

GAO

January 1986

FINANCIAL AUDIT

Overseas Private Investment Corporation's 1985 & 1984 Financial Statements



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Comptroller General
of the United States

B-201607

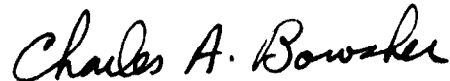
January 10, 1986

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

This report transmits our unqualified opinion on the Overseas Private Investment Corporation's financial statements for the years ended September 30, 1985 and 1984. 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. The corporation does this principally by providing direct investment loans, investment guarantees, and insurance protection for U.S. companies.

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



Charles A. Bowsher
Comptroller General
of the United States

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Opinion Letter



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

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, 1985 and 1984, 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 pursuant to 31 U.S.C. 9105 and 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. As a result of the work performed during our examination of the Overseas Private Investment Corporation's financial statements, we have also issued reports dated January 10, 1986, on internal accounting controls and compliance with laws and regulations.

In our opinion, the financial statements referred to above present fairly the financial position of the Overseas Private Investment Corporation as of September 30, 1985 and 1984, 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 cursive script that reads "Charles A. Bowsher".

Comptroller General
of the United States

January 10, 1986

Report on Internal Accounting Controls

We have examined the financial statements of the Overseas Private Investment Corporation for the years ended September 30, 1985 and 1984. As part of our examination, 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. Our study and evaluation was limited to a preliminary review of the system to obtain an understanding of the control environment and the flow of transactions through the accounting system. This report pertains only to our study and evaluation of the system of internal accounting control for the year ended September 30, 1985. (Our report on the study and evaluation of the system of internal accounting control for the year ended September 30, 1984, is presented in GAO/AFMD-85-25, March 5, 1985.) For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- expenditure,
- financial reporting,
- guaranty,
- insurance claim,
- insurance revenue,
- investment,
- loan, and
- payroll.

Our study and evaluation was limited to a preliminary review of the system of internal accounting control to obtain an understanding of the control environment and the flow of transactions through the accounting system. Because it was more efficient to expand substantive audit tests, our study and evaluation of the internal accounting controls did not extend beyond this preliminary review phase.

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 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 no condition that we believed to be a material weakness.

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, 1985 and 1984. 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, 1985. (Our report on the review of compliance with laws and regulations for the year ended September 30, 1984, is presented in GAO/AFMD-85-25, March 5, 1985.)

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.

Financial Statements

Balance Sheet

Overseas Private Investment Corporation

At September 30 (In Thousands)

1985 1984

(Reclassified)

Assets

Cash and investments:		
Cash _____	\$ 7,553	\$ 4,792
U.S. Treasury securities at cost plus accrued interest (Note 3) _____	919,266	810,131
	<u>926,819</u>	<u>814,923</u>
Direct Investment Fund loans outstanding less allowance for uncollectable loans of \$5,391 in 1985 and \$4,295 in 1984 (Note 4) _____		
	30,468	28,852
Accrued interest and fees _____	2,364	2,550
Accounts receivable _____	10,076	23,059
Prepaid reinsurance premiums _____		196
Furniture and equipment at cost less accumulated depreciation of \$579 in 1985 and \$543 in 1984 _____	1,421	938
Leasehold improvements at cost less amortization of \$5 in 1985 and \$1,322 in 1984 _____	513	148
Assets acquired in claims settlements (Note 5) _____	39,243	36,574
	<u>\$1,010,904</u>	<u>\$907,240</u>

Liabilities, Capital and Reserves

Liabilities:		
Accounts payable and accrued expenses _____	\$ 8,848	\$ 4,498
Direct liabilities related to claims settlements _____	266	2,559
Unearned premiums _____	18,136	16,986
	<u>27,250</u>	<u>24,043</u>
Contingent liabilities (Notes 7 and 8)		
Capital and reserves:		
Capital _____	50,000	50,000
Insurance reserve (Notes 6 and 7) _____	747,503	672,949
Guaranty reserve (Notes 6 and 8) _____	174,748	152,238
Retained earnings _____	11,403	8,010
	<u>983,654</u>	<u>883,197</u>
	<u>\$1,010,904</u>	<u>\$907,240</u>

The accompanying notes are an integral part of this statement.

