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REPORT TO THE CONGRESS



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DLC01724*

Examination Of Financial Statements Panama Canal Company And Canal Zone Government Fiscal Years 1969 And 1968

B-114839

*DLC 05787
Rep of Panama*

Foreign policies

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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MARCH 13, 1970

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

B-114839

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

This is our report on the examination of financial statements of the Panama Canal Company for the fiscal years ended June 30, 1969, and June 30, 1968, which is required by the Government Corporation Control Act (31 U.S.C. 841), and on the examination of financial statements of the Canal Zone Government for fiscal years 1969 and 1968.

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of the Army; and the President of the Panama Canal Company.

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
IDAAN	Instituto de Acueductos y Alcantarillados Nacionales
GAO	General Accounting Office

D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act requires the Comptroller General to audit the Panama Canal Company's annual financial statements and to submit a report on the audit to the Congress. Because the Company and the Canal Zone Government--the independent agency of the United States charged with the civil government of the Canal Zone--are closely related in mission, organization, and operation of the Canal enterprise as a whole, the General Accounting Office (GAO) also audits the annual financial statements of the Canal Zone Government.

FINDINGS AND CONCLUSIONS

In GAO's opinion the financial statements accompanying the report, subject to certain qualifications as summarized below, present fairly the financial position of the Panama Canal Company and the Canal Zone Government at June 30, 1969 and 1968, the results of their operations for the years then ended, and the sources and application of funds of the Company for the years then ended, in conformity with principles and standards of accounting prescribed for executive agencies by the Comptroller General. (See p. 17.)

The GAO opinions are qualified because:

- The Company's policy of not depreciating or amortizing the cost of certain assets, results in an understatement of the cost of operations of over \$3 million annually. (See p. 10.)
- Certain accounts receivable from the Republic of Panama, outstanding since January 1, 1961, and amounting to about \$2.2 million, are classified as current assets. (See p. 12.)
- A decision to discontinue allocating a portion of the Company's general and administrative expenses to the Canal Zone Government for administrative support services results in less than full disclosure of the cost of operating the Canal Zone Government. (See p. 14.)

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Company continues to believe that it cannot legally amortize or depreciate the cost of certain assets without legislation authorizing it to do so and that the accounting treatment is necessarily founded on this construction of law.

GAO does not believe a change in legislation is necessary to permit the Company to provide for depreciation or amortization of these assets for the purpose of including the costs relative thereto in its financial statements. GAO believes that the cost of the limited special-purpose land assets consisting of excavations, embankments, fills, and related facilities should be depreciated or amortized. (See p. 11.)

The Company and the Canal Zone Government believe that, since the Republic of Panama acknowledges the validity of the accounts receivable and has historically liquidated all delinquent accounts, these receivables are collectible. (See p. 14.)

The President of the Panama Canal Company notified GAO on November 13, 1969, that a letter had been sent to the Bureau of the Budget on October 23, 1969, requesting that provision be made in the fiscal year 1971 budget to permit resumption of the Company's assessment against the Canal Zone Government for administrative support. Provision was not made in the fiscal year 1971 budget request for resumption of the Company's assessment against the Canal Zone Government for administrative support. GAO was notified by a Bureau of the Budget official that the appropriation committees would be informed of this fact. (See p. 15.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress as required by the Government Corporation Control Act to disclose the results of the audit.

CHAPTER I

INTRODUCTION

The General Accounting Office has made an examination of the financial statements of the Panama Canal Company and the Canal Zone Government for the fiscal years ended June 30, 1969 and 1968. The scope of our examination is described on page 16 of this report.

The Company was created as a wholly owned Government Corporation by the act of June 29, 1948 (62 Stat. 1075). This act was amended by the act of September 26, 1950 (64 Stat. 1038), effective July 1, 1951, which vested in the Company the functions pertaining to the waterway and the related supporting business activities and which created the Canal Zone Government, as an independent agency of the United States, to perform the functions normally associated with civil government--including health, sanitation, and protection of the Canal Zone. The enterprise as a whole is referred to throughout this report as the Canal organization.

The functions of the Company pertaining to the waterway include transit operations and the maintenance of the Canal and locks. Supporting service activities include harbor terminal and vessel repair operations; a steamship service between New Orleans, Louisiana, and Cristobal, Canal Zone; a railroad across the Isthmus of Panama; electric power, communication, and water systems; and many other services essential to employee welfare such as retail stores, restaurants, and housing. In addition, under the terms of an interagency agreement, the Company acts as an agent in administering various functions for the Canal Zone Government. These functions include services such as legal and personnel matters; budget and accounting operations; and advancement of funds for the monthly operations, construction costs, and changes in the working capital accounts of the Canal Zone Government.

The management of the Company is vested in a board of directors; the management of the Canal Zone Government is vested in the Governor of the Canal Zone. Both organizations are subject to the supervision of the President of

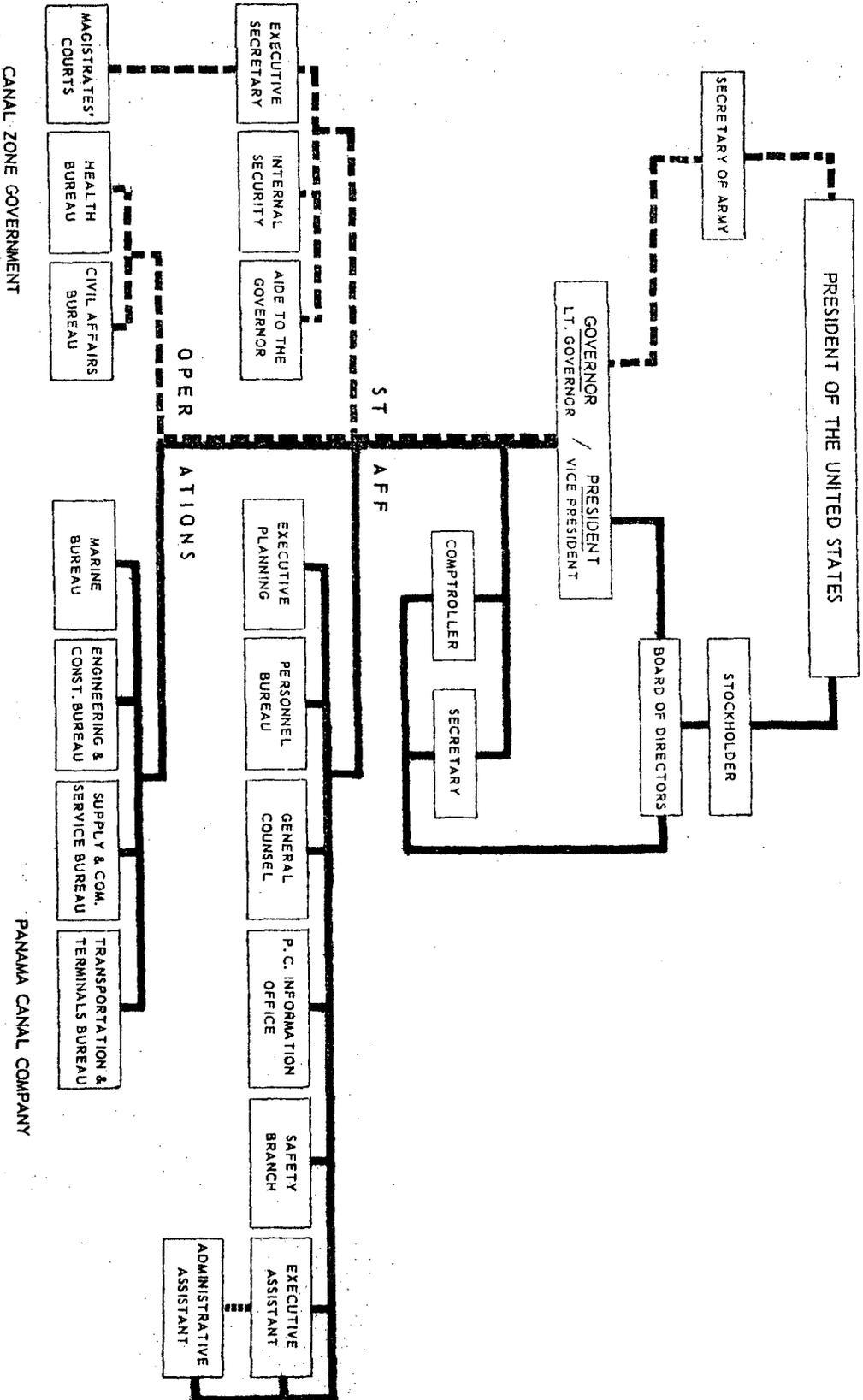
the United States. This supervision has been delegated to the Secretary of the Army who is designated as the sole stockholder of the Company and the personal representative of the President of the United States in matters concerning the activities of the Canal Zone Government.

