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BY THE COMPTROLLER GENERAL



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# Report To The Congress

OF THE UNITED STATES

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AGC 00318

## Examination Of Financial Statements Of The Panama Canal Company And The Canal Zone Government For The Fiscal Year Ended September 30, 1978

*A review examined*

This report includes comparative financial statements of the Panama Canal Company and the Canal Zone Government for fiscal years 1978 and 1977. Subject to uncertainties related to implementation of the Panama Canal Treaty, these financial statements are believed to be fairly presented.

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*contained*

The report also contains information on costs incurred annually on behalf of the Canal organization for which reimbursement to the U.S. Government is not required.



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

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To the President of the Senate and  
the Speaker of the House of Representatives *CWC/DDDD/*

*A review*  
~~We have~~ examined the Panama Canal Company's balance sheet as of September 30, 1978, and its related statements of operations, changes in investment of the United States, and changes in financial position for the fiscal year then ended.

Because the Company is required to assume the net cost of the Canal Zone Government as an operating expense and because it acts as an agent for the Canal Zone Government in advancing funds for its monthly operations, construction, and other activities and in collecting its revenue, we also examined the Canal Zone Government's balance sheet as of September 30, 1978, and its related statements of operations and changes in investment of the United States for the fiscal year then ended.

We previously examined and reported on the Canal organization's financial statements for the 1977 fiscal year.

We made our examination pursuant to the Government Corporation Control Act (31 U.S.C. 841, et. seq.) in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. During our examination, we gave consideration to the financial audit work performed by the Company's internal auditors. Because of the extent of coverage and adequacy of the internal auditors' work, we were able to limit the extent of our tests of the Canal organization's accounting records.

COSTS EXCLUDED FROM THE COMPANY'S  
FINANCIAL STATEMENTS PURSUANT TO LAW

Legislation and related hearings indicate that the Canal organization is designed to be operationally self-sustaining, imposing no burden on the U.S. taxpayer except for:

--The cost of facilities acquired for national defense.

--Interest on (1) interest capitalized during construction of the Canal and (2) the U.S. investment in the Canal Zone Government.

--Extraordinary expenditures or losses incurred through directives based on national policy and not related to the Company's operations.

The Company is not legally required to reimburse the U.S. Government for certain other costs incurred annually on behalf of the Canal organization. These costs, totaling \$2,139,146 for fiscal year 1978, include a portion of the annuity paid to Panama and recurring annuities and compensation payments to certain former employees.

Article I of the 1955 Treaty between the United States and the Republic of Panama increased the annual annuity payable to Panama from \$430,000 to \$1,930,000. Adjustments required by changes in the relationship between the U.S. dollar and gold increased the annuity to \$2,328,200 in fiscal year 1974, where it has since remained. The annuity is paid to Panama by the Treasury from appropriations received by the Department of State. The Company is required to reimburse the U.S. Treasury for the amount of the original annuity plus adjustments. The Company's portion in fiscal year 1978 was \$518,718; the remaining \$1,809,482 was borne by the U. S. Government. Through fiscal year 1978, payments borne by the U.S. Government totaled approximately \$36.6 million.

Annuities are also paid annually to certain former employees of predecessor agencies of the Canal organization. The Company pays injury and death compensation to employees (and their dependents) of these agencies and is reimbursed by the U.S. Department of Labor. Construction annuities are paid by the Office of Personnel Management (formerly the Civil Service Commission) to U.S. citizens (and their widows) who helped construct the Canal between 1904 and 1914. During fiscal year 1978, payments from funds provided by these agencies totaled \$329,664. Total payments through fiscal year 1978 have been \$58.6 million.

#### PANAMA CANAL COMPANY

In our opinion, subject to uncertainties relating<sup>977</sup> to the implementation of the 1977 Panama Canal Treaty as described in note 11 to the financial statements, the

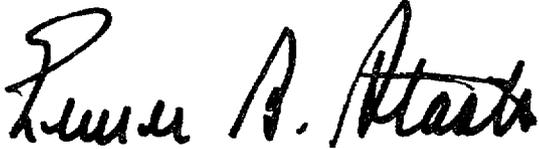
accompanying financial statements (schedules 1 through 5) present fairly the financial position of the Panama Canal Company at September 30, 1978, and September 30, 1977, and the results of its operations, changes in the investment of the United States, and changes in financial position for the fiscal years then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

CANAL ZONE GOVERNMENT

In our opinion, subject to the uncertainties relating to the implementation of the 1977 Panama Canal Treaty as described in note 9 to the financial statements, the accompanying financial statements (schedules 6 through 11) present fairly the financial position of the Canal Zone Government at September 30, 1978, and September 30, 1977, and the results of its operations and changes in the investment of the United States for the fiscal years then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General which have been applied on a consistent basis.

Company schedules 1 through 5 and Government schedules 6 through 11, including Price-Level statements (Company schedules 1A and 2A and Government schedules 6A and 7A), are those contained in the Canal organization's annual report. The Price-Level statements are unaudited, but we have reviewed and concurred with the concepts and methods employed in their preparation.

We are also sending this report to the Director, Office of Management and Budget; the Secretary of the Army; and the President of the Panama Canal Company.

  
Comptroller General  
of the United States

**FINANCIAL STATEMENTS**

SCHEDULE 1

PANAMA CANAL COMPANY

BALANCE SHEET

SEPTEMBER 30, 1978 AND 1977

<u>ASSETS</u>	<u>1978</u>	<u>1977</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
At cost.....	\$911,008,523	\$892,460,659
Less accumulated depreciation and valuation allowances (Notes 3 and 4).....	<u>399,592,501</u>	<u>383,408,880</u>
	<u>511,416,022</u>	<u>509,051,779</u>
<b>CURRENT ASSETS:</b>		
Cash (Note 5):		
Fund Balance in U.S. Treasury checking account.....	67,693,167	44,500,116
Cash in commercial banks, on hand, and in transit.....	<u>3,062,909</u>	<u>2,642,598</u>
	<u>70,756,076</u>	<u>47,142,714</u>
Accounts receivable, less allowance for doubtful accounts of \$9,691,892 and \$8,936,071, respectively (Note 6).....	<u>14,127,201</u>	<u>12,436,576</u>
Inventories:		
Merchandise held for resale.....	9,708,768	9,818,261
Materials and supplies, less allowance for obsolete and excess inventory of \$340,651 and \$574,776, respectively.....	<u>20,659,033</u>	<u>16,755,107</u>
	<u>30,367,801</u>	<u>26,573,368</u>
Other current assets.....	<u>1,132,166</u>	<u>1,579,378</u>
	<u>116,383,244</u>	<u>87,732,036</u>
<b>OTHER ASSETS:</b>		
Deferred charges:		
Retirement benefits to certain former employees.....	10,208,000	9,665,000
Other.....	1,478,201	2,408,222
Unearned costs recoverable from subsequent earnings (Note 2).....	-----	4,840,065
	<u>11,686,201</u>	<u>16,913,287</u>
<b>TOTAL ASSETS.....</b>	<u>\$639,485,467</u>	<u>\$613,697,102</u>

The accompanying notes are an integral part of this statement.

