

September 1990

FINANCIAL REVIEW

Panama Canal Commission's 1989 Financial Statements



142264

**Comptroller General
of the United States**

B-114839

September 21, 1990

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

This report presents the results of our limited review of the Panama Canal Commission's financial statements for the year ended September 30, 1989. Due to security concerns, we were unable to travel to the Republic of Panama to conduct the 1989 financial audit of the Commission, as required by 22 U.S.C. 3723(a). Instead, we conducted a limited review of the Commission's financial statements for the year ended September 30, 1989. This review was substantially less in scope than an audit.

Our review did not disclose any material modifications that should be made in the format of the accompanying financial statements in order for them to be presented in conformity with generally accepted accounting principles. However, since we were unable to conduct a financial audit, we cannot be assured that the financial statements are free of material misstatements. We also were unable to report on the Commission's internal control structure and on its compliance with laws and regulations.

In conducting our limited review, we primarily analyzed the financial statements for unusual fluctuations and other changes from the prior years and obtained explanations from Commission personnel by telephone. We also compiled, for additional analysis, unaudited schedules of treaty-related costs and savings that are required by 22 U.S.C. 3723(b). We accomplished this compilation by obtaining the amounts from the federal agencies incurring such costs and savings.

The Commission is a federal agency that was established on October 1, 1979, to carry out the responsibilities of the United States with respect to the Panama Canal Treaty of 1977. The Commission will operate the canal until the treaty terminates on December 31, 1999, when the Republic of Panama will assume full responsibility for the canal.

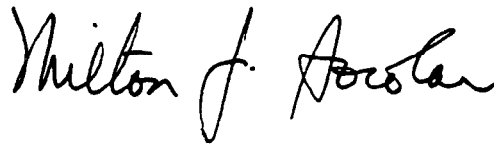
Our review noted the following item of interest.

**Floating Equipment
Reserve**

In July 1984, the Commission established, without regulatory approval, a reserve for \$2.5 million to provide for the future repairs of cranes, dredges, tugs, and other floating equipment. As a result, we qualified

our fiscal years 1984 to 1987 opinions on the Commission's financial statements, and would have qualified the fiscal year 1988 statements, had we performed an audit to opine on the statements. In August 1989, the President of the United States, as the regulator, approved the Commission's request for a toll rate increase, effective October 1, 1989. The Commission's request included the floating equipment reserve and, therefore, this matter is resolved.

As required by the Panama Canal Act of 1979, we are sending copies of this report to the President of the United States and the Secretary of the Treasury. Also, we are sending copies to the Director of the Office of Management and Budget; the Secretaries of State, Defense, and the Army; the Chairman of the Board of Directors of the Panama Canal Commission; and the Acting Administrator of the Panama Canal Commission.

A handwritten signature in black ink, reading "Milton J. Acosta". The signature is written in a cursive style with a large, stylized "M" and "A".

Acting Comptroller General
of the United States

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Financial Statements

Statement of Financial Position (Unaudited)

September 30, 1989 and 1988

A S S E T S	1989	1988
PROPERTY, PLANT AND EQUIPMENT:		
At cost (Note 1c).....	\$969,630,333	\$936,111,054
Less accumulated depreciation and valuation allowances (Notes 1e and 2).....	<u>484,884,187</u>	<u>464,872,854</u>
	<u>484,746,146</u>	<u>471,238,200</u>
 CURRENT ASSETS:		
Cash:		
U.S. Treasury account.....	93,226,977	138,872,443
Cash in commercial banks and on hand.....	6,077,070	5,800,906
Postal, other trust funds and cash in transit.....	<u>2,537,751</u>	<u>2,442,789</u>
	<u>101,841,798</u>	<u>147,116,138</u>
 Accounts receivable.....	<u>11,371,717</u>	<u>14,894,155</u>
 Inventories, less allowance for obsolete and excess inventory of \$400,000 each year (Note 1g).....	<u>37,723,209</u>	<u>36,928,949</u>
 Other current assets.....	<u>379,561</u>	<u>382,019</u>
	<u>151,316,285</u>	<u>199,321,261</u>
 OTHER ASSETS:		
Deferred charges:		
Cost of early retirement benefits (Note 1h).....	151,440,000	166,584,000
Cost of work injuries compensation benefits (Notes 1m and 5).....	78,871,578	79,126,504
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	6,186,000	6,746,000
Other.....	<u>492,149</u>	<u>-</u>
	<u>236,989,727</u>	<u>252,456,504</u>
 Unrecovered costs due from subsequent revenues (Notes 1b and 4).....	<u>9,728,161</u>	<u>2,408,665</u>
	<u>246,717,888</u>	<u>254,865,169</u>
 TOTAL ASSETS.....	<u>\$882,780,319</u>	<u>\$925,424,630</u>

The accompanying notes are an integral part of this statement.