**Appendix III
Financial Statements**

**Statement of Income
Overseas Private Investment Corporation**

For the year ended September 30 (In Thousands)	1985	1984
Revenues		
Political risk insurance premiums _____	\$ 32,998	\$ 31,557
Less reinsurance premiums (Note 2) _____	<u>794</u>	<u>4,221</u>
	32,204	27,336
Investment guaranty fees _____	3,809	3,555
Direct investment interest _____	2,703	3,008
Interest on U.S. Treasury securities _____	81,007	74,291
Other interest and income _____	<u>4,222</u>	<u>5,156</u>
	123,945	113,346
<hr/>		
Expenses		
Salaries and benefits (Note 2) _____	6,066	5,694
Loss on claims settlements:		
Political risk insurance _____	9,446	2,835
Investment guaranties _____	1,490	1,069
Provision for uncollectable DIF loans _____	1,000	1,000
Contractual services _____	1,400	2,021
Investment encouragement _____	1,282	876
Rent, communications and utilities (Note 9) _____	1,193	1,163
Travel _____	525	483
Printing and supplies _____	458	305
Depreciation and amortization _____	351	310
Miscellaneous and other expenses _____	<u>277</u>	<u>386</u>
	23,488	16,142
Net Income	<u>\$100,457</u>	<u>\$ 97,204</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, 1985 (In Thousands)	Capital	Insurance Reserve	Guaranty Reserve	Retained Earnings	Total
Balance September 30, 1983	\$50,000	\$587,784	\$136,307	\$ 11,902	\$785,993
Net income				97,204	97,204
Loss on claims settlements		(2,835)	(1,069)	3,904	
Transfers from retained earnings		<u>88,000</u>	<u>17,000</u>	<u>(105,000)</u>	
Balance September 30, 1984	50,000	672,949	152,238	8,010	883,197
Net income				100,457	100,457
Loss on claims settlements		(9,446)	(1,490)	10,936	
Transfers from retained earnings		<u>84,000</u>	<u>24,000</u>	<u>(108,000)</u>	
Balance September 30, 1985	<u>\$50,000</u>	<u>\$747,503</u>	<u>\$174,748</u>	<u>\$ 11,403</u>	<u>\$983,654</u>

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)	1985	1984
Source of Funds		
Net income _____	\$100,457	\$97,204
Depreciation and amortization _____	351	310
Repayments of DIF loans _____	3,247	2,663
Other _____		50
Provision for uncollectable DIF loans _____	1,000	1,000
	<u>105,055</u>	<u>101,227</u>
Increase (decrease) in:		
Unearned premiums _____	1,150	1,069
Accounts payable and accrued expenses _____	4,350	(1,907)
Decrease (increase) in:		
Prepaid reinsurance premiums _____	196	1,081
Accrued interest and fees _____	186	46
Accounts receivable _____	12,983	(15,971)
	<u>123,920</u>	<u>85,545</u>
Application of Funds		
Disbursements of DIF loans _____	5,863	4,246
Acquisition of furniture, equipment and leasehold improvements _____	1,198	222
Return of appropriated funds _____		56,000
Increase (decrease) in:		
Assets acquired in claims settlements _____	2,669	(9,815)
Decrease (increase) in:		
Direct liabilities related to claims settlements _____	2,294	4,314
	<u>12,024</u>	<u>54,967</u>
Increase in cash and investments _____	<u>\$111,896</u>	<u>\$30,578</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

Overseas Private Investment Corporation

Note 1: Statement of Corporate Purpose

The Overseas Private Investment Corporation (OPIC) is a self-sustaining U.S. Government agency created under the Foreign Assistance Act of 1961 (FAA), as amended, to facilitate U.S. private investment in friendly developing countries, primarily by offering political risk insurance, investment guaranties and direct loans.

Note 2: Summary of Significant Accounting Policies

Revenue Recognition: Revenue from political risk insurance premiums is recognized on a pro-rata basis over the contract coverage period. Revenue from both loan interest payments and guaranty fees which are more than 90 days past due is recognized only when cash is received.

Pending Claims: OPIC records 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.

Local Currency: OPIC acquires local currency in settlement of convertibility claims when an insured foreign enterprise is unable to convert local currency into U.S. dollars. The U.S. dollar equivalent is included in accounts receivable until utilized by OPIC or other agencies of the United States Government or until exchanged for U.S. dollars by the foreign government.

Reinsurance: For calendar year 1984, OPIC's reinsurance coverage provided catastrophic protection and would have compensated OPIC for 60 percent of aggregate convertibility and expropriation losses exceeding \$100 million in any one year. Maximum reinsurance recovery per year could not exceed \$120 million. Effective January 1985, OPIC's reinsurance treaty was terminated.

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 the cost of acquisition.

Depreciation and Amortization: Depreciation is computed on a straight-line basis over a 10-year life. Leasehold improvements are amortized over the life of the related lease.