## SCHEDULE 1

<u>LIABILITIES</u>	<u>1978</u>	<u>1977</u>
INVESTMENT OF THE UNITED STATES:		
Contributed capital:		
Interest-bearing (6.071% and 5.677%, respectively).....	\$318,905,576	\$318,905,112
Non-interest-bearing.....	18,051,630	18,051,630
Earned capital reinvested.....	<u>187,391,154</u>	<u>175,376,040</u>
	524,348,360	512,332,782
CURRENT LIABILITIES:		
Accounts payable:		
U.S. Government agencies.....	7,723,837	4,591,326
Other.....	<u>6,057,655</u>	<u>5,113,677</u>
	13,781,492	9,705,003
Accrued liabilities:		
Employees' leave.....	31,398,645	26,535,663
Salaries and wages.....	6,759,417	5,340,257
Retirement benefits to certain former employees.....	1,442,000	1,460,000
Employees' repatriation.....	2,156,000	895,000
Claims for damages to vessels..	15,735,148	10,604,305
U.S. Treasury (Note 7).....	10,577,525	9,040,085
Other.....	<u>2,431,556</u>	<u>2,325,690</u>
	70,500,291	56,201,000
Other current liabilities.....	<u>1,253,202</u>	<u>1,459,320</u>
	<u>85,534,985</u>	<u>67,365,323</u>
OTHER LIABILITIES AND RESERVES:		
U.S. Treasury (Note 2).....	-	4,840,065
Retirement benefits to certain former employees.....	8,766,000	8,205,000
Employees' repatriation.....	6,171,000	6,862,000
Lock overhauls.....	7,805,110	8,162,669
Casualty losses (Note 8).....	1,092,369	750,987
Other (Note 6).....	<u>5,767,643</u>	<u>5,178,276</u>
	29,602,122	33,998,997
TOTAL LIABILITIES.....	<u>\$639,485,467</u>	<u>\$613,697,102</u>

## PANAMA CANAL COMPANY

STATEMENT OF OPERATIONS AND EARNED CAPITAL REINVESTED  
FISCAL YEARS ENDED SEPTEMBER 30, 1978 AND 1977

	<u>1978</u>	<u>1977</u>
OPERATING REVENUES:		
Tolls.....	\$195,735,234	\$164,685,365
Other .....	<u>135,274,201</u>	<u>121,755,040</u>
Total operating revenues.....	<u>331,009,435</u>	<u>286,440,405</u>
OPERATING EXPENSES:		
Maintenance of channels and harbors.....	25,485,751	23,947,616
Navigation service and control.....	43,390,026	35,779,842
Locks operation.....	25,447,752	22,588,537
General repair, storehouse, engineering, and maintenance services.....	8,255,229	7,408,408
Marine terminal operations.....	22,789,971	18,232,917
Transportation and utilities....	21,422,369	23,112,753
Retail and housing operations, including cost of goods sold of \$30,814,659 and \$27,532,161, respectively.....	54,702,063	47,928,640
General and administrative.....	49,349,766	45,652,076
Interest.....	19,360,736	18,106,470
Net cost of Canal Zone Government.....	23,340,387	21,037,302
Other.....	<u>20,610,206</u>	<u>18,183,142</u>
Total operating expenses.....	<u>314,154,256</u>	<u>281,977,703</u>
NET REVENUE.....	16,855,179	4,462,702
EARNED CAPITAL REINVESTED:		
Unearned costs recovered from operations.....	(4,840,065)	(4,462,702)
Balance at beginning of year...	<u>175,376,040</u>	<u>175,376,040</u>
Balance at end of year.....	<u>\$187,391,154</u>	<u>\$175,376,040</u>

The accompanying notes are an integral part of this statement.

SCHEDULE 3

SCHEDULE 3

PANAMA CANAL COMPANY

STATEMENT OF CONTRIBUTED CAPITAL

FISCAL YEARS ENDED SEPTEMBER 30, 1978 AND 1977

	<u>Interest- bearing</u>	<u>Non-interest- bearing</u>
Balance September 30, 1976	\$318,898,623	\$18,051,630
Plant reactivations and transfers, net	<u>6,489</u>	<u>-</u>
Balance September 30, 1977	318,905,112	18,051,630
Plant reactivations and transfers, net	<u>464</u>	<u>-</u>
Balance September 30, 1978	<u>\$318,905,576</u>	<u>\$18,051,630</u>

The accompanying notes are an integral part of this statement.

## PANAMA CANAL COMPANY

## STATEMENT OF CHANGES IN FINANCIAL POSITION

FISCAL YEARS ENDED SEPTEMBER 30, 1978 AND 1977

	<u>1978</u>	<u>1977</u>
SOURCE OF FUNDS:		
From Operations:		
Revenue.....	\$331,009,435	\$286,440,405
Less operating expenses:		
Net cost of Canal Zone		
Government.....	23,340,387	21,037,302
Interest on net direct		
investment.....	19,360,736	18,106,470
Annuity to Republic of		
Panama.....	518,718	518,718
Other expenses.....	270,934,415	242,315,213
Total operating expenses...	<u>314,154,256</u>	<u>281,977,703</u>
Net revenue.....	16,855,179	4,462,702
Add transactions not requiring outlay		
of funds:		
Deferred payments to U.S. Treasury		
(Note 2).....	(4,840,065)	(4,462,702)
Depreciation.....	18,542,929	18,895,979
Provision for Canal lock		
overhauls.....	1,729,000	2,530,000
Provision for casualty losses.....	7,171,653	5,154,255
Assumption of liability to Canal		
Zone Government for doubtful		
accounts receivable, net of		
amounts written off.....	589,367	571,726
Amortization and adjustment of		
deferred charges.....	<u>1,124,054</u>	<u>956,477</u>
Total funds from operations....	41,172,117	28,108,437
Net change in working capital other		
than cash.....	<u>13,131,815</u>	<u>6,621,911</u>
TOTAL.....	<u>\$ 54,303,932</u>	<u>\$ 34,730,348</u>
APPLICATION OF FUNDS:		
Canal lock overhauls expenditures...	\$ 2,086,560	\$ 1,987,846
Casualty losses.....	6,830,271	5,299,274
Capital expenditures.....	21,481,193	26,431,952
Other.....	292,546	25,320
Increase in cash.....	<u>23,613,362</u>	<u>985,956</u>
TOTAL.....	<u>\$ 54,303,932</u>	<u>\$ 34,730,348</u>

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMPANY  
STATEMENT OF PROPERTY, PLANT AND EQUIPMENT  
SEPTEMBER 30, 1978 AND SEPTEMBER 30, 1977

	1978		1977	
	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
Titles and treaty rights.....	\$ 14,728,889	\$ 1,933,167	\$ 14,728,889	\$ 1,564,945
Interest during construction.....	50,892,311	50,892,311	50,892,311	50,892,311
Canal excavation, fills and embankments.....	334,371,265	42,861,150	328,545,632	34,605,737
Canal structures and equipment.....	211,661,897	125,488,918	209,105,876	122,115,522
Supporting and general facilities.....	223,524,282	122,688,234	214,478,778	118,507,780
Minor items of plant and equipment.....	10,268,165	10,268,165	10,268,165	10,268,165
Facilities held for future use.....	5,401,992	5,314,758	5,401,992	5,308,662
Plant additions in progress. . . . .	20,013,924	-	18,893,218	-
Suspended construction projects.....	<u>40,145,798</u>	<u>40,145,798</u>	<u>40,145,798</u>	<u>40,145,798</u>
TOTAL.....	<u>\$911,008,523</u>	<u>\$399,592,501</u>	<u>\$892,460,659</u>	<u>\$383,408,880</u>

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMPANY

Notes to Financial Statements

1. Summary of Significant Accounting Policies.

a. Cost recovery. The application of generally accepted accounting principles to the Panama Canal Company, a Government corporation established by the Congress comparable to a public utility, determines the manner in which costs are recognized. The basis for toll rates is prescribed in Section 412 (b) of Title 2 of the Canal Zone Code, which provides:

Tolls shall be prescribed at rates calculated to cover, as nearly as practicable, all costs of maintaining and operating the Panama Canal, together with the facilities and appurtenances related thereto, including interest and depreciation, and an appropriate share of the net costs of operation of the agency known as the Canal Zone Government.