Financial Statements

CAPITAL AND LIABILITIES	1989	1988
CAPITAL:		
Investment of the United States Government:		
Interest-bearing (10.219% and 10.379%, respectively) (Note 6).....	\$147,893,234	\$102,773,553
Non-interest-bearing.....	<u>325,398,450</u>	<u>371,024,286</u>
	<u>473,291,684</u>	<u>473,797,839</u>
CURRENT LIABILITIES:		
Accounts payable:		
U.S. Government agencies.....	4,146,044	4,245,938
Government of Panama.....	8,062,973	8,475,439
Other.....	<u>12,420,588</u>	<u>34,802,392</u>
	<u>24,629,605</u>	<u>47,523,769</u>
Accrued liabilities:		
Employees' leave.....	46,058,824	44,033,669
Salaries and wages.....	8,086,607	7,139,405
Cost of early retirement benefits (Note 1h).....	15,144,000	15,144,000
Cost of work injuries compensation benefits (Notes 1m and 5).....	6,536,705	7,033,467
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	790,000	844,000
Employees' repatriation.....	857,000	687,000
Marine accident claims.....	15,387,115	13,822,471
Other.....	<u>1,766,127</u>	<u>1,923,101</u>
	<u>94,626,378</u>	<u>90,627,113</u>
Other current liabilities:		
Advances for capital - unexpended (Note 1d).....	10,336,538	14,332,082
Other.....	<u>1,697,007</u>	<u>1,889,140</u>
	<u>12,033,545</u>	<u>16,221,222</u>
	<u>131,289,528</u>	<u>154,372,104</u>
DEFERRED CREDIT:		
Advances for capital being amortized (Note 1d).....	<u>46,898,321</u>	<u>40,941,046</u>
LONG-TERM LIABILITIES AND RESERVES:		
Cost of early retirement benefits (Note 1h).....	136,296,000	151,440,000
Cost of work injuries compensation benefits (Notes 1m and 5).....	72,334,873	72,093,037
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	5,396,000	5,902,000
Employees' repatriation.....	6,875,000	6,053,000
Lock overhauls (Note 1i).....	371,865	211,633
Marine accidents (Notes 1j and 7).....	7,000,000	17,683,380
Casualty losses (Note 1j).....	993,865	941,882
Floating equipment overhauls (Note 1k).....	<u>2,033,183</u>	<u>1,988,709</u>
	<u>231,300,786</u>	<u>256,313,641</u>
TOTAL CAPITAL AND LIABILITIES.....	<u>\$882,780,319</u>	<u>\$925,424,630</u>

The accompanying notes are an integral part of this statement.

Statement of Operations (Unaudited)

Fiscal Years Ended September 30, 1989 and 1988

	1989	1988
OPERATING REVENUES:		
Tolls revenue.....	\$329,765,627	\$339,319,326
Other revenues.....	<u>106,034,363</u>	<u>110,089,660</u>
Total operating revenues.....	<u>435,799,990</u>	<u>449,408,986</u>
OPERATING EXPENSES:		
Payments to the Government of Panama:		
Public services.....	10,000,000	10,000,000
Fixed annuity.....	10,000,000	10,000,000
Tonnage.....	<u>59,819,225</u>	<u>59,635,398</u>
	79,819,225	79,635,398
Maintenance of channels and harbors.....	36,506,857	42,258,524
Navigation service and control.....	79,796,645	77,384,665
Locks operation.....	48,988,652	47,709,751
General repair, engineering and maintenance services...	22,004,849	25,071,192
Supply and logistics.....	20,488,618	21,030,820
Utilities.....	30,016,519	31,895,242
Housing operations.....	5,418,893	5,553,796
General and administrative.....	76,587,612	73,107,100
Interest on interest-bearing investment (Note 6).....	13,878,234	11,250,757
Other.....	<u>29,613,382</u>	<u>36,329,982</u>
Total operating expenses.....	<u>443,119,486</u>	<u>451,227,227</u>
NET OPERATING REVENUE (LOSS) (Notes 1b and 4).....	<u>\$ (7,319,496)</u>	<u>\$ (1,818,241)</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in the Investment of the United States Government (Unaudited)