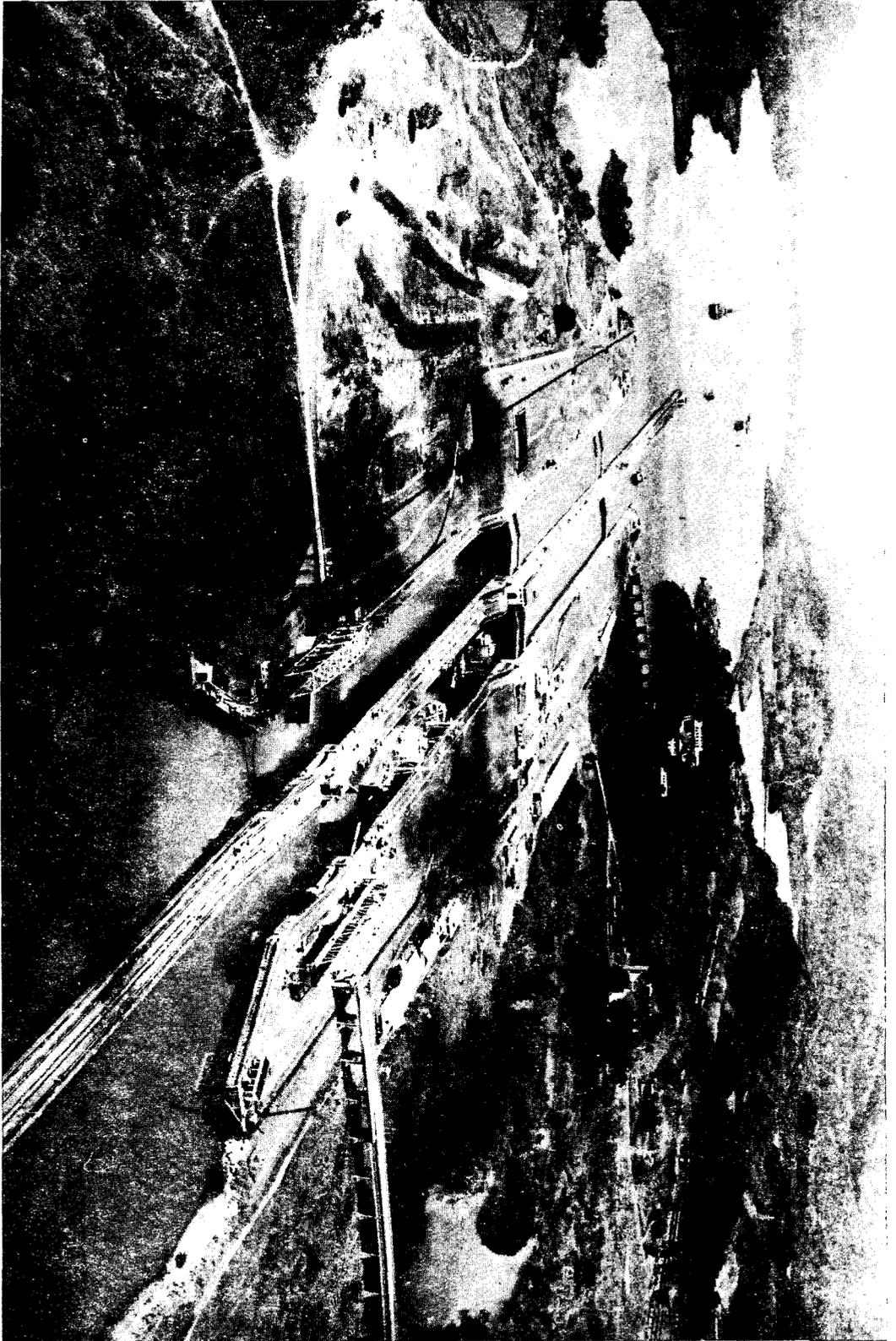
The Governor of the Canal Zone, who is appointed for a term of 4 years by the President of the United States with the advice and consent of the Senate, is the administrative head of the Canal Zone Government and the President of the Company. An organization chart of the Canal organization is presented at the end of this chapter.

The Canal organization is designed to be operationally self-sustaining. The Company uses its revenues from transit and supporting service operations to finance its operating and capital expenditures. Funds appropriated by the Congress are used to repay the Company for cash advanced to cover the operating and capital expenditures of the Canal Zone Government. However, pursuant to section 62g, title 2 of the Canal Zone Code, the Company uses its revenues to reimburse the U.S. Treasury for the net cost of operating the Canal Zone Government--the amount by which the cost of operating the Canal Zone Government, including depreciation of fixed assets, exceeds its revenues.

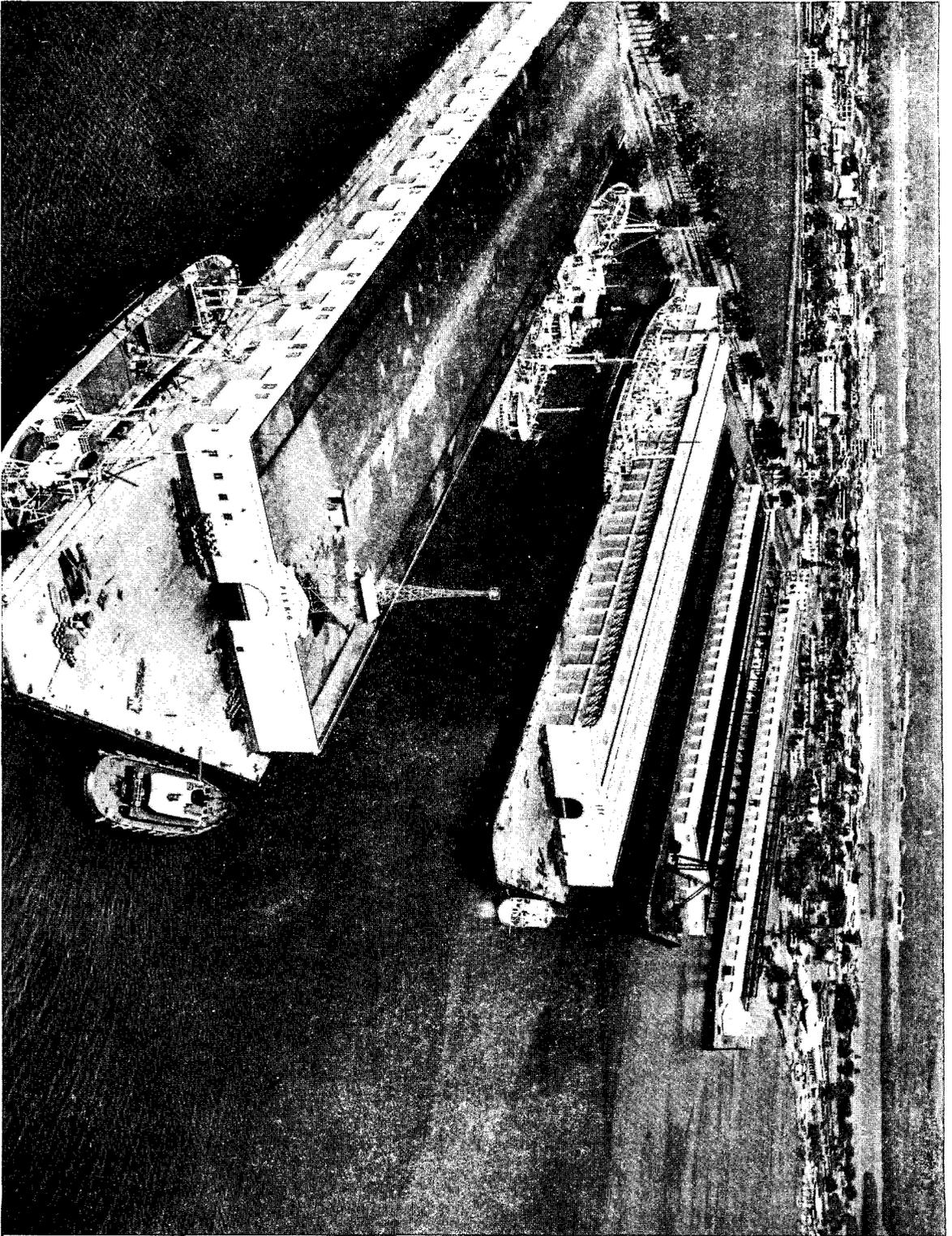
The photographs at the end of this chapter furnished by the Panama Canal Company illustrate some of the activities carried out by the Canal organization.