Under Section 62 of the Canal Zone Code, certain payments to the U.S. Treasury for the cost of interest, a portion of the annuity, and net costs of the Canal Zone Government included in costs of operation are required to be made annually to the extent earned, and if not earned shall be made from subsequent earnings. The amount for recovery from subsequent earnings is transferred from "Earned Capital" to an account within the "Other Assets" classification. To the extent subsequent annual revenue realized exceeds annual costs incurred, the amount of unearned costs recovered is charged back to "Earned Capital" and equivalent payment made to the U.S. Treasury.

b. Property, plant and equipment. Property, plant and equipment are recorded at cost or, if acquired from another Government agency, at original cost to such agency. Administrative and other general expenses and the cost of funds used during construction are not capitalized. The cost of minor items of property, plant and equipment is charged to expense.

c. Depreciation. Depreciation is provided using a straight-line depreciation plus additional annual depreciation, identified as composite, to provide for premature plant retirements.

d. Accounts receivable. An allowance for losses arising from uncollectible accounts receivable is provided by a charge to expense.

e. Inventories. Operating materials and supplies are restated annually at last receipt cost. An allowance to reflect the estimated cost of obsolete and excess materials and supplies is established by an annual charge to expense. Merchandise held for resale is stated at average cost.

f. Retirement benefits. Employer payments to the contributory Civil Service Retirement System covering substantially all employees are charged to expense. The Company has no liability for future payments to employees under this system.

Non-United States citizen employees who retired prior to October 5, 1958 are not covered by the Civil Service Retirement System but do receive benefits under a separate annuity plan. The amounts of the payments made under this annuity plan are recorded as a current-year expense. The liability of the Company for future annuity payments to these former employees or their eligible widows is reflected in the Balance Sheet as "Retirement Benefits to Certain Former Employees" and an equal amount is recorded as a Deferred Charge.

g. Deferred costs. The incremental costs of major systems and engineering studies, and extraordinary maintenance costs, except for lock overhauls, are deferred until completion and then amortized on a straight-line basis over periods not exceeding five years.

h. Reserve for lock overhauls. A reserve is provided through an annual charge to expense to cover the estimated cost of periodic lock overhauls.

i. Reserve for casualty losses. A reserve is provided through an annual charge to expense to cover the estimated cost of marine accidents, fire, and other casualty losses.

## 2. Unearned Costs.

Beginning in fiscal year 1976, the Company exercised its right under Section 62 of Title 2 of the Canal Zone Code to defer payment of certain liabilities to the extent not earned from current operations (see Note 1). These liabilities are interest on the net direct investment of the U.S. Government in the Company, the cost of the annuity payment to Panama pursuant to treaty, and the net costs of the Canal Zone Government operations.

The withholding of payments to the U.S. Treasury requires the Company to regard the unearned cost as deferred charges to be recovered from future earnings. This is in conformity with generally accepted accounting principles as applied to a rate-regulated enterprise and is consistent with the Company's treatment of other costs to be recovered from future operations through the rate-making process.

The Company withheld from the U.S. Treasury \$9.3 million, an amount equaling the loss in fiscal year 1976 and the transition quarter. Earnings in fiscal year 1977 permitted the Company to pay \$4.5 million. The remaining balance of \$4.8 million was paid during fiscal year 1978. At September 30, 1978, there were no unearned costs recorded on the books of the Company.

### 3. Plant Valuation Allowances.

Valuation allowances have been established as follows: (a) \$14.5 million at September 30, 1978 and \$14.6 million at September 30, 1977, to reduce to usable value the cost of property, plant and equipment transferred to the Company from the Panama Canal (agency) at July 1, 1951, and from other Government agencies subsequent to that date; (b) \$50.9 million at September 30, 1978 and September 30, 1977, to offset interest costs imputed for the original construction period; and (c) \$65.3 million at September 30, 1978 and September 30, 1977, to offset the cost of defense facilities and suspended construction projects, the latter being principally the partial construction of a third set of locks abandoned in the early part of World War II.

Property, plant and equipment offset by valuation allowances, when fully or partially reactivated, are reinstated by a reduction in the valuation allowance and by an increase to the interest-bearing contributed capital account.

### 4. Depreciation as Percent of Average Costs of Plant.

The provisions for depreciation, expressed as percentages of average costs of depreciable plant exclusive of valuation allowances, were 2.41% for fiscal year 1978 and 2.52% for fiscal year 1977.

5. Cash.

The large cash balances are maintained to satisfy solvency requirements as defined in Section 66.6 Office of Management and Budget Circular A-34, Instructions on Budget Execution, under which the incurring of obligations in excess of budgetary resources is a violation of the Antideficiency Act. All cash exceeding current operating requirements is kept on deposit with the U.S. Treasury.

6. Accounts Receivable.

The accounts receivable include doubtful Canal Zone Government receivables, for which the Panama Canal Company is guarantor, amounting to \$5.8 million at September 30, 1978 and \$5.2 million at September 30, 1977. Corresponding amounts are recorded in the allowance for doubtful accounts. Other liabilities and reserves include a liability to the Canal Zone Government equal to these receivables.

The allowance for doubtful accounts at September 30, 1978 includes \$3.2 million Panama Canal Company delinquent accounts receivable and \$5.4 million Canal Zone Government delinquent accounts receivable which are due from the Republic of Panama. In January 1979 the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN), an autonomous agency of the Republic of Panama, agreed to pay certain outstanding invoices for water processing costs totaling \$744,157 over a three year period beginning in January 1979. Diplomatic negotiations are in process to obtain agreement whereby the Government of the Republic of Panama will liquidate the remaining delinquent accounts of \$7.9 million.

As of the date of publishing these financial statements, scheduled payments have been received from IDAAN.

7. Accrued Liabilities - U.S. Treasury.

Accrued liabilities - U.S. Treasury consists of \$7.9 million and \$2.7 million for a total of \$10.6 million withheld from the U.S. Treasury to cover Canal Zone Government employees' leave accrual and repatriation liabilities, respectively, until these amounts are appropriated from the U.S. Treasury to the Canal Zone Government. This withholding excludes leave liability of \$1.2 million assumed by the Canal Zone Government from the predecessor agency and \$2.2 million repatriation liability incurred but not

accrued prior to 1966. The total leave liability of \$9.1 million and total repatriation liability of \$4.9 million is shown in the Canal Zone Government Balance Sheet.

#### 8. Reserve for Casualty Losses.

The monthly accrual of reserve for marine accidents in fiscal year 1978 was \$0.5 million for a total of \$6.0 million. An additional \$1.0 million accrual was booked in August 1978, when it became apparent that the monthly accrual would be inadequate for the account to sustain an appropriate balance. The final result was a reserve balance of only \$0.3 million at fiscal year end. A special study will be made to consider reserve accrual requirements for fiscal year 1979.

#### 9. Contingent Liabilities and Commitments.

The estimated maximum liability, in addition to liabilities taken into the accounts, which could result from pending claims and lawsuits was \$6.9 million at September 30, 1978. In the opinion of management and Company counsel, these pending claims and lawsuits will be resolved with no material adverse effect on the financial condition of the corporation.

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$21.6 million at September 30, 1978. Of this amount, \$0.7 million in unfilled purchase orders were prepaid. In addition, the Panama Canal Company is liable for an indeterminable amount with respect to death and disability payments under the Federal Employees' Compensation Act.

The Company held as custodian negotiable securities in the face amount of \$7.2 million at September 30, 1978 to guarantee payment by third parties of their obligations.