Fiscal Year Ended September 30, 1989						
	Invested Capital		Emergency Fund	Operating Funds	Capital Funds	Total
	Interest-Bearing	Non-Interest Bearing				
INVESTMENT AT OCTOBER 1, 1988.....	\$102,773,553	\$371,024,286	\$ -	\$ -	\$ -	\$473,797,839
Appropriation by the Congress for FY 1988.	-	-	-	-	-	-
	<u>102,773,553</u>	<u>371,024,286</u>	-	-	-	<u>473,797,839</u>
Funds transferred by Public Law 100-203, effective January 1, 1988:						
Transferred from emergency fund.....	-	-	-	-	-	-
Transferred from operating funds.....	-	-	-	-	-	-
Transferred from capital funds.....	-	-	-	-	-	-
Adjustment for interest accrued 10/1/79-12/31/85.....	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
INCREASES IN INVESTMENT:						
Plant reactivations.....	-	-	-	-	-	-
Prior year receipts deposited into U.S. Treasury.....	-	420,341	-	-	-	420,341
Expenditures from capital appropriations..	-	-	-	-	-	-
Expenditures from operating appropriations	-	-	-	-	-	-
Expenditures from Panama Canal Revolving Fund.....	486,757,576	(486,757,576)	-	-	-	-
Repayment to the General Fund of the U.S. Treasury for FY 1980 appropriation..	-	-	-	-	-	-
Payment of interest accrued 10/1/79-12/31/85.....	-	-	-	-	-	-
Funds covered into the U.S. Treasury.....	-	-	-	-	-	-
Property transferred from other U.S. Government agencies.....	-	-	-	-	-	-
Unrecovered costs due from subsequent revenues (Notes 1b and 4).....	-	7,319,496	-	-	-	7,319,496
	<u>486,757,576</u>	<u>(479,017,739)</u>	-	-	-	<u>7,739,837</u>
DECREASES IN INVESTMENT:						
Tolls and other receipts deposited into PCC Fund.....	-	-	-	-	-	-
Tolls and other receipts deposited into Revolving Fund	441,388,274	(441,388,274)	-	-	-	-
Due U.S. Treasury for undeposited receipts	-	676,875	-	-	-	676,875
Property transferred to the Government of Panama.....	-	-	-	-	-	-
Property transferred to other U.S. Government agencies.....	249,621	-	-	-	-	249,621
Unwarranted appropriated funds.....	-	-	-	-	-	-
Net loss (Notes 1b and 4).....	-	7,319,496	-	-	-	7,319,496
	<u>441,637,895</u>	<u>(433,391,903)</u>	-	-	-	<u>8,245,992</u>
INVESTMENT AT SEPTEMBER 30, 1989.....	<u>\$147,893,234</u>	<u>\$325,398,450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$473,291,684</u>

(Note 6)

The accompanying notes are an integral part of this statement.

Financial Statements

	Invested Capital		Emergency	Operating	Capital	Total
	Interest- Bearing	Non-Interest Bearing	Fund	Funds	Funds	
INVESTMENT AT OCTOBER 1, 1987.....	\$ 64,711,276	\$287,336,291	\$ 10,000,000	\$ 55,658,038	\$ 26,086,026	\$443,791,631
Appropriation by the Congress for FY 1988.	-	-	-	420,588,000	33,715,000	454,303,000
	<u>64,711,276</u>	<u>287,336,291</u>	<u>10,000,000</u>	<u>476,246,038</u>	<u>59,801,026</u>	<u>898,094,631</u>
Funds transferred by Public Law 100-203, effective January 1, 1988:						
Transferred from emergency fund.....	-	10,000,000	(10,000,000)	-	-	-
Transferred from operating funds.....	-	202,316,621	-	(202,211,390)	-	103,231
Transferred from capital funds.....	-	54,060,961	-	-	(54,060,961)	-
Adjustment for interest accrued 10/1/79-12/31/85.....	61,653,129	(61,653,129)	-	-	-	-
	<u>61,653,129</u>	<u>204,724,453</u>	<u>(10,000,000)</u>	<u>(202,211,390)</u>	<u>(54,060,961)</u>	<u>105,231</u>
	<u>126,364,405</u>	<u>492,060,744</u>	<u>-</u>	<u>274,034,648</u>	<u>5,740,065</u>	<u>898,199,862</u>
INCREASES IN INVESTMENT:						
Plant reactivations.....	-	-	-	-	-	-
Prior year receipts deposited into U.S. Treasury.....	-	1,088,117	-	-	-	1,088,117
Expenditures from capital appropriations..	5,740,065	-	-	-	(5,740,065)	-
Expenditures from operating appropriations	109,394,668	-	-	(109,394,668)	-	-
Expenditures from Panama Canal Revolving Fund.....	317,977,051	(317,977,051)	-	-	-	-
Repayment to the General Fund of the U.S. Treasury for FY 1980 appropriation..	85,582,579	(85,582,579)	-	-	-	-
Payment of interest accrued 10/1/79-12/31/85.....	-	(61,653,129)	-	-	-	(61,653,129)
Funds covered into the U.S. Treasury.....	(85,582,579)	-	-	-	-	(85,582,579)
Property transferred from other U.S. Government agencies.....	-	-	-	-	-	-
Unrecovered costs due from subsequent revenues (Notes 1b and 4).....	-	1,818,241	-	-	-	1,818,241
	<u>433,111,784</u>	<u>(462,306,401)</u>	<u>-</u>	<u>(109,394,668)</u>	<u>(5,740,065)</u>	<u>(144,329,350)</u>
DECREASES IN INVESTMENT:						
Tolls and other receipts deposited into PCC Fund.....	112,765,084	-	-	-	-	112,765,084
Tolls and other receipts deposited into Revolving Fund	343,508,525	(343,508,525)	-	-	-	-
Due U.S. Treasury for undeposited receipts	-	420,341	-	-	-	420,341
Property transferred to the Government of Panama.....	51,992	-	-	-	-	51,992
Property transferred to other U.S. Government agencies.....	377,035	-	-	-	-	377,035
Unwarranted appropriated funds.....	-	-	-	164,639,980	-	164,639,980
Net loss (Notes 1b and 4).....	-	1,818,241	-	-	-	1,818,241
	<u>456,702,636</u>	<u>(341,269,943)</u>	<u>-</u>	<u>164,639,980</u>	<u>-</u>	<u>280,072,673</u>
INVESTMENT AT SEPTEMBER 30, 1988.....	<u>\$102,773,553</u>	<u>\$371,024,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$473,797,839</u>

