</u>	<u>4,328</u>
	<u>\$8,741</u>	<u>\$3,172</u>	<u>\$5,569</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 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 exposure of OPIC as to claims at September 30, 1983, is \$3.4 billion. Exposure to loss from insurance claims is reduced by two reinsurance agreements which recover 82.625 percent and 25.125 percent of expropriation and inconvertibility loss, respectively, subject to an annual worldwide limit of \$80 million combined with certain per-country and per-project limitations.

Note 6: Guaranty Reserve

The Guaranty Reserve at September 30, 1983 and 1982, totaled \$136.3 million and \$137.4 million, respectively. 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, 1983, the Guaranty Reserve exceeded by \$34.2 million the required minimum reserve. (See Note 4 for description of the Guaranty Reserve and full faith and credit status of guaranties.) Guaranties made under prior authorities and Section 234(b) of the FAA include guaranties of debt, equity, and participation 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, 1983 were as follows, in millions

Legislative authorization	\$755.9
Uncommitted	<u>347.5</u>
Total outstanding commitments	408.4
Less unfunded commitments	<u>231.9</u>
Currently at risk	<u>\$176.5</u>

Note 7: Return of Appropriated Funds

Section 240B of the FAA requires OPIC to return to the general fund of the United States Treasury the aggregate amount of \$106 million appropriated to OPIC prior to January 1, 1975. During fiscal year 1982, OPIC returned \$50 million to the U.S. Treasury. In August 1983, the Board of Directors authorized OPIC management to return the remaining \$56 million which is, therefore, reflected in the liabilities.

Note 8: Pensions

All permanent employees of OPIC are covered by the Civil Service Retirement and Disability Fund. Consequently, the Corporation has the responsibility for withholding 7 percent of each employee's salary and for contributing a matching amount to the fund. OPIC has no unfunded pension liability.

Note 9: Lease Commitments

OPIC leases office space under an operating lease which expires on August 31, 1985. Rental expenses for 1983 and 1982 were \$613,000 and \$582,000, respectively. Rentals include OPIC's proportionate share of operating expenses. Minimum future rental expenses are approximately \$688,000 annually.

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