Effective May 9, 1969, the Company entered into a 25-year contract with the Instituto de Recursos Hidraulicos y Electrificacion, an autonomous agency of the Republic of Panama, for the purchase of electric power to be produced by that agency. The contract was suspended by mutual agreement from September 1, 1972 through December 31, 1976, a period of four years and four months. As of September 30, 1978, the Company's minimum liability over the remaining period of the contract amounted to approximately \$66.5 million.

10. Borrowing Authority.

The Company has authority to borrow funds from the U.S. Treasury not to exceed \$40 million outstanding at any time at interest rates to be determined by the Secretary of Treasury. At September 30, 1978 none of this amount had been borrowed.

11. Uncertainties Which Impact on Financial Statements.

On September 7, 1977 the President of the United States and the Chief of Government of the Republic of Panama signed the Panama Canal Treaty of 1977 and a Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal. The treaties have been ratified in accordance with the constitutional procedures of the United States and the Republic of Panama and will enter into force six calendar months from the date of the exchange of the instruments of ratification which shall not be effective earlier than March 31, 1979, unless legislation necessary to implement the provisions of the Panama Canal Treaty shall have been enacted by the Congress of the United States of America before March 31, 1979. These treaties will terminate all existing treaties between the two countries pertaining to the Panama Canal and produce major changes in the civil authority and the organization, scope of activities, and ownership of property of the Panama Canal enterprise. The impact of legislation to be passed, as well as various administrative decisions to be made relative to these treaties, is still unknown.

Until the treaties enter into force, the Panama Canal Company will continue to operate without material changes in the scope of its activities. These financial statements, therefore, do not purport to reflect the effect of the treaties or related legislation and administrative decisions on the assets, liabilities, investment of the United States Government, or the operating results of the Panama Canal Company.

SCHEDULE 1A

PANAMA CANAL COMPANY  
 GENERAL PRICE-LEVEL BALANCE SHEET

SEPTEMBER 30, 1978

(UNAUDITED)

<u>ASSETS</u>	<u>Historical Dollars</u> (Thousands of dollars)	<u>General Price- Level Dollars</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
At cost.....	\$911,009	\$2,293,401
Less accumulated depreciation and valuation allowances.....	<u>399,593</u>	<u>1,046,918</u>
	<u>511,416</u>	<u>1,246,483</u>
<b>CURRENT ASSETS:</b>		
Cash:		
Fund balance in U.S. Treasury checking account.....	67,693	67,693
Cash in commercial banks, on hand, and in transit.....	<u>3,063</u>	<u>3,063</u>
	<u>70,756</u>	<u>70,756</u>
Accounts receivable - net.....	<u>14,127</u>	<u>14,127</u>
Inventories:		
Merchandise held for resale.....	9,709	9,709
Materials and supplies - net.....	<u>20,659</u>	<u>21,279</u>
	<u>30,368</u>	<u>30,988</u>
Other current assets.....	<u>1,132</u>	<u>1,132</u>
	<u>116,383</u>	<u>117,003</u>
<b>OTHER ASSETS:</b>		
Deferred Charges:		
Retirement benefits to certain former employees.....	10,208	10,208
Other.....	<u>1,478</u>	<u>1,829</u>
	<u>11,686</u>	<u>12,037</u>
<b>TOTAL ASSETS.....</b>	<u>\$639,485</u>	<u>\$1,375,523</u>

The accompanying notes summarize the methods employed in the preparation of this statement.

SCHEDULE 1A

<u>LIABILITIES</u>	<u>Historical Dollars</u> (Thousands of dollars)	<u>General Price- Level Dollars</u> (dollars)
<b>INVESTMENT OF THE UNITED STATES:</b>		
Contributed capital:		
Interest-bearing.....	\$318,905	\$ 874,559
Non-interest-bearing.....	18,052	41,931
Earned capital reinvested.....	<u>187,391</u>	<u>339,967</u>
	<u>524,348</u>	<u>1,256,457</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable:		
U.S. Government agencies.....	7,724	7,724
Other.....	<u>6,058</u>	<u>6,058</u>
	<u>13,782</u>	<u>13,782</u>
Accrued liabilities:		
Employees' leave.....	31,399	31,399
Salaries and wages.....	6,759	6,759
Retirement benefits to certain former employees.....	1,442	1,442
Employees' repatriation.....	2,156	2,156
Claims for damages to vessels.....	15,735	15,735
U.S. Treasury.....	10,578	10,578
Other.....	<u>2,431</u>	<u>2,431</u>
	<u>70,500</u>	<u>70,500</u>
Other current liabilities.....	<u>1,253</u>	<u>1,253</u>
	<u>85,535</u>	<u>85,535</u>
<b>OTHER LIABILITIES AND RESERVES:</b>		
Retirement benefits to certain former employees.....	8,766	8,766
Employees' repatriation.....	6,171	6,171
Lock overhauls.....	7,805	11,447
Casualty losses.....	1,092	1,379
Other.....	<u>5,768</u>	<u>5,768</u>
	<u>29,602</u>	<u>33,531</u>
<b>TOTAL LIABILITIES.....</b>	<u>\$639,485</u>	<u>\$1,375,523</u>

## PANAMA CANAL COMPANY

## GENERAL PRICE-LEVEL INCOME STATEMENT FOR THE YEAR ENDED

SEPTEMBER 30, 1978

(UNAUDITED)

	<u>Historical Dollars</u> (Thousands of dollars)	<u>General Price- Level Dollars</u> (Thousands of dollars)
Operating revenues.....	<u>\$331,009</u>	<u>\$340,940</u>
Operating expenses:		
Cost of goods sold.....	32,974	33,963
Interest.....	19,361	19,942 *
Operating expense.....	171,080	176,212
Administrative expense.....	48,856	50,322
Net cost of Canal Zone Government...	23,340	26,766
Depreciation.....	<u>18,543</u>	<u>43,867</u>
	<u>314,154</u>	<u>351,072</u>
Operating revenue or (loss).....	16,855	(10,132)
General price-level (loss) gain.....	<u>-</u>	<u>(2,293)</u>
Net revenue or (loss).....	<u>\$ 16,855</u>	<u>\$(12,425)</u>

The accompanying notes summarize the methods employed in the preparation of this statement.

\*Reflects only actual interest paid and no imputed costs of equity capital.

PANAMA CANAL COMPANY

Notes to Price-Level Financial Statements

1. Methods employed in the preparation of the general price-level financial statements:

a. Historical dollars are restated in terms of purchasing power at the end of fiscal year 1978. The change in the value of money has been measured by using the gross national product implicit price deflators provided by the U.S. Department of Commerce.

b. The restatement of revenues and expenses, except for depreciation, reflects the change in purchasing power of the dollar during the current fiscal year. The restatement of depreciation expenses for the year is based upon the investment in property, plant and equipment revalued to reflect their ages. Property, plant and equipment and the investment of the United States are restated from July 1, 1951, the date of reorganization of the enterprise although the major proportion of the plant facilities, e.g., the Canal itself and the locks, were placed in service in 1914.

c. The net change in valuation of assets and liabilities, normally an increase during a period of inflation, is credited to the investment.

d. Generally accepted accounting principles have been followed except to reflect the change in the purchasing power of the dollar.