(Note 6)

The accompanying notes are an integral part of this statement.

Statement of Cash Flows (Unaudited)

Fiscal Years Ended September 30, 1989 and 1988

INCREASE (DECREASE) IN CASH

Cash Flows from Operating Activities:	1989	1988
Cash received:		
Tolls.....	\$ 329,765,627	\$ 339,319,326
Other collections.....	109,934,767	120,011,727
Decrease/(increase) in receivables.....	<u>1,687,880</u>	<u>(3,057,444)</u>
Total cash received.....	<u>441,388,274</u>	<u>456,273,609</u>
Cash disbursed:		
Operating expenditures.....	(429,739,182)	(463,389,231)
(Increase)/decrease in inventories.....	(794,260)	(1,789,780)
(Decrease)/increase in liabilities.....	<u>(20,964,032)</u>	<u>59,367,762</u>
Total cash disbursed.....	<u>(451,497,474)</u>	<u>(405,811,249)</u>
Net cash from operations.....	<u>(10,109,200)</u>	<u>50,462,360</u>
Other adjustments:		
Cash from Panama Canal Commission Fund.....	-	289,663,021
Restoration of funds previously withdrawn.....	-	105,231
Operating revenues deposited into		
Panama Canal Commission Fund.....	-	<u>(112,765,084)</u>
Net operating cash received from Treasury.....	-	<u>177,003,168</u>
Net cash provided by/(used in) operating activities.....	<u>(10,109,200)</u>	<u>227,465,528</u>
Cash Flows from Extraordinary Activities:		
Payment of interest on net direct investment (Note 9)..	-	(61,653,129)
Repayment of 1980 appropriation (Note 9).....	-	<u>(85,582,579)</u>
Net cash provided by/(used in) extraordinary activities..	-	<u>(147,235,708)</u>
Cash Flows from Capital Activities:		
Capital expenditures.....	(39,584,851)	(27,069,345)
Increase/(decrease) in liabilities.....	<u>4,324,748</u>	<u>(231,190)</u>
Net cash provided by/(used in) capital activities.....	<u>(35,260,103)</u>	<u>(27,300,535)</u>
Cash Flows from Postal and Trust Funds:		
Postal funds.....	(5,279)	(6,630)
Trust funds.....	<u>100,242</u>	<u>12,048</u>
Net cash provided by/(used in) postal and trust fund activities.....	<u>94,963</u>	<u>5,418</u>
Net (decrease)/increase in cash.....	(45,274,340)	52,934,703
Cash, beginning of year.....	<u>147,116,138</u>	<u>94,181,435</u>
Cash, end of year.....	<u>\$ 101,841,798</u>	<u>\$ 147,116,138</u>

(Note 8)

The accompanying notes are an integral part of this statement.