**ORGANIZATION CHART
OF THE
CANAL ORGANIZATION**

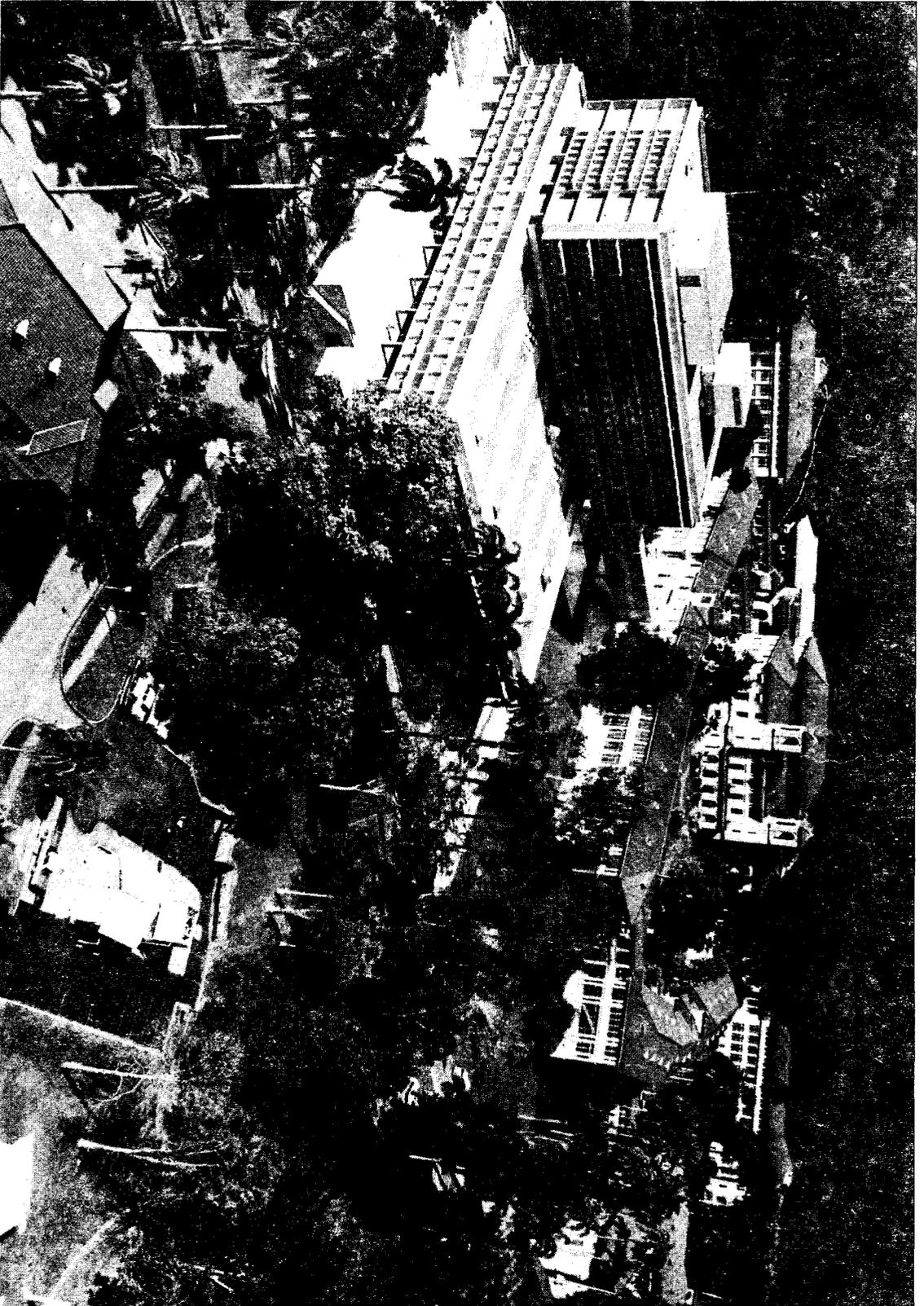




THE LOCKS ON THE PACIFIC SIDE OF THE PANAMA CANAL ARE DIVIDED INTO TWO SETS. THE LARGER OF THE TWO SETS, MIRAFLORES LOCKS, SHOWN IN THE FOREGROUND OF THIS AERIAL PHOTO LOWERS A SHIP 54 FEET IN TWO STEPS. ACROSS THE SMALL LAKE IS THE ONE STEP LOCKS AT PEDRO MIGUEL. WHERE A SHIP ENTERS OR LEAVES GALLARD CUT, THE EIGHT MILE EXCAVATION ACROSS THE CONTINENTAL DIVIDE. TWO SMALL SHIPS BEING HANDLED AS ONE SHIP IN THE 1,000 FOOT LONG LOCK CHAMBERS PRESENTS A RATHER UNUSUAL SIGHT.



ONE OF THE FINEST COMPLEXES OF PIERS ALONG THE LATIN AMERICAN COASTS, IS AT CRISTOBAL IN THE CANAL ZONE. BUILT IN THE EARLY 1900'S THESE PIERS HANDLE CARGO FOR THE CANAL ZONE, PANAMA AND THE FREE ZONE OF COLON AND ALSO PROVIDE STORAGE FOR MATERIALS AWAITING TRANSSHIPMENT.



ONE OF FOUR MAJOR HEALTH CENTERS IN THE CANAL ZONE. GORGAS HOSPITAL, NAMED AFTER ITS FOUNDER, COLONEL WILLIAM CRAWFORD GORGAS, HAS BEEN IN OPERATION SINCE THE EARLY 1900'S. A RECENT ADDITION HAS BEEN ADDED TO THE HISTORIC AND BEAUTIFUL HOSPITAL THAT SITS AT THE BASE OF ANCON HILL.

CHAPTER 2

COMMENTS ON DEPRECIATION, ACCOUNTS RECEIVABLE, AND

ADMINISTRATIVE EXPENSES

DEPRECIATION NOT RECORDED ON CERTAIN FIXED ASSETS

As stated in note 2 to the Company's financial statements, the Company interprets the Canal Zone Code as not requiring the depreciation or amortization of certain canal construction costs relating to titles; treaty rights; excavations of channels, harbors, and basins; and other works totaling \$325 million at June 30, 1969, and \$317 million at June 30, 1968. The note further states that, if these assets were depreciated at 1 percent a year, there would be a charge against operations of \$3.3 million and \$3.2 million in fiscal years ended June 30, 1969 and 1968, respectively. The Company believes that it cannot legally amortize or depreciate the cost of these assets without legislation authorizing it to do so and that the accounting treatment is necessarily founded on this construction of the law.

The Company submitted legislation for the consideration of the Eighty-third, Eighty-fourth, Eighty-eighth, Eighty-ninth, Ninetieth, and Ninety-first Congresses, which would have amended the Canal Zone Code to require the Company to amortize, prospectively, at the rate of 1 percent a year those fixed assets of the Company that are classified as non-depreciable. The legislation submitted to the Eighty-third, Eighty-fourth, and Eighty-eighth Congresses was introduced as House Bill 9665, 5733, and 7900, respectively, but was not acted upon, and the legislation submitted to the Eighty-ninth Congress was not introduced. The Company informed us that the Bureau of the Budget did not recommend the introduction of the legislation to the Ninetieth and Ninety-first Congresses because of the Department of State's views that the introduction of such legislation should be deferred pending the outcome of treaty negotiations with the Republic of Panama.



KNOWN DURING CONSTRUCTION DAYS AS CULEBRA CUT, GAILLARD CUT IS APPROXIMATELY 8 MILES LONG AND WAS CUT OUT OF SOLID ROCK MOST OF THE WAY. NAMED FOR COLONEL DAVID DUBOSE GAILLARD, THE ENGINEER IN CHARGE OF THIS PHASE OF CANAL CONSTRUCTION, THE CUT WAS THE PRINCIPAL EXCAVATION SITE AND OFTEN THE SCENE OF HEARTBREAKING SLIDES WHICH SLOWED ITS COMPLETION. IT CURRENTLY IS BEING WIDENED FROM 300 TO 500 FEET AND HAS BEEN EQUIPPED WITH MODERN LIGHTING FOR SAFER NIGHTTIME OPERATIONS.

The Company has retained this proposed legislation in its legislative program because of the continued suggestions from the Senate Appropriations Committee that the Company submit and make every effort to obtain enactment of the proposal.

The Company stated that it considers it inadvisable under the circumstances to provide for depreciation of these assets solely for the purpose of changing the means of disclosing the cost thereof:

"*** since to do so would compromise the Congress as to:

"(a) what the effective date of depreciation or amortization should be; that is, the date in service, the date of reorganization, or prospectively,

"(b) the appropriate rate to be used, and,

"(c) any other alternatives to which the Congress might care to address legislation."

As has been stated in our reports on the examination of the financial statements of the Panama Canal Company for fiscal years 1963 through 1967 (B-114839, April 17, 1964; B-114839, April 21, 1966; and B-114839, February 6, 1968), we do not believe that a change in legislation is necessary to permit the Company to provide for depreciation or amortization of these assets for the purpose of including the costs relative thereto in its financial statements.

It is our view that the assets in question--excavations, embankments, fills, and related facilities--are limited-purpose land assets whose utility diminishes or terminates as the utility of the canal diminishes or is terminated and that their cost should be depreciated or amortized. These assets were constructed for the special purpose of enabling the passage of ships through the canal. When this purpose ceases, the utility of the assets will presumably also cease. The assets involved thus do not add permanent value to the land but rather have value of a terminable nature.

ACCOUNTS RECEIVABLE FROM
THE REPUBLIC OF PANAMA

As shown in its statements of financial condition, the Company has classified as current assets accounts receivable due from the Republic of Panama in the amounts of \$2,608,655 and \$2,835,970 as of June 30, 1969 and 1968, respectively. These amounts include \$1,864,283 which has been outstanding since January 1, 1961, of which \$1,686,348 is for potable water services provided in calendar years 1959 and 1960.