2. Price-level-adjusted cost of property, plant and equipment does not purport to be replacement cost.

SCHEDULE 6

CANAL ZONE GOVERNMENT

BALANCE SHEET

SEPTEMBER 30, 1978 and 1977

<u>ASSETS</u>	<u>1978</u>	<u>1977</u>
PROPERTY, PLANT AND EQUIPMENT:		
At cost.....	\$115,090,099	\$113,000,264
Less accumulated depreciation and valuation allowances (Notes 2 and 3).....	<u>54,398,545</u>	<u>52,090,952</u>
	<u>60,691,554</u>	<u>60,909,312</u>
CURRENT ASSETS:		
Fund balances and cash:		
Fund balance in U.S. Treasury.....	5,925,207	7,546,833
Cash on hand and in transit.....	<u>220,908</u>	<u>224,859</u>
	<u>6,146,115</u>	<u>7,771,692</u>
U.S. Treasury securities (at par).....	<u>730,000</u>	<u>690,000</u>
Accounts receivable:		
Panama Canal Company (Note 4).....	5,767,643	5,178,276
Other.....	<u>4,252,093</u>	<u>3,581,243</u>
	<u>10,019,736</u>	<u>8,759,519</u>
Inventories (at average cost).....	<u>1,222,316</u>	<u>982,240</u>
Other current assets.....	<u>14,351</u>	<u>12,214</u>
	<u>18,132,518</u>	<u>18,215,665</u>
SUMS DUE FROM FUTURE APPROPRIATIONS (Note 5)	<u>14,890,701</u>	<u>13,144,261</u>
TOTAL ASSETS.....	<u>\$ 93,714,773</u>	<u>\$ 92,269,238</u>

The accompanying notes are an integral part of this statement.

SCHEDULE 6

<u>LIABILITIES</u>	<u>1978</u>	<u>1977</u>
<b>INVESTMENT OF THE UNITED STATES:</b>		
Invested capital (Note 2).....	\$61,913,870	\$61,891,552
Unobligated capital fund.....	1,823,030	1,747,160
Unobligated operating fund.....	-	-
Obligated funds.....	<u>1,688,920</u>	<u>1,794,178</u>
	<u>65,425,820</u>	<u>65,432,890</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable:		
U.S. Government agencies.....	<u>10,308,666</u>	<u>10,397,087</u>
Postal money orders payable.....	929,855	808,346
Less deposits with U.S. Postal Service..	<u>582,212</u>	<u>42,862</u>
	<u>347,643</u>	<u>765,484</u>
Other.....	<u>411,605</u>	<u>436,304</u>
	<u>11,067,914</u>	<u>11,598,875</u>
Accrued liabilities:		
Employees' leave.....	9,066,701	8,132,261
Salaries and wages.....	2,271,283	2,038,844
Retirement benefits to certain former employees.....	113,000	114,000
Employees' repatriation.....	1,602,000	620,000
Other.....	<u>59,055</u>	<u>54,368</u>
	<u>13,112,039</u>	<u>10,959,473</u>
	<u>24,179,953</u>	<u>22,558,348</u>
<b>OTHER LIABILITIES:</b>		
Retirement benefits to certain former employees.....	758,000	548,000
Employees' repatriation.....	<u>3,351,000</u>	<u>3,730,000</u>
	<u>4,109,000</u>	<u>4,278,000</u>
<b>TOTAL LIABILITIES.....</b>	<u>\$93,714,773</u>	<u>\$92,269,238</u>

SCHEDULE 7

CANAL ZONE GOVERNMENT  
Statement of Operations  
Fiscal Year ended September 30, 1978

SCHEDULE 7

	Funded Costs	Accrued Depreciation	Other Non- Fund Charges and Credits	Total	Recoveries	Net Cost of Operations Borne by Panama Canal Company
<b>CIVIL FUNCTIONS:</b>						
Office of director.....	574,243	287	19,715	594,245	-	\$ 594,245
Customs and immigration.....	1,498,822	197	(40,624)	1,458,395	2,996	1,455,399
Postal service.....	2,697,500	15,246	94,999	2,807,745	1,847,337	8,960,408
Police protection.....	8,853,650	89,720	93,874	9,037,244	40,784	8,996,460
Fire protection.....	5,577,403	75,868	59,674	5,712,945	4,658,861	(925,916)
Judicial system.....	374,281	194	7,966	382,441	164,762	217,679
Education.....	22,464,742	665,217	145,397	23,275,356	26,641,967	(3,366,611)
Public areas and facilities.....	4,141,580	913,107	-	5,054,687	-	5,054,687
Internal security.....	346,564	446	16,918	363,928	-	363,928
Civil defense.....	62,803	7,698	3,971	74,472	-	74,472
Licenses and other fees.....	280,801	2,640	6,565	290,006	914,433	(624,427)
<b>Total Civil Functions.....</b>	<b>34,872,389</b>	<b>1,770,620</b>	<b>408,455</b>	<b>47,051,464</b>	<b>34,251,140</b>	<b>12,800,324</b>
<b>HEALTH AND SANITATION:</b>						
Office of director.....	403,924	61	11,717	415,702	7,129	408,573
Hospitals and medical services:						
Gorgas hospital and clinics.....	17,314,988	473,256	314,904	18,103,148	20,491,662	(2,388,514)
Coco Solo hospital and clinic.....	4,907,971	113,687	150,349	5,172,007	5,592,702	(420,695)
Canal Zone mental health center.....	3,331,038	41,289	119,337	3,491,664	3,932,222	(440,558)
Palo Seco hospital.....	473,577	5,027	11,421	490,025	480,030	9,995
Other public health services:						
Sanitation.....	1,106,606	4,661	44,851	1,156,118	9,193	1,146,925
Garbage collection.....	333,001	-	-	333,001	-	333,001
Preventive medicine and quarantine.....	874,640	461	20,617	895,718	46,849	848,869
School health unit.....	210,438	-	-	210,438	-	210,438
Veterinarian services.....	576,696	2,885	19,770	599,351	375,592	323,759
Cemeteries.....	235,429	607	-	236,036	104,328	131,708
Dental clinics.....	395,104	3,510	(455)	398,159	266,650	131,509
Care of dead.....	123,320	7,227	(128)	130,419	93,508	36,911
<b>Total Health and Sanitation.....</b>	<b>30,286,732</b>	<b>652,671</b>	<b>692,383</b>	<b>31,631,786</b>	<b>31,299,865</b>	<b>331,921</b>
<b>GENERAL EXPENSES:</b>						
Office of the Governor.....	286,009	-	(664)	285,345	-	285,345
Recruitment and repatriation.....	755,890	-	-	755,890	-	755,890
Employees' home leave travel.....	640,485	-	-	640,485	-	640,485
Transportation of employees' vehicles.....	104,457	-	-	104,457	-	104,457
Government buildings and sites.....	830,204	119,033	-	949,237	86,565	862,672
Relief payments to former employees and their widows.....	116,973	-	-	116,973	-	116,973
Net increase in accrued liability for employees' repatriation.....	-	-	603,000	603,000	-	603,000
Miscellaneous charges and credits.....	1,922,595	126,941	(80,561)	1,968,975	(4,870,345)	6,839,320
<b>Total General Expenses.....</b>	<b>4,656,613</b>	<b>245,974</b>	<b>521,775</b>	<b>5,424,362</b>	<b>(4,783,780)</b>	<b>10,208,142</b>
<b>TOTAL.....</b>	<b>\$79,815,734</b>	<b>\$2,669,265</b>	<b>\$1,622,613</b>	<b>\$84,107,612</b>	<b>\$60,767,225</b>	<b>\$23,340,387</b>