Financial Statements

RECONCILIATION OF NET REVENUE (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	1989	1988
Net revenue (loss).....	\$ (7,319,496)	\$ (1,818,241)
Adjustments to reconcile net revenue (loss) to net cash provided by operating activities:		
Adjustments not requiring outlay of cash:		
Depreciation.....	22,963,018	21,352,682
Provision for lock overhauls.....	6,353,000	4,387,000
Provision for casualty losses.....	(5,642,936)	2,901,952
Provision for floating equipment overhauls.....	4,934,000	4,019,000
Advances for capital (Note 8).....	4,451,618	8,474,087
Other (Note 8).....	<u>720,370</u>	<u>(29,829,760)</u>
Total adjustments not requiring outlay of cash...	<u>33,779,070</u>	<u>11,304,961</u>
Adjustments requiring outlay of cash:		
Lock overhauls expenditures.....	(6,192,767)	(5,699,523)
Casualty losses expenditures.....	(4,988,460)	(5,671,166)
Floating equipment overhauls expenditures.....	<u>(4,889,526)</u>	<u>(3,678,624)</u>
Total adjustments requiring outlay of cash.....	<u>(16,070,753)</u>	<u>(15,049,313)</u>
Other adjustments:		
Cash from Panama Canal Commission Fund.....	-	289,663,021
Restoration of funds previously withdrawn.....	-	105,231
Operating revenues deposited into Panama Canal Commission Fund.....	-	<u>(112,765,084)</u>
Total other adjustments.....	-	<u>177,003,168</u>
Changes in operating assets and liabilities:		
Decrease/(increase) in receivables.....	1,687,880	(3,057,444)
(Increase)/decrease in inventories.....	(794,260)	(1,789,780)
(Increase)/decrease in other assets (Note 8).....	(427,609)	1,504,415
(Decrease)/increase in liabilities (Note 8).....	<u>(20,964,032)</u>	<u>59,367,762</u>
Total changes in operating assets and liabilities	<u>(20,498,021)</u>	<u>56,024,953</u>
Total adjustments.....	<u>(2,789,704)</u>	<u>229,283,769</u>
Net cash provided by/(used in) operating activities.....	\$ <u>(10,109,200)</u>	\$ <u>227,465,528</u>
		(Note 8)

The accompanying notes are an integral part of this statement.

Statement of Status of Appropriations (Unaudited)

Fiscal Years Ended September 30, 1989 and 1988

SOURCE OF APPROPRIATIONS:	1989	1988
Operating funds:		
Current year operating appropriation.....	\$ -	\$407,088,000
Appropriation Public Law 99-195		
(indefinite - funded interest).....	-	<u>13,500,000</u>
		<u>420,588,000</u>
Restoration of funds previously withdrawn.....	-	<u>105,231</u>
Obligated operating funds brought forward:		
Fiscal year 1980.....	-	311,229
Fiscal years - Merged.....	-	4,006,116
Fiscal year 1986.....	-	5,695,374
Fiscal year 1987.....	-	<u>45,645,319</u>
		<u>55,658,038</u>
	-	<u>476,351,269</u>
Capital funds:		
Current year capital appropriation (no year).....	-	<u>33,715,000</u>
Obligated capital funds brought forward:		
Fiscal year 1980.....	-	12,070
Fiscal years 1981 through 1987.....	-	<u>23,766,934</u>
		<u>23,779,004</u>
Unobligated capital funds brought forward (no year):		
Fiscal year 1980.....	-	8,257
Fiscal years 1981 through 1987.....	-	<u>2,298,765</u>
		<u>2,307,022</u>
	-	<u>59,801,026</u>
Emergency fund (no year).....	-	<u>10,000,000</u>
TOTAL SOURCE OF APPROPRIATIONS.....	\$ -	<u>\$546,152,295</u>

(Note 10)

The accompanying notes are an integral part of this statement.

APPLICATION OF APPROPRIATIONS:

	1989	1988
Appropriations available.....	\$ _____	\$546,152,295
Less appropriated expenditures - 1st Quarter:		
Expenditures from operating appropriations:		
Fiscal year 1980.....	-	-
Fiscal years - Merged.....	-	(496,584)
Fiscal year 1986.....	-	447,217
Fiscal year 1987.....	-	32,653,300
Fiscal year 1988.....	-	76,790,735
	-	<u>109,394,668</u>
Expenditures from capital appropriations:		
Fiscal year 1980.....	-	12,506
Fiscal years 1981 through 1988.....	-	5,727,559
	-	<u>5,740,065</u>
	-	115,134,733
Less funds transferred to the revolving fund:		
From Operations:		
Fiscal year 1980.....	-	311,229
Fiscal year 1980 restored.....	-	105,231
Fiscal years - Merged.....	-	4,502,700
Fiscal year 1986.....	-	5,248,157
Fiscal year 1987.....	-	12,992,019
Fiscal year 1988.....	-	179,157,285
Emergency fund.....	-	10,000,000
	-	<u>212,316,621</u>
From Capital:		
Fiscal year 1980.....	-	7,821
Fiscal years 1981 and 1988.....	-	54,053,140
	-	<u>54,060,961</u>
	-	266,377,582
Less funds returned to the U.S. Treasury.....	-	164,639,980
BALANCE OF APPROPRIATIONS.....	\$ _____	\$ _____

(Note 10)

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

1. Summary of Significant Accounting Policies.

A summary of significant accounting policies follows:

a. Accounting and Reporting. As required by section 1311(a) of the Panama Canal Act of 1979 (Public Law 96-70), hereafter referred to as the Act, the accounts of the Commission are maintained pursuant to the Accounting and Auditing Act of 1950. This requires that the principles, standards and related requirements be met, as prescribed by the Comptroller General of the United States, after consulting with the Secretary of the Treasury and the Director of the Office of Management and Budget concerning their accounting, financial reporting and budgetary needs. The Accounting and Auditing Act of 1950 also requires that the accounts be maintained on an accrual basis.