In accordance with a February 1963 loan agreement between the Agency for International Development (AID) and the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN), an agency for the Republic of Panama, for the extension of the water supply and sewerage system in Panama City, the borrower, IDAAN, is to keep up to date with respect to payments to the Company for water supplied; that is, the invoices presented to IDAAN for water are to be settled within 90 days of the invoice date. The loan agreement provides that noncompliance by IDAAN with this requirement could, at AID's option, result in the suspension of loan disbursements by AID. Subsequent loan agreements between AID and IDAAN, entered into in July 1965, January 1967, July 1967, and May 1969 for the construction or improvement of water and sewerage facilities in Panama City and Colon, included similar provisions requiring IDAAN to keep up to date on the amounts due the Panama Canal Company for water services.

At June 30, 1969, the amounts due the Company from the Republic of Panama included \$535,409 for water processing charges applicable to the period February through June 1969, subsequently paid by November 1969. At June 30, 1968, the amounts due the Company included \$788,369 for water processing charges applicable to the period November 1967 through June 1968, subsequently paid by November 1968.

No specific arrangements, however, were made with IDAAN for the payment of the receivables of \$1,686,348 due from the Republic of Panama since January 1, 1961; this debt had been incurred prior to the establishment of IDAAN and was not considered an obligation of that agency.

During fiscal years 1969 and 1968, the rates charged the Republic of Panama per unit of water (100 cubic feet) were 7.5 cents for the first 100,000 units supplied each month and 7 cents for water supplied each month in excess of 100,000 units. These rates, which were established in April 1960 as part of a program initiated by the President of the United States to improve relations with the Republic, represent a reduction of about 20 percent from the rates previously charged. In June 1960, the Panamanian Government expressed a willingness to accept the reduced rate but also expressed the view that further reductions should be considered.

In addition, the statement of financial condition for the Canal Zone Government shows accounts receivable due from the Republic of Panama in the amounts of \$1,931,008 and \$1,682,456 as of June 30, 1969 and 1968, respectively, which are also classified as current assets. These amounts are payable to the U.S. Treasury, when collected, and are therefore included in the current liabilities of the Canal Zone Government at those dates.

The amounts due the Canal Zone Government include \$1,868,735 and \$1,620,784 at June 30, 1969 and 1968, respectively, for the care of Panamanian nationals at a Canal Zone hospital for the treatment of Hansen's disease (Palo Seco Hospital). Of these amounts, \$317,879 has been outstanding since January 1, 1961. Payments were made by the Republic for bills rendered for the 18-month period ended June 30, 1962. However, no payments have been made for the charges for services provided for fiscal years 1963 through 1969, which have averaged about \$222,000 a year.

The Palo Seco Hospital was established pursuant to the Taft Agreement, December 3, 1904, between the United States and the Republic of Panama, which stated that the United States would accept for treatment such persons as the Republic might request, provided the Republic paid to the United States a reasonable daily charge for each patient admitted. In accordance with an agreement between officials of the Panama Canal and the Comptroller General of the Republic of Panama, effective January 1, 1950, the principle was established for billing the Republic of Panama on the basis of the actual operating costs of the hospital. The average

costs per patient-day for fiscal years 1969 and 1968 were \$9.54 and \$8.06, respectively.

We were informed by officials of the Canal organization that no new patients had been admitted since May 1962. At June 30, 1969, the hospital had 71 patients, of whom 68 were designated as the responsibility of the Republic of Panama. At June 30, 1968, there were 80 patients, of whom 77 were designated as the responsibility of Panama.

As we pointed out in our report on the examination of the Company's financial statements for fiscal years 1967 and 1966 (B-114839, February 6, 1968), various collection efforts made by the Canal organization during fiscal year 1964 led to a November 1964 proposal by the Republic to settle the debt by issuance of Panamanian bonds of 30 years' maturity. However, the Department of State termed this offer "unacceptable"; and in subsequent consideration of the matter, U.S. officials concluded that, in lieu of the proposal for accepting Panama bonds, the settlement of the outstanding debt should be part of the overall negotiations to establish a new relationship between the United States and the Republic. The Canal organization has subsequently limited its collection effort to notifying the State Department and the U.S. Embassy in Panama monthly of the status of the amounts due from the Republic.

In a letter dated September 25, 1969, the Comptroller of the Panama Canal Company informed us that:

"In the Company's view, these amounts are collectible. Historically, the Republic of Panama has liquidated all delinquent accounts, and the Republic of Panama acknowledges the validity of this debt."

CERTAIN COSTS NOT INCLUDED IN CANAL ZONE
GOVERNMENT RESULTS OF OPERATIONS

As stated in the notes to the financial statements of the Company and the Canal Zone Government in fiscal year 1968, the Company discontinued its practice of allocating a portion of its general and administrative expenses to the

Canal Zone Government for administrative support services. This accounting change precluded the need for the Canal Zone Government to request a supplemental appropriation for fiscal year 1968 and enabled it to request a lower supplemental appropriation for fiscal year 1969.

This accounting change, which was disclosed in the justification submitted to the Congress for the Canal Zone Government's fiscal year 1969 supplemental operating expense appropriation, also resulted in a net reduction of \$750,000 in the reported cost of operating the Canal Zone Government for each of the fiscal years 1969 and 1968. However, since the net cost of the Canal Zone Government is absorbed by the Company, the accounting change had no effect on the net results of the Company's operations for these years.

The President of the Panama Canal Company notified us on November 13, 1969, that a letter had been sent to the Bureau of the Budget on October 23, 1969, requesting that provision be made in the fiscal year 1971 budget to permit resumption of the Company's assessment against the Canal Zone Government for administrative support. Provision was not made in the fiscal year 1971 budget request for resumption of the Company's assessment against the Canal Zone Government for administrative support. We were notified by a Bureau of the Budget official that the appropriation committees would be informed of this fact.

Notwithstanding disclosure to the Congress through the appropriation process, we do not concur in the accounting change because it does not result in the full disclosure of the cost of operating the Canal Zone Government.

CHAPTER 3

SCOPE OF EXAMINATION

Our examination, which was made in the Canal Zone, was directed to the Company's statements of financial condition as of June 30, 1969 and 1968, and the related comparative statements of revenue and expenses and the source and application of funds for the fiscal years then ended.

Inasmuch as the Company (1) is required to assume the net cost of the Canal Zone Government as an operating expense and (2) acts as 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 statements of financial condition as of June 30, 1969 and 1968, and its related statements of operation for fiscal years 1969 and 1968.

In 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 own tests of the Canal organization's accounting records.

Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and in view of the financial audit work performed by the Company's internal auditors.

CHAPTER 4

OPINIONS OF FINANCIAL STATEMENTS

PANAMA CANAL COMPANY

In our opinion, subject to the comments on pages 10 and 11 of this report concerning the Company's depreciation policy with respect to certain canal construction costs and to the comments on pages 12 through 14 concerning accounts receivable due from the Republic of Panama, the accompanying financial statements (schedules 1 through 5) present fairly the financial position of the Panama Canal Company at June 30, 1969 and 1968, and the results of its operations and the source and application of its funds for the fiscal years then ended, in conformity with the principles and standards of accounting prescribed for executive agencies by the Comptroller General of the United States.

CANAL ZONE GOVERNMENT

In our opinion, subject to our comments on pages 14 and 15 of this report regarding the exclusion of certain costs and to our comments on pages 12 through 14 concerning accounts receivable due from the Republic of Panama, the accompanying financial statements (schedules 6 through 9) present fairly the financial position of the Canal Zone Government at June 30, 1969 and 1968, and the results of its operations for the fiscal years then ended, in conformity with the principles and standards of accounting prescribed for executive agencies by the Comptroller General of the United States.

FINANCIAL STATEMENTS

PANAMA CANAL COMPANY
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION
 JUNE 30, 1969 and 1968