CANAL ZONE GOVERNMENT

Statement of Operations  
Fiscal Year Ended September 30, 1977

	Operating Expenses			Total	Recoveries	Net Cost of Operations Borne by Panama Canal Company
	Funded Costs	Accrued Depreciation	Other Non- Fund Charges and Credits			
<b>CIVIL FUNCTIONS:</b>						
Office of director.....	\$ 517,359	\$ 287	\$ (7,437)	\$ 510,209	\$ -	\$ 510,209
Customs and immigration.....	1,357,278	197	14,025	1,371,500	3,109	1,368,391
Postal service.....	2,441,343	15,064	67,593	2,524,000	1,729,751	794,249
Police protection.....	8,327,854	83,120	241,352	8,652,326	48,423	3,603,903
Fire protection.....	3,277,397	61,170	112,641	3,451,208	4,305,716	(854,508)
Judicial system.....	318,991	437	5,783	325,211	165,402	159,809
Education.....	20,830,511	670,880	90,397	21,591,788	24,750,464	(3,158,676)
Public areas and facilities.....	3,394,613	903,522	-	4,298,135	-	4,298,135
Internal security.....	349,710	130	(12,145)	337,695	-	337,695
Civil defense.....	60,506	8,056	(846)	67,716	-	67,716
Licenses and other fees.....	241,650	2,715	1,582	245,947	802,421	(556,474)
<b>Total Civil Functions.....</b>	<b>41,117,212</b>	<b>1,745,578</b>	<b>512,945</b>	<b>43,375,735</b>	<b>31,805,286</b>	<b>11,570,449</b>
<b>HEALTH AND SANITATION:</b>						
Office of director.....	380,295	162	(5,635)	374,822	6,001	368,821
<b>Hospitals and medical services:</b>						
Gorgas hospital and clinics.....	15,889,980	400,139	281,746	16,571,865	18,865,461	(2,293,596)
Coco Solo hospital and clinics.....	4,494,086	99,204	55,543	4,648,833	4,982,198	(333,365)
Canal Zone mental health center.....	3,022,373	22,839	61,289	3,106,501	3,555,415	(448,914)
Palo Seco Hospital.....	454,687	5,971	264	460,922	451,282	9,640
<b>Other public health services:</b>						
Sanitation.....	999,635	2,669	14,709	1,017,013	11,061	1,005,952
Garbage collection.....	307,279	-	-	307,279	-	307,279
Preventive medicine and quarantine.....	866,415	414	5,091	871,920	32,871	839,049
School health unit.....	190,777	-	-	190,777	-	190,777
Veterinarian services.....	578,378	3,426	2,840	584,644	282,955	301,689
Cemeteries.....	207,942	1,164	-	209,106	101,478	107,628
Dental clinics.....	379,228	2,531	16,138	397,897	248,210	149,687
Care of dead.....	106,650	9,798	4,290	120,738	92,884	27,854
<b>Total Health and Sanitation.....</b>	<b>27,077,725</b>	<b>548,317</b>	<b>436,275</b>	<b>28,862,317</b>	<b>28,629,816</b>	<b>232,501</b>
<b>GENERAL EXPENSES:</b>						
Office of the Governor.....	292,864	-	6,150	299,014	-	299,014
Recruitment and repatriation.....	615,605	-	-	615,605	-	615,605
Employees' home leave travel.....	636,725	-	-	636,725	-	636,725
Transportation of employees' vehicles.....	111,762	-	-	111,762	-	111,762
Government buildings and sites.....	694,267	87,076	-	781,343	46,634	734,709
Relief payments to former employees and their widows.....	118,101	-	-	118,101	-	118,101
Net increase in accrued liability for employees' repatriation.....	-	-	65,000	65,000	-	65,000
Miscellaneous charges and credits.....	1,705,682	739,376	174,833	2,619,891	(4,033,545)	6,653,436
<b>Total General Expenses.....</b>	<b>4,175,006</b>	<b>826,452</b>	<b>245,983</b>	<b>5,247,441</b>	<b>(3,986,911)</b>	<b>9,234,352</b>
<b>TOTAL.....</b>	<b>\$73,169,943</b>	<b>\$3,120,347</b>	<b>\$1,195,203</b>	<b>\$77,485,493</b>	<b>\$56,448,191</b>	<b>\$21,037,302</b>

The accompanying notes are an integral part of this statement.

CANAL ZONE GOVERNMENT

Statement of Changes in the Investment of the United States

Fiscal Year Ended September 30, 1978

	Invested capital	Operating funds	Capital funds	Total investment
Investment at September 30, 1977.....	\$61,891,552	\$ 264,389	\$3,276,949	\$ 65,432,890
Appropriation by the Con- gress for fiscal year 1978.....	-	71,067,000	2,130,000	73,197,000
Investment at October 1, 1977	<u>61,891,552</u>	<u>71,331,389</u>	<u>5,406,949</u>	<u>138,629,890</u>
Increases of investment:				
Reimbursements from Other U.S. Government agencies applied to operations (Note 6).....	-	12,600,000	-	12,600,000
Decreases of investment:				
Funded costs.....	-	79,815,734	-	79,815,734
Unobligated operating funds withdrawn by U.S. Treasury	-	3,227,136	-	3,227,136
Depreciation.....	2,669,265	-	-	2,669,265
Miscellaneous plant adjust- ments.....	91,935	-	-	91,935
	<u>2,761,200</u>	<u>83,042,870</u>	<u>-</u>	<u>85,804,070</u>
Transfer between funds:				
Capital expenditures.....	2,543,442	-	(2,543,442)	-
Increase in inventories.....	240,076	(240,076)	-	-
	<u>2,783,518</u>	<u>(240,076)</u>	<u>(2,543,442)</u>	<u>-</u>
Investment at September 30, 1978.....	<u>\$61,913,870</u>	<u>\$ 648,443</u>	<u>\$2,863,507</u>	<u>\$ 65,425,820</u>

Investment by Commitment of Funds

Unobligated funds.....	\$ -	\$ -	\$1,823,030	\$ 1,823,030
Obligated funds.....	-	648,443	1,040,477	1,688,920
Invested capital:				
Property, plant and equip- ment (Note 2).....	60,691,554	-	-	60,691,554
Inventories.....	1,222,316	-	-	1,222,316
	<u>\$61,913,870</u>	<u>\$ 648,443</u>	<u>\$2,863,507</u>	<u>\$65,425,820</u>

The accompanying notes are an integral part of this statement.

SCHEDULE 10

SCHEDULE 10

CANAL ZONE GOVERNMENT

Statement of Changes in the Investment of the United States  
Fiscal Year Ended September 30, 1977

	<u>Invested capital</u>	<u>Operating funds</u>	<u>Capital funds</u>	<u>Total investment</u>
Investment at September 30, 1976.....	\$61,061,326	\$ 303,055	\$ 4,172,727	\$ 65,537,108
Appropriation by the Con- gress for Fiscal Year 1977	<u>          -</u>	<u>65,900,000</u>	<u>3,150,000</u>	<u>69,050,000</u>
Investment at October 1, 1976	<u>61,061,326</u>	<u>66,203,055</u>	<u>7,322,727</u>	<u>134,587,108</u>
Increases of investment:				
Reimbursements from other U.S. Government agencies applied to operations (Note 8).....	<u>          -</u>	<u>11,800,000</u>	<u>          -</u>	<u>11,800,000</u>
Decreases of investment:				
Funded costs.....	-	73,169,942	-	73,169,942
Unobligated operating funds withdrawn by U.S. Treasury (net of restorations \$681)	-	4,522,996	-	4,522,996
Depreciation.....	3,120,347	-	-	3,120,347
Miscellaneous plant adjust- ments.....	<u>140,933</u>	<u>          -</u>	<u>          -</u>	<u>140,933</u>
	<u>3,261,280</u>	<u>77,692,938</u>	<u>          -</u>	<u>80,954,218</u>
Transfer between funds:				
Capital expenditures.....	4,045,778	-	(4,045,778)	-
Increase in inventories....	<u>45,728</u>	<u>(45,728)</u>	<u>          -</u>	<u>          -</u>
	<u>4,091,506</u>	<u>(45,728)</u>	<u>(4,045,778)</u>	<u>          -</u>
Investment at September 30, 1977.....	<u>\$61,891,552</u>	<u>\$ 264,389</u>	<u>\$ 3,276,949</u>	<u>\$ 65,432,890</u>
Investment by Commitment of Funds				
Unobligated funds.....	\$ -	-	\$ 1,747,160	\$ 1,747,160
Obligated funds.....	-	264,389	1,529,789	1,794,178
Invested capital:				
Property, plant and equip- ment (Note 4).....	60,909,312	-	-	60,909,312
Inventories.....	<u>982,240</u>	<u>          -</u>	<u>          -</u>	<u>982,240</u>
	<u>\$61,891,552</u>	<u>\$ 264,389</u>	<u>\$ 3,276,949</u>	<u>\$ 65,432,890</u>

The accompanying notes are an integral part of this statement.