b. Cost Recovery. As required by section 1341(e)(1) of the Act, the application of generally accepted accounting principles to the Panama Canal Commission, a United States Government agency comparable to a rate-regulated public utility, determines the manner in which costs are recognized. The basis for tolls rates is prescribed in section 1602(b) of the Act. This section of the Act, known as the "statutory tolls formula," provides that:

"Tolls shall be prescribed at rates calculated to produce revenues to cover as nearly as practicable all costs of maintaining and operating the Panama Canal, together with the facilities and appurtenances related thereto, including unrecovered costs incurred on or after the effective date of this Act, interest, depreciation, working capital, payments to the Republic of Panama pursuant to paragraph 5 of Article III and paragraph 4(a) and (b) of Article XIII of the Panama Canal Treaty of 1977, and capital for plant replacement, expansion, and improvements. Tolls shall not be prescribed at rates calculated to produce revenues sufficient to cover payments to the Republic of Panama pursuant to paragraph 4(c) of Article XIII of the Panama Canal Treaty of 1977."

Under this statutory tolls formula, any unrecovered costs are to be recovered from subsequent revenues. The amount for recovery from subsequent revenues is transferred from Invested Capital to an account within the Other Assets classification. Unrecovered costs are charged back to Invested Capital to the extent subsequent annual revenues exceed annual costs.

c. Property, Plant and Equipment. Property, plant and equipment are recorded at cost, or if acquired from another United States Government agency, at the value determined by the Director of the Office of Management and Budget. Administrative and other related general expenses are recovered currently and therefore not capitalized. The cost of minor items of property, plant and equipment is charged to expense as incurred.

d. Advances for Capital. A portion of tolls in excess of depreciation recoveries may be programmed annually by the Board of Directors for plant replacement, expansion, or improvements. Such funds are considered capital advances from Canal users. Upon utilization, these advances are amortized through an offset to depreciation expense in an amount calculated to approximate the depreciation on assets acquired with such advances. In fiscal years 1989 and 1988 no amounts from tolls were programmed for such purpose.

At the direction of the Board of Directors, a system was implemented in fiscal year 1983 whereby shippers, for a fee, can make an advance reservation for a vessel transit. Such funds are considered capital advances from Canal users and upon utilization, the advances are amortized through an offset to depreciation expense in an amount calculated to approximate the depreciation on assets acquired with such advances. This system generated funds of \$4.5 million in fiscal year 1989 and \$8.5 million in fiscal year 1988.

e. Depreciation. Property, plant and equipment are depreciated over their estimated service lives at rates computed using a straight-line method with additional annual depreciation, identified as composite, to provide for premature plant retirements.

The recurring costs of dredging the waterway are charged to expense. Non-recurring dredging costs for substantial improvements and betterments to the waterway are considered additions to plant and are capitalized and depreciated over their estimated service lives.

f. Accounts Receivable. Uncollectible accounts receivable of the Panama Canal Commission are recognized as a reduction in revenue when written off. Any subsequent collections of Commission accounts receivable previously written off are recorded as revenue.

g. Inventories. Operating materials and supplies are stated at average cost, plus cost of transportation to the ultimate destination on the Isthmus of Panama. An allowance has been established to reflect the estimated cost of obsolete and excess stock.

h. Retirement Benefits. Employer contributions to the United States Civil Service Retirement System, to the Federal Employee Retirement System, and to the Republic of Panama social security system are charged to expense. The Commission has no liability for future payments to employees under these systems.

Non-United States citizen employees, who retired from predecessor agencies prior to October 5, 1958, are not covered by the United States Civil Service Retirement System but do receive benefits under a separate annuity plan. Payments made under this annuity plan are recorded as a current year expense. Annual amounts expended were \$1.3 million in fiscal years 1989 and 1988. The Commission's liability for future annuity payments to these former employees or their eligible widows is reflected in the statement of financial position as retirement benefits to certain former employees of predecessor agencies and an equal amount is recorded as a deferred charge.

As required by the Act, the Panama Canal Commission is liable for the increase in the unfunded liability of the United States Civil Service

Retirement Fund which is attributable to benefits payable from that fund to, or on behalf of, employees and their survivors under the early retirement provisions of the Act. The annual installment to liquidate the increased liability is determined by the Office of Personnel Management.

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

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

k. Reserve for Floating Equipment Overhauls. A reserve is provided through an annual charge to expense to cover the estimated cost of overhauls to the Commission tugboat fleet.

l. Housing Use Rights. No monetary value is assigned to the rights granted to the United States Government by the Republic of Panama to use Canal Area housing transferred to the Government of Panama under the terms of the Panama Canal Treaty of 1977. The cost to manage, maintain and provide livability improvements to these quarters is charged to expense. Rental income is included in other revenues.

m. Work Injuries Compensation Benefits. The Panama Canal Commission is liable for the cost of all benefits due under the Federal Employees' Compensation Act which provides compensation for performance of duty injuries for eligible employees. The costs of the FECA program are recognized over the life of the Treaty.