LIABILITIES AND EQUITY

ASSETS

	1969	1968	1969	1968
CURRENT ASSETS:				
Fund balances with U.S. Treasury and cash:				
Fund balance in U.S. Treasury checking account.....	\$ 28,714,165	\$ 25,321,892		
Cash in commercial banks, on hand, and in transit..	1,501,273	2,123,755		
	<u>30,215,438</u>	<u>27,445,607</u>		
Accounts receivable:				
Canal Zone Government and other U.S. Government agencies.....	1,159,071	1,148,797		
Republic of Panama.....	2,608,655	2,835,970		
Other.....	<u>3,288,266</u>	<u>3,177,784</u>		
Inventories (note 1):				
Materials and supplies.....	7,055,992	7,162,551		
Merchandise held for sale.....	8,441,772	8,440,820		
	<u>5,118,081</u>	<u>4,466,037</u>		
Other current assets.....	<u>13,559,853</u>	<u>12,906,877</u>		
	<u>177,112</u>	<u>214,623</u>		
Total current assets.....	<u>51,008,395</u>	<u>47,729,658</u>		
FIXED ASSETS (note 2 and schedule 4):				
Cost.....	726,445,232	710,894,935		
Less depreciation and valuation allowances.....	<u>226,813,495</u>	<u>220,797,347</u>		
	<u>499,631,737</u>	<u>490,097,588</u>		
DEFERRED CHARGES:				
Relief payments to former employees.....	8,961,000	10,292,000		
Other.....	<u>448,848</u>	<u>441,003</u>		
	<u>9,409,848</u>	<u>10,733,003</u>		
	<u>\$560,049,980</u>	<u>\$548,560,249</u>		
CURRENT LIABILITIES (note 3):				
Accounts payable				
U.S. Government agencies.....			\$ 1,437,543	\$ 1,855,896
Other.....			<u>2,619,350</u>	<u>3,185,695</u>
			<u>4,056,893</u>	<u>5,021,531</u>
Due U.S. Treasury.....			<u>171,081</u>	<u>427,195</u>
Accrued liabilities:				
Employees' leave.....			13,378,862	12,229,848
Salaries and wages.....			2,338,650	2,031,866
Relief payments to former employees.....			1,200,000	1,328,000
Claims for damages to vessels.....			2,646,550	3,391,587
Employees' repatriation.....			632,000	496,375
Other.....			<u>4,174,845</u>	<u>3,448,811</u>
			<u>24,370,907</u>	<u>22,926,487</u>
Other current liabilities.....			<u>965,005</u>	<u>826,260</u>
Total current liabilities.....			<u>29,563,886</u>	<u>29,201,473</u>
LONG-TERM LIABILITIES (note 3):				
Relief payments to former employees.....			7,761,000	8,964,000
Employees' repatriation.....			<u>4,701,000</u>	<u>4,490,025</u>
			<u>12,462,000</u>	<u>13,454,025</u>
ESTIMATED COST OF CANAL LOCKS OVERHAUL.....			<u>1,910,120</u>	<u>636,483</u>
EQUITY OF U.S. GOVERNMENT (note 4 and schedules 3a, b):				
Net direct investment:				
Interest-bearing.....			317,016,504	321,736,896
Non-interest-bearing.....			18,051,630	18,051,630
Retained revenue, non-interest-bearing.....			<u>181,045,840</u>	<u>165,479,742</u>
			<u>516,113,974</u>	<u>505,268,268</u>
			<u>\$560,049,980</u>	<u>\$548,560,249</u>

The "Notes to Financial Statements" on pages 27 through 30 are an integral part of this schedule.

SCHEDULE 2

P A N A M A C A N A L C O M P A N Y

COMPARATIVE STATEMENT OF REVENUE AND EXPENSES
FISCAL YEARS ENDED JUNE 30, 1969 and 1968

	<u>1969</u>	<u>1968</u>
REVENUE:		
Tolls.....	\$ 87,491,533	\$ 83,943,461
Credit for tolls on U. S. Government vessels.....	8,422,043	9,211,220
Commodities sold.....	29,150,943	26,524,041
Service sales and rentals.....	<u>41,448,269</u>	<u>40,770,461</u>
	<u>166,512,788</u>	<u>160,449,183</u>
OPERATING EXPENSES AND OTHER COSTS:		
Payroll and related costs.....	81,747,037	75,835,777
Material and operating expenses.....	12,475,412	9,970,404
Cost of commodities sold.....	19,967,388	18,240,402
Locks overhaul accrual.....	2,712,536	2,920,969
Damage to vessels.....	525,172	2,596,653
Depreciation.....	7,282,033	7,269,301
Net cost of Canal Zone Government.....	23,407,775	22,536,947
Interest on net direct investment of U. S. Government.....	<u>11,882,409</u>	<u>11,983,947</u>
	159,999,762	151,354,400
Less payroll and other costs transferred to Company capital projects and Canal Zone Government programs.....	<u>9,840,711</u>	<u>7,545,779</u>
Total operating expenses and other costs	<u>150,159,051</u>	<u>143,808,621</u>
Net revenue before recognition of extra- ordinary expenses.....	16,353,737	16,640,562
Less extraordinary charges:		
Pending full utilization of IRHE power plant capacity.....	141,525	
Unallocated accident costs.....	244,007	
Loss on disposition of fixed assets	<u>402,107</u>	<u>219,953</u>
NET REVENUE (schedules 3a and b).....	<u>\$ 15,566,098</u>	<u>\$ 16,420,609</u>

The "Notes to Financial Statements" on pages 27 through 30 are an integral part of this schedule.

P A N A M A C A N A L C O M P A N Y

STATEMENT OF CHANGES IN EQUITY OF THE U. S. GOVERNMENT
FISCAL YEAR ENDED JUNE 30, 1969

	<u>Net Direct Investment</u>		<u>Retained revenue, non-interest- bearing</u>
	<u>Interest-bearing</u>	<u>Non-interest- bearing</u>	
EQUITY AT JUNE 30, 1968.....	\$321,736,896	\$18,051,630	\$165,479,742
Additions:			
Net revenue (schedule 2).....			15,566,098
Reactivations:			
Concrete block enclosure, Building 10, N.S.R.F.	8,720		
Various pieces of equipment from Navy Ship Repair Facilities....	180,122		
Adjust value of Drydock No. 1, Balboa, previously reactivated.	90,766		
	<u>322,016,504</u>	<u>18,051,630</u>	<u>181,045,840</u>
Reduction:			
Capital repayment.....	<u>5,000,000</u>		
EQUITY AT JUNE 30, 1969 (schedule 1)	<u>\$317,016,504</u>	<u>\$18,051,630</u>	<u>\$181,045,840</u>

The "Notes to Financial Statements" on pages 27 through 30 are an integral part of this schedule.

SCHEDULE 3b

P A N A M A C A N A L C O M P A N Y

STATEMENT OF CHANGES IN EQUITY OF THE U. S. GOVERNMENT
FISCAL YEAR ENDED JUNE 30, 1968

	<u>Net direct investment</u>		Retained
	<u>Interest-bearing</u>	<u>Non-interest-bearing</u>	revenue, <u>non-interest-bearing</u>
EQUITY AT JULY 1, 1967.....	\$331,759,383	\$18,051,630	\$149,059,133
Additions:			
Net revenue (schedule 2).....			11,420,609
Transfers from other U.S. Govern- ment agencies:			
Vessel Q-612 (renamed "Anayansi"), from the Department of the Army...	85,750		
Adjust value of Building 82, Coco Solo, previously trans- ferred from the U.S. Navy.....	38,594		
Reactivation of plant:			
Building 1-D, Balboa Industrial Area.....	1,913		
Tool crib in Building 2-A, Balboa Industrial Area.....	1,590		
Adjust value of Buildings 2-A and 3, Balboa Industrial Area, previous reactivation.....	1,094		
	<u>331,888,324</u>	<u>18,051,630</u>	<u>160,479,742</u>
Reductions:			
Capital repayment.....	10,000,000		
Transfers to other U.S. Government agencies:			
West Bank fuel oil facilities, to U. S. Air Force.....	151,428		
	<u>10,151,428</u>	<u>-</u>	<u>-</u>
EQUITY AT JUNE 30, 1968 (schedule 1) ..	<u>\$321,736,896</u>	<u>\$18,051,630</u>	<u>\$160,479,742^a</u>

^a
Restated at July 1, 1968--see schedule 3a.

The "Notes to Financial Statements" on pages 27 through 30 are an integral part of this schedule.

P A N A M A C A N A L C O M P A N Y

COMPARATIVE STATEMENT OF FIXED ASSETS
JUNE 30, 1969 and 1968

	1969		1968	
	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
TITLES AND TREATY RIGHTS	\$ 14,728,889	-	\$ 14,728,889	-
INTEREST DURING ORIGINAL CONSTRUCTION	50,892,311	50,892,311	50,892,311	50,892,311
CANAL EXCAVATIONS, FILLS AND EMBANKMENTS	310,657,282	-	302,295,002	-
CANAL STRUCTURES AND EQUIPMENT	169,455,266	82,800,114	165,140,759	79,860,845
OTHER MARITIME FACILITIES	22,351,638	16,902,181	22,357,316	16,781,482
SUPPORTING AND GENERAL FACILITIES	153,574,739	75,084,001	151,234,450	72,198,525
PLANT ADDITIONS IN PROGRESS	3,577,166	-	3,154,475	-
PLANT RETIREMENTS IN PROGRESS	702,973	678,987	671,990	660,859
FACILITIES HELD FOR FUTURE USE	504,968	455,901	419,743	403,325
Total (schedule 1)	\$726,445,232	\$226,813,495	\$710,894,935	\$220,797,347

The "Notes to Financial Statements" on pages 27 through 30 are an integral part of this schedule.

SCHEDULE 5

P A N A M A C A N A L C O M P A N Y

COMPARATIVE STATEMENT OF SOURCE AND APPLICATION OF FUNDS
JUNE 30, 1969 AND 1968

SOURCE OF FUNDS	<u>1969</u>	<u>1968</u>
From Operations:		
Revenues (schedule 2).....	\$166,512,788	\$160,449,183
Less operating expenses and extraordinary charges...	<u>150,946,690</u>	<u>144,028,574</u>
Net revenue.....	15,566,098	16,420,609
Add transactions not requiring expenditure of funds:		
Provision for depreciation.....	7,282,033	7,269,301
Provision for canal locks overhaul.....	2,712,536	2,920,969
Other.....	<u>653,091</u>	<u>365,574</u>
Total funds from operations.....	26,213,758	26,976,453
Proceeds from disposition of fixed assets.....	89,370	71,451
Adjustment to alien cash relief liability.....	128,000	196,025
Net change in working capital other than cash.....	<u>-</u>	<u>3,399,675</u>
Total.....	<u>\$ 26,431,128</u>	<u>\$ 30,643,604</u>
 APPLICATION OF FUNDS		
Capital expenditures.....	\$ 17,075,906	\$ 13,651,717
Canal locks overhaul expenditures.....	1,438,898	2,851,478
Capital repayment.....	5,000,000	10,000,000
Net change in working capital other than cash.....	146,494	-
Increase in cash.....	<u>2,769,830</u>	<u>4,140,409</u>
Total.....	<u>\$ 26,431,128</u>	<u>\$ 30,643,604</u>

The "Notes to Financial Statements" on pages 27 through 30 are an integral part of this schedule.