Pensions: All permanent employees of OPIC hired prior to January 1, 1984, are covered by the Civil Service Retirement and Disability Fund. Employees hired on or after January 1, 1984, are covered under both Social Security and Civil Service retirement during a 28-month transition period ending on April 30, 1986. In both cases the Corporation has the responsibility for withholding the proper amount of each employee's salary and for contributing a matching amount to the funds. OPIC has no unfunded pension liability.

Note 3: Investment in U.S. Treasury Securities

Investments in U.S. Treasury securities are, by statute, limited to funds derived from fees and other revenues. Investments are generally held to maturity. The face value of the U.S. Treasury securities was \$928.9 million at September 30, 1985 and \$822.4 million at September 30, 1984. The net discount of securities purchased totaled \$12.5 million and \$15.2 million at September 30, 1985 and 1984, respectively. Accrued interest totaled \$2.9 million at both September 30, 1985 and September 30, 1984. The total of these amounts for OPIC's investment in U.S. Securities was \$919.3 million and \$810.1 million at September 30, 1985 and 1984, respectively.

Note 4: Direct Investment Fund (DIF)

OPIC is authorized, by the FAA, as amended, to make private sector loans to projects in developing countries on terms and conditions established by OPIC from funds either appropriated or accumulated through operations. The aggregate amount of such loans in any year cannot exceed the amount established in advance by congressional appropriations acts. For fiscal years 1985 and 1984, the related appropriations acts allowed new loan obligations of up to \$15 million and \$10 million per year, respectively, and OPIC's Board authorized corporate transfers to the DIF of \$15.2 million and \$14.4 million, respectively. DIF operations are charged with realized losses and credited with realized gains and any OPIC corporate transfer as determined by the Board of Directors.

The cumulative status of the DIF is as follows:

As of September 30	1985	1984
	(in millions)	
DIF appropriation	\$40.0	\$40.0
Corporate transfers	66.4	51.3
	106.4	91.3
Less cumulative net losses	(6.2)	(6.2)
Unused authority	(45.3)	(38.5)
Outstanding commitments	54.9	46.6
Undisbursed commitments	(19.0)	(13.4)
DIF outstanding loans receivable	35.9	33.2
Less allowance for uncollectable loans	(5.4)	(4.3)
Loans outstanding, net	<u>\$30.5</u>	<u>\$28.9</u>

Interest income totalling \$1,494 thousand and \$1,429 thousand at September 30, 1985 and 1984, respectively, has not been accrued as the amounts were more than 90 days past due. This represents the unrecognized income on direct loans with outstanding balances of \$14.5 million as of September 30, 1985, and \$12.0 million as of September 30, 1984. Interest collected on delinquent loans and recorded when received amounted to \$109 thousand and \$603 thousand in fiscal years 1985 and 1984, respectively.

**Appendix III
Financial Statements**

Note 5: Assets Acquired in Claims Settlements

Claim related assets may result from payments on claims under either the investment guaranty program or the insurance program. Under the guaranty program when OPIC pays a guaranteed party, a receivable is created. Under the insurance program, similar receivables reflect the value of subrogated assets, generally host country notes, that may be acquired as a result of a claim settlement.

Claim related assets for insurance and guaranties are summarized below:

As of September 30 (in thousands)	1985	1984
Claim related assets	\$51,388	\$47,219
Less: Allowance for doubtful recoveries	(12,145)	(10,645)
Net assets acquired in claims settlements	\$39,243	\$36,574

Note 6: 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 arising from investment insurance or from guaranties issued under Section 234(b) of the FAA and similar predecessor guaranty authority.

Both Reserves may be increased by transfers from retained earnings or by Congressional appropriations. At September 30, 1985 and 1984, retained earnings available for transfer to the Insurance or Guaranty Reserves were \$11.4 million and \$8.0 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 approved claims arising from investment insurance issued by OPIC, all guaranties issued by OPIC in connection with the settlement of such claims, and all guaranties referred to in the first paragraph above constitute obligations on which the full faith and credit of the United States of America is pledged for full payment and performance.