2. Plant Valuation Allowances.

At July 1, 1951, certain valuation allowances for property, plant and equipment transferred from the Panama Canal (agency) to the Panama Canal Company and the Canal Zone Government were established, to reduce to usable value the costs of the assets transferred. At October 1, 1979, such valuation allowances as were applicable to the assets transferred from the Panama Canal Company and the Canal Zone Government to the Panama Canal Commission were carried forward and are comprised of: (a) \$4.1 million at September 30, 1989 and \$4.5 million at September 30, 1988, to reduce to usable value the cost of property, plant and equipment transferred; (b) \$50.9 million at September 30, 1989 and 1988, to offset interest costs imputed for the original Canal construction period; and (c) \$42.3 million at September 30, 1989 and 1988, 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.

3. Budgetary Resources.

a. Cash, accounts receivable, and the borrowing authority are the resources used to determine the Commission's solvency position as prescribed in Section 86.6 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.

b. The Panama Canal Commission has authority to borrow funds from the U.S. Treasury not to exceed \$100 million outstanding at any time for any of the purposes of the Commission. At September 30, 1989 and 1988 none of these funds had been borrowed.

4. Unrecovered Costs due from Subsequent Revenues.

Pursuant to the provisions of section 1602(b) of the Act, the net losses of \$7.3 million from fiscal year 1989 and \$2.4 million from fiscal years 1988 and 1987 operations, totalling \$9.7 million, were deferred as an unearned cost to be recovered from subsequent revenues. Also, section 1341(b)(2) of the Act requires recovery of these unearned costs before determining any net operating revenues due to the Government of Panama, as provided for under Article XIII, paragraph 4(c), of the Panama Canal Treaty of 1977.

5. Cost of Work Injuries Compensation.

The Commission administers a program to compensate certain employees for death and disability resulting from performance of duty injuries or illnesses as set forth in the Federal Employees' Compensation Act (FECA). All United States citizen employees are eligible for coverage, as are non-United States citizen employees hired prior to October 1, 1979. As provided by FECA, employees and certain dependents are beneficiaries for various periods that can extend to life.

The liability and deferred charge recorded in these statements reflect the payments due to a Department of Labor fund established pursuant to Public Law 100-705. The Department of Labor will be reimbursed from this fund for all expected future payments for accidents, adjusted for inflation and interest earned. An evaluation as of September 30, 1989, was prepared by an independent actuarial firm. The results of that report were used to adjust the assets and liabilities as follows:

	<u>Millions of Dollars</u>
Cost of work injuries compensation	
benefits at September 30, 1988.....	\$79.1
Amount amortized in fiscal year 1989.....	\$(7.0)
Adjustments due to study:	
Accrued liability.....	(0.5)
Long-term liability.....	<u>7.3</u>
Change in assets and liabilities.....	(0.2)
Cost of work injuries compensation	
benefits at September 30, 1989	<u>\$78.9</u>

6. Interest-Bearing Investment of the United States Government.

The interest-bearing investment of the United States Government in the Panama Canal is determined based on section 1603(a) of the Act. The interest-bearing investment of the United States Government at September 30, 1989 and 1988, was determined as follows:

Millions of Dollars

Investment at September 30, 1987.....	\$ 64.7
Fiscal year 1988 transactions:	
Adjustment for interest accrued	
10/1/79 - 12/31/85.....	\$ 61.7
Disbursements.....	433.1
Receipts.....	(456.3)
Net property transfers.....	(0.4)
Net change.....	<u>38.1</u>
Investment at September 30, 1988.....	102.8
Fiscal year 1989 transactions:	
Disbursements.....	486.7
Receipts.....	(441.4)
Net property transfers.....	(0.2)
Net change.....	<u>45.1</u>
Investment at September 30, 1989.....	<u>\$147.9</u>

7. Reserve for Marine Accidents.

A reassessment of the Reserve for Marine Accidents was made in fiscal year 1989 and based on past experience, the Board approved a reserve balance objective of \$7.0 million.

8. Statement of Cash Flows.

Fiscal year 1989 Statement of Cash Flows reflects the use of revolving funds only. The fiscal year 1988 statement identifies as "Other adjustments" the appropriated funds received by the Commission prior to its conversion to a revolving fund agency on January 1, 1988. All funds received after that date were recorded as revolving funds.

In addition, certain data in the fiscal year 1988 Statement of Cash Flows was restated for fiscal year 1989 presentation to eliminate non fund items not pertinent to the Statement of Cash Flows thereby improving comparison between years.