NOTES TO FINANCIAL STATEMENTS

1. Inventories. Inventories of operating materials and supplies are stated principally at standard cost. Inventories of merchandise for sale in warehouses are stated at average cost on a line-item basis; and inventories of merchandise for sale in retail outlets are stated at average cost using the retail method for valuation.

The operating materials and supplies included inactive stock (items having no issues during the past 12 or more months) valued at \$2.5 million and \$2.4 million at the end of fiscal years 1968 and 1969, respectively. This stock consists primarily of items having a use cycle in excess of 12 months and stand-by items which have no recurring demand but which must be available immediately in an emergency. The Company is now reviewing and classifying this stock either into the above categories or as excess.

2. Fixed assets. Fixed assets generally are stated at cost or, if acquired from another Government agency, at original cost to such agency. Valuation allowances have been established in accordance with sections 62 and 412 of title 2 of the Canal Zone Code. These allowances consist of: (a) \$50.9 million for interest during original construction; (b) \$14.3 million and \$14.1 million as of June 30, 1969, and 1968, respectively, to reduce to usable value the cost of fixed assets transferred to the Company from The Panama Canal (agency) at July 1, 1951; and (c) \$72.8 million and \$82.7 million as of June 30, 1969, and June 30, 1968, respectively, 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. Although all valuation allowances established under authority of the Canal Zone Code are carried in the books of account, both the cost and corresponding valuation allowances of defense facilities and suspended construction projects, 2(c) above, have been excluded from the statement of financial condition.

Because of historical practice and interpretation of the Canal Zone Code, depreciation or amortization allowances have not been provided on titles, treaty rights, and

excavation of channels, harbors, basins, and other works costing \$325 million at June 30, 1969, and \$317 million at June 30, 1968. If these assets were depreciated at the rate of 1 percent a year, there would be a charge against operations of \$3.3 million and \$3.2 million as of June 30, 1969, and 1968, respectively. Depreciation allowances on all other fixed assets are accumulated on a straight-line basis.

3. Liabilities. Certain liabilities and offsetting receivables in the amount of \$690,000 that were applicable to payroll transactions of the Canal Zone Government are excluded from the Company's fiscal year 1969 accounts. The June 30, 1968, balances have been restated to facilitate comparison.

Effective with fiscal year 1968, the basis for computing the liability for "Relief Payments to Former Employees" was changed from a projection of experienced attrition from deaths to an actuarial basis. The adjustment resulted in an increase of \$3.2 million in the fiscal year 1968 liabilities. Because this increase was established by an offsetting charge to a deferred expense account which was amortized against annual operations in the amount of the cash outlay for the year, the change had no effect on net income.

4. Equity of the U.S. Government. The net direct interest-bearing investment was established in accordance with section 62 of title 2 of the Canal Zone Code. Interest thereon is paid at a rate established annually by the Secretary of the Treasury.

The rates for 1968 and 1969 were 3.668 and 3.687 percent, respectively. The net direct non-interest-bearing investment consists of the costs of the Thatcher Ferry Bridge constructed in accordance with the act of July 23, 1956 (70 Stat. 596). The act of August 25, 1959 (73 Stat. 428) amended section 71 of title 2 of the Canal Zone Code to provide the Company with authority to borrow funds from the U.S. Treasury not to exceed \$10 million outstanding at any time at interest rates to be determined by the Secretary of the Treasury.

The non-interest-bearing retained revenue of the U.S. Government at June 30, 1968, was increased by \$5 million to reflect the reversal of a fiscal year 1968 provision for the stabilization of canal slide hazards which did not materialize to the extent initially estimated. The cost of stabilization work done during fiscal years 1968 and 1969 was charged to operations during the 2 fiscal years in the amounts of \$337,000 and \$827,000, respectively.

5. Contingent and other liabilities. The Company is contingently liable with respect to certain pending suits and claims. In addition, the Company has outstanding at all times certain liabilities of indeterminable amounts, which are recognized in the accounts on an as-paid basis. These liabilities include, principally, commitments for construction work, supplies and services, and death and disability benefits payable under provisions of the Federal Employees' Compensation Act.

The maximum liability which could result from outstanding claims and lawsuits is estimated to be \$30.4 million at June 30, 1969. Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$13.3 million at June 30, 1969, and \$7.9 million at June 30, 1968.

The Company held negotiable U.S. Government securities and Republic of Panama securities in the face amount of \$2,535,000 and \$2,515,000 at June 30, 1969, and 1968, respectively, which were deposited by customers and Panamanian insurance firms to guarantee contract performance and payment of tolls and other charges. In addition, the Company held on behalf of the Canal Zone Government, negotiable securities in the face amount of \$673,000 and \$633,000 as of June 30, 1969, and 1968, respectively, to guarantee payment of possible judgments against insurance companies operating in the Canal Zone.

Effective May 9, 1969, the Company entered into a 25-year contract with Instituto de Recursos Hidraulicos y Electricacion, an autonomous agency of the Republic of Panama, for the purchase of electric power to be produced by the agency. As of June 30, 1969, the Company's total

minimum liability over the remaining period of the contract amounted to about \$37 million.

Under provisions of a lease agreement with U.S. Army Forces Southern Command, the Company is also liable for an indefinite period in the amount of \$690,000 a year for minimum annual usage of electrical energy produced by the power barge "Sturgis".

6. Other. Effective with fiscal year 1968, the annual assessment to the Canal Zone Government of \$750,000 for general and administrative support performed by the Panama Canal Company was discontinued. This was followed in fiscal year 1969 by transfer from the Canal Zone Government to the Panama Canal Company of the responsibility for the cost and an equivalent amount of revenue associated with retail sales of Canal Zone Government pharmacies. These changes in accounting treatment had no effect upon the net results of the Company's operations.

CANAL ZONE GOVERNMENT
COMPARATIVE STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1969 and 1968

LIABILITIES AND EQUITY

ASSETS

	1969	1968
CURRENT ASSETS:		
Fund balances with U.S. Treasury and cash:		
Fund balances in U.S. Treasury checking account.....	\$ 5,442,462	\$ 10,317,559
Cash on hand and in transit.....	230,752	267,200
	<u>5,673,214</u>	<u>10,584,759</u>
Investments (at cost):		
U.S. Treasury note.....	1,000,000	
U.S. Treasury bonds.....	600,000	1,800,000
	<u>1,600,000</u>	<u>1,800,000</u>
Accounts receivable:		
U.S. Government agencies.....	720,435	985,394
Republic of Panama.....	1,931,008	1,682,456
Accrued interest receivable on postal fund investments.....	12,520	6,875
Other.....	502,267	505,393
	<u>3,166,230</u>	<u>3,180,118</u>
Inventory of hospital supplies.....	360,785	298,164
Other current assets.....	6,254	3,794
	<u>10,806,483</u>	<u>15,866,835</u>
TOTAL CURRENT ASSETS.....	7,245,915	6,704,264
SUMS DUE FROM FUTURE APPROPRIATIONS.....	86,044,706	81,281,886
FIXED ASSETS (schedule 9):		
Cost.....	29,261,471	27,591,834
Less depreciation and valuation allowances.....	56,783,235	53,690,052
	<u>\$ 74,835,633</u>	<u>\$ 76,261,151</u>
LIABILITIES AND EQUITY:		
CURRENT LIABILITIES (Note 1):		
Accounts payable:		
Due U.S. Treasury.....	\$ 3,340,495	\$ 3,365,152
Panama Canal Company and other U.S. Government agencies.....	199,922	161,176
	<u>3,540,417</u>	<u>3,526,328</u>
Postal money orders payable.....	753,759	764,139
Less advance deposits with U.S. Post Office Department.....	369,861	288,895
	<u>383,898</u>	<u>475,244</u>
Postal savings certificates.....	1,159,387	1,413,683
Accrued liabilities:		
Salaries and wages.....	635,326	559,028
Employees' leave.....	3,683,915	3,396,464
Employees' repatriation.....	423,000	285,800
Relief payments to former employees.....	103,000	111,000
Other.....	17,413	7,894
	<u>4,862,654</u>	<u>4,360,186</u>
Other current liabilities.....	78,770	138,729
	<u>10,025,126</u>	<u>9,914,170</u>
TOTAL CURRENT LIABILITIES.....	2,393,000	2,165,000
LONG-TERM LIABILITIES:		
Employees' repatriation.....	643,000	746,000
Relief payments to former employees.....	3,036,000	2,911,000
	<u>3,679,000</u>	<u>3,667,000</u>
EQUITY OF U. S. GOVERNMENT (schedules 7a and b):		
Operating funds.....	398,245	265,849
Capital funds.....	4,232,242	9,181,916
Invested capital.....	57,144,020	53,988,216
	<u>61,774,507</u>	<u>63,435,981</u>
	<u>\$ 74,835,633</u>	<u>\$ 76,261,151</u>

The "Notes to Financial Statements" on page 37 are an integral part of this schedule.