Note 7: Insurance Reserve

The Insurance Reserve at September 30, 1985 and 1984, totaled \$747.5 million and \$672.9 million, respectively. Charges against the Insurance Reserve could arise from contingent liabilities under (A) political risk insurance contracts, (B) pending claims under insurance contracts, and (C) guaranties issued in settlement of claims arising under insurance contracts. These three categories of contingent liabilities are discussed in more detail below:

(A) Political Risk Investment Insurance: OPIC issues insurance under limits fixed by the legislative authorization in the FAA and prior authorities. The utilization of these authorized amounts (excluding obligations under guaranties issued in settlement of claims) is as follows:

As of Sept. 30, 1985 (in millions)	Total	Unused Authority	Outstanding
Legislative authorization-predecessor	\$1,044		\$1,044
Legislative authorization-FAA	7,500	\$2,419	5,081
Available authority	\$8,544	\$2,419	\$6,125

As of Sept. 30, 1984 (in millions)	Total	Unused Authority	Outstanding
Legislative authorization-predecessor	\$1,241		\$1,241
Legislative authorization-FAA	7,500	\$3,096	4,404
Available authority	\$8,741	\$3,096	\$5,645

OPIC, as did its predecessors, insures investments against three different risks: inconvertibility of currency; expropriation; and war, revolution, insurrection and civil strife. Under some contracts issued by OPIC's predecessors, an investor theoretically 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 amounts reflect this theoretical possibility and, in addition, include 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.

However, the outstanding amount pursuant to legislative authorizations is of little use in realistically evaluating 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 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, 1985, is \$3.3 billion.

(B) Pending claims: At September 30, 1985, the total amount of compensation formally requested in contract claims for which no determination of liability has yet been made was approximately \$5.5 million. There is 1 claim filed under non-vertibility coverage, 2 claims filed under expropriation coverage and 1 claim filed under war coverage.

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. Compliance with this notice provision sometimes results in the filing of notices 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, entirely encompassed in management's estimate that maximum potential exposure under existing investment insurance contracts is \$3.3 billion (Note 7A).

(C) Claims settlement guarantees:

Pursuant to Sections 237(d) and 239(d) of the FAA, OPIC has in some instances settled claims arising under insurance contracts by issuing payment guarantees of host government obligations. The balances remaining on these claims settlement guarantees represent contingent liabilities backed by the Insurance Reserve. The contingent liability at September 30, 1985, under such guarantees, including liability as to interest, was \$6.9 million. If the principal obligors default in full, and if OPIC does not exercise certain prepayment rights, OPIC would become liable for the following payments:

Fiscal year	Contingent liability (in millions)
1986	\$5.5
1987	0.7
1988	0.7
	<u>\$6.9</u>

Of the total contingent liability under claims settlement guarantees, \$4.8 million represents guarantees of obligations either incurred by the Government of Chile in compensation agreements with OPIC or recognized by the Government of Chile in respect of debt previously insured by OPIC.

In addition to these amounts, in connection with the 1978 and 1984 settlements of two claims, OPIC entered into indemnity agreements with insureds under which OPIC could be liable for up to \$12.9 million.

Note 8: Investment Guaranty Program

(A) Guaranty Reserve: To promote overseas investments, OPIC guarantees certain U.S. investments in less developed countries. This guaranty service is provided for under current authorizations of Section 234(b) of the FAA as well as under prior authorizations to OPIC's predecessors, and includes guarantees of debt, equity, and participation in DIF loans. Section 235 of the FAA requires OPIC to have, at the time OPIC commits itself to issue any guaranty under Section 234(b), a Guaranty Reserve equal to at least 25 percent of guarantees then issued and outstanding or committed under 234(b) and prior authorities. At September 30, 1985 and 1984, the Guaranty Reserve was \$174.7 million and \$152.2 million, respectively. At September 30, 1985, the Guaranty Reserve exceeded the minimum required reserve by \$4.1 million.

(B) Investment Guaranty Authority and Cumulative Status: Guaranties may be issued only to the extent of in such cumulative annual amounts as provided in advance by Congressional appropriation acts. For fiscal years 1985 and 1984, the appropriation acts allowed new guaranty obligations of up to \$150 million and \$100 million per year, respectively.

The following schedule reflects the cumulative status of the guaranty authority, commitments and outstanding balances:

As of September 30	1985	1984
	(in millions)	
Legislative authorization- predecessors	\$ 5.9	\$ 5.9
Legislative authorization- FAA	750.0	750.0
	<u>755.9</u>	<u>755.9</u>
Less uncommitted authority (221.5)	(221.5)	(158.7)
Total outstanding commitments	\$34.4	\$97.2
Less unburied commitments	(311.5)	(190.5)
Guaranties outstanding (at risk)	<u>\$222.9</u>	<u>\$206.7</u>

Note 9: Rent

OPIC leases office space under an operating lease. Rental expenses for 1985 and 1984 were approximately \$718,000 and \$705,000, respectively. On August 10, 1985, OPIC relocated to 1615 M Street, N.W., Washington, DC. Minimum future rental expenses under a 15-year lease will be approximately \$1.3 million annually, with additional adjustments tied to the consumer price index.

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