## SCHEDULE 11

CANAL ZONE GOVERNMENT  
Statement of Property, Plant and Equipment  
September 30, 1978 and September 30, 1977

## SCHEDULE 11

	1978		1977	
	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
<b>CIVIL FUNCTION FACILITIES:</b>				
Customs and Immigration.....	\$ 9,825	\$ 442	\$ 9,825	\$ 246
Postal Division.....	486,076	193,290	478,905	178,043
Police Division.....	1,789,361	608,795	1,562,921	564,999
Fire Division.....	1,357,629	527,235	1,146,353	475,380
Fire Hydrant System.....	278,005	191,859	242,279	186,194
Magistrates' Courts.....	5,765	631	1,166	437
Division of Schools.....	26,327,261	8,688,229	28,734,947	9,114,111
Roads, Streets, Sidewalks.....	23,310,688	12,635,031	22,876,146	12,198,624
Sewer System.....	7,674,494	4,146,124	7,639,379	3,981,163
Permanent Townsites.....	7,741,830	5,129,871	7,748,426	4,980,081
Experimental Gardens.....	5,801	2,291	52,769	18,887
Street Lighting System.....	2,738,143	1,230,976	2,726,212	1,135,589
Libraries - Museum.....	8,400	3,308	8,400	2,690
Internal Security.....	8,128	6,706	8,128	6,260
License Section.....	24,065	17,730	24,064	15,090
Civil Affairs Director's Office	1,031,624	323,816	1,031,754	297,986
<b>Total Civil Function Facilities</b>	<b>\$ 72,797,095</b>	<b>\$ 33,706,334</b>	<b>\$ 74,291,674</b>	<b>\$ 33,155,780</b>
<b>HEALTH AND SANITATION FACILITIES:</b>				
Gorgas Hospital - Clinics.....	\$ 15,713,792	\$ 4,710,017	\$ 15,453,456	\$ 4,294,223
Coco Solo Hospital - Clinics...	3,989,192	1,586,110	3,978,079	1,500,266
Canal Zone Mental Health.....	2,208,735	481,781	1,668,907	441,523
Palo Seco Hospital.....	217,633	146,879	217,633	141,853
Division of Public Health.....	7,123	1,755	6,213	2,227
Sanitation Division.....	111,056	60,962	101,757	56,301
Division of Veterinary Medicine	137,789	103,297	136,595	100,412
Dental and Care of Dead.....	434,189	160,534	408,639	150,469
Office of Health Director.....	4,270	3,588	68,454	29,219
<b>Total Health and Sanitation Facilities.....</b>	<b>22,823,779</b>	<b>7,254,923</b>	<b>22,039,733</b>	<b>6,716,493</b>
<b>GENERAL FACILITIES:</b>				
Civil Defense.....	209,628	65,984	217,692	59,707
Government Buildings.....	8,043,686	4,261,593	5,225,081	3,054,495
<b>Total General Facilities....</b>	<b>8,253,314</b>	<b>4,327,577</b>	<b>5,442,773</b>	<b>3,114,202</b>
<b>MINOR ITEMS OF PLANT AND EQUIPMENT.....</b>				
	<b>6,359,822</b>	<b>6,359,822</b>	<b>6,359,822</b>	<b>6,359,822</b>
<b>FACILITIES HELD FOR FUTURE USE...</b>				
	<b>2,794,741</b>	<b>2,749,888</b>	<b>2,794,741</b>	<b>2,744,655</b>
<b>PLANT ADDITIONS IN PROGRESS.....</b>				
	<b>2,061,348</b>	<b>-</b>	<b>2,071,521</b>	<b>-</b>
<b>TOTAL.....</b>	<b>\$115,090,099</b>	<b>\$ 54,398,544</b>	<b>\$113,000,264</b>	<b>\$ 52,090,952</b>

The accompanying notes are an integral part of this statement.

CANAL ZONE GOVERNMENT

Notes to Financial Statements

1. Summary of Significant Accounting Policies.

a. Property, plant and equipment. Property, plant and equipment are recorded at cost or, if acquired from another Government agency, at original cost to such agency. Administrative and other general expenses and the costs of funds used during construction are not capitalized. The cost of minor items of property, plant and equipment is charged to expense.

b. Depreciation. Depreciation is provided using a straight-line method applied on a composite basis. This method provides straight-line depreciation plus additional annual depreciation, identified as composite, to provide for premature plant retirements.

c. Retirement benefits. Employer payments to the contributory Civil Service Retirement System covering substantially all employees are charged to expense. The Canal Zone Government has no liability for future payments to employees under this system.

Non-United States citizen employees who retired prior to October 5, 1958 are not covered by the Civil Service Retirement System but do receive benefits under a separate annuity plan. The amounts of the payments made under this annuity plan are recorded as a current-year expense. The liability of the Canal Zone Government for future annuity payments to these former employees or their eligible widows is reflected in the Balance Sheet as "Retirement Benefits to Certain Former Employees" and an equal amount is recorded in "Sums Due from Future Appropriations".

2. Plant Valuation Allowances.

Valuation allowances have been established at \$1.8 million at September 30, 1978 and September 30, 1977, to reduce to usable value the cost of property, plant and equipment transferred to the Canal Zone Government from the Panama Canal (agency) at July 1, 1951, and from other U.S. Government agencies subsequent to that date.

Property, plant and equipment offset by valuation allowances, when fully or partially reactivated, are reinstated by a reduction in the valuation allowance and by an increase to the invested capital account.

3. Depreciation as Percent of Average Cost of Plant.

The provisions for depreciation, expressed as percentages of average cost of depreciable plant exclusive of valuation allowances, were 2.38% for fiscal year 1978, and 2.85% for fiscal year 1977.

4. Accounts Receivable.

The doubtful Canal Zone Government accounts receivable were assumed by the Panama Canal Company as guarantor at June 30, 1973, and recorded in its accounts. The stated value of these receivables is shown in the Canal Zone Government Balance Sheet as receivable from the Company.

5. Sums Due from Future Appropriations.

Sums due from future appropriations consist of the unfunded portions of the employees' leave, repatriation and retirement benefits to former employees who do not qualify under the U.S. Civil Service retirement system. Annual variation in the sums due from future appropriations results from changes in these liabilities.

6. Reimbursements Applied to Operations.

Reimbursements received from other U.S. Government agencies for Canal Zone Government services amounting to \$12.6 million in fiscal year 1978 and \$11.8 million in fiscal year 1977 were utilized during the respective years to partially finance operations, as authorized in the Department of Transportation and Related Agencies Appropriations Bill, Public Law 95-85 for fiscal year 1978 and Public Law 94-387 for fiscal year 1977.