SCHEDULE 7a

CANAL ZONE GOVERNMENT

STATEMENT OF CHANGES IN EQUITY OF THE U. S. GOVERNMENT
FISCAL YEAR ENDED JUNE 30, 1969

	<u>Total</u>	<u>Operating funds</u>	<u>Capital funds</u>	<u>Invested capital</u>
EQUITY AT JUNE 30, 1968:				
Unobligated funds.....	\$ 6,080,943	\$ 111	\$ 6,080,832	
Obligated funds.....	3,366,822	265,738	3,101,084	
Invested capital:				
Fixed assets, net.....	53,690,052			\$53,690,052
Inventories.....	<u>298,164</u>			<u>298,164</u>
	<u>63,435,981</u>	<u>265,849</u>	<u>9,181,916</u>	<u>53,988,216</u>
INCREASES IN EQUITY:				
Appropriations by the Congress.....	<u>38,769,500</u>	<u>38,569,500</u>	<u>200,000</u>	
DECREASES IN EQUITY:				
Net cost of Canal Zone Government (schedule 8a):				
Accrued operating expenses.....	38,044,873	38,044,873		
Depreciation.....	1,920,253			1,920,253
Plant adjustments, net.....	128,086			128,086
Increase in liabilities for:				
Employees' accrued leave.....	287,451			287,451
Employees' repatriation.....	<u>365,200</u>			<u>365,200</u>
	40,745,863	38,044,873		2,700,990
Less recovery of costs.....	<u>17,338,088</u>	<u>17,338,088</u>		
	<u>23,407,775</u>	<u>20,706,785</u>		<u>2,700,990</u>
Other decreases:				
Recovery of costs coverable into U. S. Treasury:				
From regular operations.....	17,338,088	17,338,088		
From disposition of fixed assets.....	8,151			8,151
Unobligated operating funds withdrawn by U. S. Treasury, net of restorations amounting to \$25,554.96.....	<u>329,611</u>	<u>329,611</u>		
	17,675,850	17,667,699		8,151
Less increase in liabilities for employees' accrued leave and repatriation, not coverable into U. S. Treasury until funds have been appropriated therefor.....	<u>652,651</u>			<u>652,651</u>
	<u>17,023,199</u>	<u>17,667,699</u>		<u>(644,500)</u>
	<u>40,430,974</u>	<u>38,374,484</u>		<u>2,056,490</u>
TRANSFERS BETWEEN FUNDS:				
Capital expenditures.....			(5,142,131)	5,142,131
Removal costs of plant retirements.....			(7,543)	7,543
Increase in inventories.....		(62,620)		62,620
		<u>(62,620)</u>	<u>(5,149,674)</u>	<u>5,212,294</u>
Total increase or (decrease).....	<u>(1,661,474)</u>	<u>132,396</u>	<u>(4,949,674)</u>	<u>3,155,804</u>
EQUITY AT JUNE 30, 1969:				
Unobligated funds.....	2,658,179		2,658,179	
Obligated funds.....	1,972,308	398,245	1,574,063	
Invested capital:				
Fixed assets, net.....	56,783,235			56,783,235
Inventories.....	<u>360,785</u>			<u>360,785</u>
TOTAL (schedule 6)	<u>\$61,774,507</u>	<u>\$ 398,245</u>	<u>\$ 4,232,242</u>	<u>\$57,144,020</u>

The "Notes to Financial Statements" on page 37 are an integral part of this schedule.

SCHEDULE 7b

CANAL ZONE GOVERNMENT

STATEMENT OF CHANGES IN EQUITY OF THE U. S. GOVERNMENT
FISCAL YEAR ENDED JUNE 30, 1968

	<u>Total</u>	<u>Operating funds</u>	<u>Capital funds</u>	<u>Invested capital</u>
EQUITY AT JUNE 30, 1967:				
Unobligated funds.....	\$ 6,875,415		\$ 6,875,415	
Obligated funds.....	1,396,750	\$ 360,950	1,035,800	
Invested capital:				
Fixed assets, net.....	52,582,505			\$52,582,505
Inventories.....	<u>334,828</u>			<u>334,828</u>
	<u>61,189,498</u>	<u>360,950</u>	<u>7,911,215</u>	<u>52,917,333</u>
INCREASES IN EQUITY:				
Appropriations by the Congress.....	<u>40,500,000</u>	<u>36,000,000</u>	<u>4,500,000</u>	
DECREASES IN EQUITY:				
Net cost of Canal Zone Government (schedule 8b):				
Accrued operating expenses.....	35,693,506	35,693,506		
Depreciation.....	1,900,956			1,900,956
Plant adjustments, net.....	196,819			196,819
Increase in liabilities for:				
Employees' accrued leave.....	472,116			472,116
Employees' repatriation.....	<u>120,800</u>			<u>120,800</u>
	<u>38,384,197</u>	<u>35,693,506</u>		<u>2,690,691</u>
Less recovery of costs.....	<u>15,847,250</u>	<u>15,847,250</u>		
	<u>22,536,947</u>	<u>19,846,256</u>		<u>2,690,691</u>
Other decreases:				
Recovery of costs coverable into U. S. Treasury:				
From regular operations.....	15,847,250	15,847,250		
From disposition of fixed assets.....	23,977			23,977
Unobligated operating funds withdrawn by U. S. Treasury, net of restorations amounting to \$22,521	<u>438,259</u>	<u>438,259</u>		
	<u>16,309,486</u>	<u>16,285,509</u>		<u>23,977</u>
Less increase in liabilities for employees' accrued leave and repatriation, not coverable into U. S. Treasury until funds have been appropriated therefor.....	<u>592,916</u>			<u>592,916</u>
	<u>15,716,570</u>	<u>16,285,509</u>		<u>(568,939)</u>
	<u>38,253,517</u>	<u>36,131,765</u>		<u>2,121,752</u>
TRANSEERS BETWEEN FUNDS:				
Capital expenditures.....			(3,165,576)	3,165,576
Removal costs of plant retirements.....			(63,723)	63,723
Decrease in inventories.....		<u>36,664</u>		<u>(36,664)</u>
		<u>36,664</u>	<u>(3,229,299)</u>	<u>3,192,635</u>
Total increase or (decrease).....	<u>2,246,483</u>	<u>(95,101)</u>	<u>1,270,701</u>	<u>1,070,883</u>
EQUITY AT JUNE 30, 1968:				
Unobligated funds.....	6,080,943	111	6,080,832	
Obligated funds.....	3,366,822	265,738	3,101,084	
Invested capital:				
Fixed assets, net.....	53,690,052			53,690,052
Inventories.....	<u>298,164</u>			<u>298,164</u>
TOTAL (schedule 6)	<u>\$63,435,981</u>	<u>\$ 265,849</u>	<u>\$ 9,181,916</u>	<u>\$53,988,216</u>

The "Notes to Financial Statements" on page 37 are an integral part of this schedule.

SCHEDULE 8a

CANAL ZONE GOVERNMENT
STATEMENT OF OPERATIONS
FISCAL YEAR ENDED JUNE 30, 1969

	Funded costs	Operating Expenses			Recoveries	Net cost of operations borne by Panama Canal Company
		Accrued depreciation	Other non-fund charges and credits	Total		
CIVIL FUNCTIONS:						
Office of director.....	\$ 197,713	\$ 167	\$ 6,176	\$ 197,056	-	\$ 197,056
Customs and immigration.....	715,834	2,099	14,812	732,745	37,860	694,905
Postal service.....	1,356,088	13,000	16,709	1,385,797	1,521,508	(137,711)
Police protection.....	4,126,737	59,430	44,542	4,228,709	28,178	4,270,531
Fire protection.....	1,667,451	37,225	13,393	1,718,069	951,204	766,865
Judicial system.....	121,501	1,949	(1,037)	122,413	73,788	48,625
Education.....	12,356,122	645,111	3,592	13,004,825	7,843,356	5,161,469
Public areas and facilities.....	1,530,402	651,176	-	2,181,578	-	2,181,578
Library.....	199,567	1,216	298	201,071	6,718	194,353
Internal security.....	34,957	4,727	(3,754)	35,930	-	35,930
Civil defense.....	74,598	230	1,810	76,638	-	76,638
Licenses and other fees.....	22,637,469	1,416,330	96,541	24,150,340	10,667,142	13,483,198
HEALTH AND SANITATION:						
Office of director.....	174,088	-	5,416	179,504	2,080	177,424
Hospitals and medical services:						
Gorgas hospital complex.....	7,428,819	283,027	163,455	7,855,301	4,436,627	3,418,674
Coco Solo hospital.....	2,556,626	76,557	9,067	2,642,250	1,197,890	1,444,360
Corozal hospital.....	1,257,534	29,602	14,152	1,301,288	254,528	1,046,760
Palo Seco hospital.....	247,532	8,215	1,981	257,728	248,362	9,366
Other public health services:						
Sanitation.....	566,995	5,542	9,253	581,790	6,930	574,860
Garbage collection.....	226,000	-	-	226,000	-	226,000
Preventive medicine and quarantine.....	436,781	3,316	(2,087)	438,010	19,945	418,065
School health unit.....	100,784	-	-	100,784	-	100,784
Veterinarian services.....	278,220	3,749	6,197	288,166	114,744	173,422
Cemeteries, operation and maintenance.....	96,783	1,877	-	97,960	21,902	76,057
Dental clinics.....	300,459	4,906	-	305,365	145,976	159,389
Care of the dead.....	68,054	4,207	-	72,261	18,509	53,752
	13,738,675	420,298	187,434	14,346,407	6,467,494	7,878,913
GENERAL EXPENSES:						
Office of the Governor.....	184,235	-	1,656	185,891	4,150	181,741
Recruitment and repatriation.....	295,498	-	-	295,498	-	295,498
Employees' home leave travel.....	429,280	-	-	429,280	-	429,280
Transportation of employees' vehicles.....	32,935	-	-	32,935	-	32,935
Government buildings and sites.....	314,164	32,905	-	367,069	198,764	168,305
Relief payment to former employees.....	110,801	-	-	110,801	-	110,801
Net loss or (gain) on plant retirements.....	-	-	128,086	128,086	-	128,086
Net increase in accrued liability for employees' repatriation.....	-	-	365,200	365,200	-	365,200
Miscellaneous charges and credits.....	298,116	30,720	1,820	330,656	538	330,118
	1,668,729	83,625	496,762	2,249,116	203,452	2,045,664
TOTAL (schedule 7a)	\$38,044,873	\$1,920,253	\$780,737	\$40,745,863	\$17,338,088	\$23,407,775

The "Notes to Financial Statements" on page 37 are an integral part of this schedule.

CANAL ZONE GOVERNMENT
STATEMENT OF OPERATIONS
FISCAL YEAR ENDED JUNE 30, 1968

	Operating Expenses			Recoveries	Net Cost of operations borne by Panama Canal Company
	Funded costs	Accrued depreciation	Other non-fund charges and credits		
CIVIL FUNCTIONS:					
Office of director	\$ 179,385	\$ 180	\$ 6,663	\$ 186,228	\$ 186,228
Customs and immigration	695,056	1,058	2,135	698,249	698,209
Postal service	1,337,777	13,640	1,359,724	1,444,088	4,141,206
Police protection	4,012,356	55,268	86,383	4,154,007	859,291
Fire protection	1,567,971	32,620	20,441	1,621,032	781,741
Judicial system	116,088	1,945	3,993	122,026	47,945
Education	10,922,367	657,238	13,779	11,595,384	4,738,445
Public areas and facilities	1,575,059	633,659	2,208,718	2,208,718	2,208,718
Library	256,678	1,281	1,767	259,726	253,266
Internal security	152,417		3,883	196,300	196,300
Civil defense	33,951	3,914		37,865	37,865
Licenses and other fees	68,817	229	(59)	69,987	(123,747)
	<u>20,958,922</u>	<u>1,400,832</u>	<u>161,492</u>	<u>22,521,246</u>	<u>9,421,884</u>
HEALTH AND SANITATION:					
Office of director	153,960		2,469	157,429	1,827
Hospitals and medical services:					
Gorgas hospital and clinics	7,266,596	296,032	73,638	7,636,266	4,312,650
Coco Solo hospital and clinics	2,503,961	73,581	36,389	2,613,931	1,286,947
Corozal hospital	1,188,154	31,500	16,351	1,225,905	111,009
Palo Seco hospital	239,595	8,158	3,290	231,047	242,948
Public health centers	228,879		(1,530)	227,349	23,558
Other public health services:					
Satisfaction	533,792	5,623	5,713	544,128	6,979
Garbage collection	204,000		(54)	204,000	204,000
Preventive medicine and quarantine	260,865	921		261,732	261,732
School health unit	82,837			82,837	82,837
School health services	245,645	3,125	(1,214)	248,156	108,382
Veterinarian services	83,652	829		84,481	19,734
Cemeteries, operation and maintenance					64,722
	<u>12,992,920</u>	<u>420,669</u>	<u>135,962</u>	<u>13,549,551</u>	<u>6,114,034</u>
GENERAL EXPENSES:					
Office of the Governor	164,848		336	165,184	6,800
Special adjustment in employees' accrued leave			173,000	173,000	
Recruitment and repatriation	401,515			401,515	
Employees' home leave travel	385,893		385,893	385,893	
Transportation of employees' vehicles	32,756		32,756	32,756	
Government buildings and sites	373,840	47,331		421,171	189,342
Relief payment to former employees	121,455		196,819	121,455	
Net loss or (gain) on plant retirements			196,819	196,819	
Net increase in accrued liability for employees' repatriation	261,357	32,124	120,800	294,807	115,190
Miscellaneous charges and credits	1,741,664	79,455	492,281	2,313,400	311,332
	<u>\$35,693,506</u>	<u>\$1,900,956</u>	<u>\$789,735</u>	<u>\$38,384,197</u>	<u>\$15,847,250</u>
TOTAL (schedule 7b)					
				<u>2,313,400</u>	<u>311,332</u>
				<u>\$22,521,246</u>	<u>\$22,521,246</u>

The "Notes to Financial Statements" on page 37 are an integral part of this schedule.

CANAL ZONE GOVERNMENT
COMPARATIVE STATEMENT OF FIXED ASSETS
JUNE 30, 1969 AND 1968

SCHEDULE 9

	1969		1968	
	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
PERMANENT TOWNSITES.....	\$ 7,868,649	\$ 3,795,487	\$ 7,896,493	\$ 3,647,094
ROADS, STREETS, SIDEWALKS, STREET LIGHTING, SEWER SYSTEM AND PUBLIC AREAS AND FACILITIES:				
Roads, streets and sidewalks.....	14,636,149	8,424,882	13,950,377	8,125,587
Sewer system	6,698,932	2,642,644	6,502,899	2,500,973
Public areas and facilities.....	575,517	103,787	562,164	88,595
Street lighting system.....	1,433,448	632,969	1,327,642	613,660
Fire hydrant system.....	233,398	133,346	232,420	127,604
	<u>23,577,444</u>	<u>11,937,628</u>	<u>22,575,502</u>	<u>11,456,419</u>
SUPPORTING AND GENERAL FACILITIES:				
Health bureau.....	16,704,799	4,393,861	15,370,608	4,091,694
Schools division.....	27,118,985	5,497,941	25,916,818	4,881,368
General offices and other buildings.....	3,046,451	1,623,134	2,932,036	1,522,409
Police division.....	888,741	373,274	834,025	325,257
Postal service.....	447,304	85,211	490,088	72,211
Customs and Immigration.....	211,919	176,679	251,659	214,690
Fire division.....	1,026,642	397,182	898,250	400,262
Magistrates courts.....	72,540	38,870	72,540	36,921
Miscellaneous equipment.....	2,833	95	848	848
Experimental gardens.....	37,494	14,746	37,494	13,778
License section.....	3,274	2,233	3,274	2,004
Civil affairs director.....	171,906	39,274	160,629	34,380
Library section.....	22,713	6,081	26,078	4,865
	<u>49,755,601</u>	<u>12,648,581</u>	<u>46,994,347</u>	<u>11,600,687</u>
PLANT ADDITIONS IN PROGRESS.....	2,680,541	-	1,610,539	-
PLANT RETIREMENTS IN PROGRESS.....	53,333	53,322	95,867	91,867
FACILITIES HELD FOR FUTURE USE.....	2,109,138	826,453	2,109,138	795,767
TOTAL (schedule 6).....	<u>\$86,044,706</u>	<u>\$29,261,471</u>	<u>\$81,281,886</u>	<u>\$27,591,834</u>

NOTES TO FINANCIAL STATEMENTS

1. Liabilities. Certain liabilities in the amount of \$690,000, formerly reflected as accounts payable due Panama Canal Company, were reclassified in the fiscal year 1969 statements as accrued liability for salaries and wages and as accounts payable due other U.S. Government agencies. The June 30, 1968, balances have been restated to facilitate comparison.
2. Contingent and other liabilities. Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$2 million and \$3.4 million at June 30, 1969 and 1968, respectively. In addition, the Canal Zone Government is liable for an indeterminable amount with respect to death and disability payments under the Federal Employees' Compensation Act. The maximum liability which could result from outstanding claims and lawsuits is estimated to be \$1.1 million.
3. Other. Effective with fiscal year 1968, the annual assessment to the Canal Zone Government for general and administrative support performed by the Panama Canal Company was discontinued. Effective with fiscal year 1969, responsibility for the cost and an equivalent amount of revenue associated with retail sales at Canal Zone Government pharmacies was transferred to the Company. These changes had the effect of reducing the annual appropriation of the Canal Zone Government by \$1.1 million and the net cost of operations by \$750,000.