7. Contingent Liabilities and Commitments.

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$1.7 million at September 30, 1978. In addition, the Canal Zone Government is liable for an indeterminable amount with respect to death and disability which could result from outstanding claims and lawsuits is estimated at \$2.3 million at September 30, 1978.

8. Administrative Services.

Under the terms of an interagency agreement, the Panama Canal Company provides certain general and administrative support to the Canal Zone Government. As the cost of providing this support cannot be readily determined, no reimbursement is made.

9. Uncertainties Which Impact on Financial Statements.

On September 7, 1977 the President of the United States and the Chief of Government of the Republic of Panama signed the Panama Canal Treaty of 1977 and a Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal. The Treaties have been ratified in accordance with the constitutional procedures of the United States and the Republic of Panama and will enter into force six calendar months from the date of the exchange of the instruments of ratification which shall not be effective earlier than March 31, 1979, unless legislation necessary to implement the provisions of the Panama Canal Treaty shall have been enacted by the Congress of the United States of America before March 31, 1979. These treaties will terminate all existing treaties between the two countries pertaining to the Panama Canal and produce major changes in the civil authority and the organization, scope of activities, and ownership of property of the Panama Canal enterprise. The impact of legislation to be passed, as well as various administrative decisions to be made relative to these treaties is still unknown.

Until the treaties enter into force, the Canal Zone Government will continue to operate without material changes in the scope of its activities. These financial statements, therefore, do not purport to reflect the effect of the treaties or related legislation and administrative decisions on the assets, liabilities, and investment of the United States Government in the Canal Zone Government.

SCHEDULE 6A

CANAL ZONE GOVERNMENT  
 GENERAL PRICE-LEVEL BALANCE SHEET  
 SEPTEMBER 30, 1978  
 (UNAUDITED)

	<u>Historical Dollars</u>	<u>General Price- Level Dollars</u>
	(Thousands of dollars)	
<u>ASSETS</u>		
PROPERTY, PLANT AND EQUIPMENT:		
At cost.....	\$115,090	\$257,754
Less accumulated depreciation and valuation allowances.....	<u>54,398</u>	<u>133,554</u>
	<u>60,692</u>	<u>124,200</u>
CURRENT ASSETS:		
Fund balances and cash.....	<u>6,146</u>	<u>6,146</u>
U.S. Treasury securities (at par).....	<u>730</u>	<u>730</u>
Accounts receivable:		
Panama Canal Company.....	5,768	5,768
Other.....	<u>4,252</u>	<u>4,252</u>
	<u>10,020</u>	<u>10,020</u>
Inventories (at average cost)....	<u>1,222</u>	<u>1,222</u>
Other current assets.....	<u>14</u>	<u>14</u>
	<u>18,132</u>	<u>18,132</u>
SUMS DUE FROM FUTURE APPROPRIATIONS	<u>14,891</u>	<u>14,891</u>
TOTAL ASSETS.....	<u>\$ 93,715</u>	<u>\$157,223</u>

The accompanying notes summarize the methods employed in the preparation of this statement.

SCHEDULE 6A

	Historical <u>Dollars</u> (Thousands of dollars)	General Price- <u>Level Dollars</u> (Thousands of dollars)
<u>LIABILITIES</u>		
INVESTMENT OF THE UNITED STATES:		
Invested capital.....	\$61,914	\$125,422
Unobligated capital fund.....	1,823	1,823
Obligated funds.....	<u>1,689</u>	<u>1,689</u>
	65,426	128,934
CURRENT LIABILITIES:		
Accounts payable:		
U.S. Government agencies.....	<u>10,309</u>	<u>10,309</u>
Postal money orders payable.....	930	930
Less deposits with U.S. Postal Service.....	<u>582</u>	<u>582</u>
	348	348
Other.....	<u>411</u>	<u>411</u>
	11,068	11,068
Accrued liabilities:		
Employees' leave.....	9,067	9,067
Salaries and wages.....	2,271	2,271
Retirement benefits to certain former employees.....	113	113
Employees' repatriation.....	1,602	1,602
Other.....	<u>59</u>	<u>59</u>
	13,112	13,112
	24,180	24,180
OTHER LIABILITIES:		
Retirement benefits to certain former employees.....	758	758
Employees' repatriation.....	<u>3,351</u>	<u>3,351</u>
	4,109	4,109
TOTAL LIABILITIES.....	<u>\$ 93,715</u>	<u>\$157,223</u>

## CANAL ZONE GOVERNMENT

## GENERAL PRICE-LEVEL INCOME STATEMENT FOR THE YEAR ENDED

SEPTEMBER 30, 1978

(UNAUDITED)

	Historical Dollars <small>(Thousands of</small>	General Price- Level Dollars <small>dollars)</small>
Recoveries.....	\$ <u>60,767</u>	\$ <u>62,590</u>
Operating expenses:		
Funded costs.....	79,816	82,210
Other non-fund charges and credits..	1,622	1,671
Depreciation.....	<u>2,669</u>	<u>5,521</u>
	<u>84,107</u>	<u>89,402</u>
Operating revenue or (loss).....	(23,340)	(26,812)
General price-level (loss) gain.....	<u>-</u>	<u>46</u>
Net cost of Canal Zone Government...	<u><u>\$(23,340)</u></u>	<u><u>\$(26,766)</u></u>

The accompanying notes summarize the methods employed in the preparation of this statement.

CANAL ZONE GOVERNMENT

Notes to Price-Level Financial Statements

1. Methods employed in the preparation of the general price-level financial statements:

a. Historical dollars are restated in terms of purchasing power at the end of fiscal year 1978. The change in the value of money has been measured by using the gross national product implicit price deflators provided by the U.S. Department of Commerce.

b. The restatement of revenues and expenses, except for depreciation, reflects the change in purchasing power of the dollar during the current fiscal year. The restatement of depreciation expenses for the year is based upon the investment in property, plant and equipment revalued to reflect their ages. Property, plant and equipment and the investment of the United States are restated from July 1, 1951, the date of reorganization of the enterprise.

c. The net change in valuation of assets and liabilities, normally an increase during a period of inflation, is credited to the investment.

d. Generally accepted accounting principles have been followed except to reflect the change in the purchasing power of the dollar.

2. Price-level-adjusted cost of property, plant and equipment does not purport to be replacement cost.

BOARD OF DIRECTORS, PANAMA CANAL COMPANY

	<u>APPOINTED</u>
Chairman of the Board: The Honorable Clifford L. Alexander, Jr. Secretary of the Army	Aug. 1977
Members:	
The Honorable Lucy Wilson Benson Under Secretary of State for Security Assistance	Aug. 1977
The Honorable Michael Blumenfeld Assistant Secretary of the Army, Civil Works	Apr. 1979
The Honorable Robert Carswell Deputy Secretary of the Treasury	July 1978
The Honorable Richard N. Cooper Under Secretary of State for Economic Affairs	Aug. 1977
Mr. Charles R. Ford Executive Assistant to the Administrator Environmental Protection Agency	Aug. 1977
The Honorable David E. McGiffert Assistant Secretary of Defense for International Security Affairs	Aug. 1977
The Honorable H.R. Parfitt Governor of the Canal Zone	Apr. 1975
The Honorable Ersa H. Poston Vice Chairman, Merit System Protection Board	Jan. 1979
Admiral Owen W. Siler, (Retired) Commandant, U.S. Coast Guard	Aug. 1977
Honorable Viron P. Vaky Assistant Secretary of State for Inter-American Affairs	July 1978

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