9. Extraordinary Activities.

In fiscal year 1988, in addition to converting the Panama Canal Commission to a revolving fund agency, Public Law 100-203, The Budget Reconciliation Act of 1987, provided: (a) for restoring \$61.7 million to the interest-bearing investment of the United States Government in the Panama Canal by transferring interest collections prior to January 1, 1986 to the General Fund of the U.S. Treasury, and (b) for reimbursing to the General Fund of the U.S. Treasury the \$85.6 million unpaid balance of the Commission's fiscal year 1980 appropriation. These transactions were completed in fiscal year 1988.

10. Statement of Status of Appropriations.

This statement reflects the conversion of the Panama Canal Commission from an appropriated fund agency to a revolving fund agency. As such, the statement identifies: (a) expenditures made by the Commission during the first quarter operations as an appropriated fund agency, (b) funds transferred to the revolving fund as of January 1, 1988, and (c) funds returned to the U.S. Treasury, also as of January 1, 1988. This statement is not applicable for fiscal year 1989 and is shown only to conform with the two year statement format.

11. Contingent Liabilities and Commitments.

In addition to recorded liabilities, the estimated maximum contingent liability which could result from pending claims and lawsuits was \$10.1 million at September 30, 1989 and \$18.6 million at September 30, 1988. In the opinion of management and the Commission's General Counsel, these pending claims and lawsuits will be resolved with no material adverse effect on the financial condition of the agency.

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$38.0 million at September 30, 1989 and \$42.2 million at September 30, 1988. Of these amounts, \$0.1 million in unfilled purchase orders were prepaid as of September 30, 1989 and 1988.

Cash and negotiable securities of a kind acceptable by the United States Government in the amount of \$12.4 million were held by the United States depositories designated by the Panama Canal Commission at September 30, 1989 and \$11.6 million at September 30, 1988, to guarantee payment by third parties of their obligations.

The Panama Canal Treaty of 1977, Article XIII, paragraph 4(c), provides that an annual amount of up to \$10 million per year be paid to the Government of Panama out of operating revenues to the extent that such revenues exceed expenditures. Payment to the Government of Panama is subject to the limitations set forth in section 1341(e) of the Act. In the event operating revenues in any year do not produce a surplus sufficient to cover this payment, the unpaid balance shall be paid from operating surpluses in future years up to the amount available from these surpluses. As of September 30, 1989, the balance contingently payable to the Government of Panama amounts to \$91.1 million. As of September 30, 1988, the balance contingently payable to the Government of Panama amounted to \$81.1 million.

12. Treaty Impact.

On September 7, 1977, the United States of America and the Republic of Panama signed the Panama Canal Treaty of 1977. The Treaty provided for the establishment of the Panama Canal Commission on October 1, 1979, to assume certain operational responsibilities for the Canal until December 31, 1999. When the Treaty terminates on December 31, 1999, the Republic of Panama shall assume total responsibility for the management, operation, and maintenance of the Panama Canal, which shall be turned over in operating condition and free of liens and debts, except as the two parties may otherwise agree. The effects of these long-range requirements are not considered in the financial statements.

Supplementary Information

Schedules of Treaty-Related Costs (Unaudited)

Agency	Non-DOD Costs (Savings) Through Fiscal Year 1989		
	Prior FY costs (note a)	FY 1989 costs	Total costs
State Department	\$(13,959,187)	\$(1,800,000)	\$(15,759,187)
Federal Aviation Administration	(32,213,783)	(4,251,300)	(36,465,083)
American Battle Monuments Commission	3,025,203	291,747	3,316,950
Panama Canal Commission	300,000	0	300,000
General Accounting Office	1,614,251	14,316	1,628,567
Smithsonian Tropical Research Institute	2,977,636	470,471	3,448,107
Gorgas Memorial Laboratory	(257,351)	0	(257,351)
Canal Area Court System			
U.S. Attorney	(786,120)	(160,305)	(946,425)
U.S. Marshal	(418,070)	(54,245)	(472,315)
Clerk of Court	(3,586,660)	(627,755)	(4,214,415)
Bureau of Prisons	1,728,697	736,220	2,464,917
Foreign Broadcast Information System	274,915	85,713	360,628
National Oceanic and Atmospheric Administration	66,549	12,130	78,679
Total Non-DOD	<u>\$(41,233,920)</u>	<u>\$(5,283,008)</u>	<u>\$(46,516,928)</u>

Notes

a Includes prior-year adjustments

Department of Defense (DOD) Costs (Savings)
Through FY 1989

<u>Agency</u>	<u>Prior FY costs (note a)</u>	<u>FY 89 costs</u>	<u>Total costs</u>
U.S. Army			
Base Operations	\$137,957,661	\$20,271,288	\$158,228,949
Communications	24,326,084	2,630,206	26,956,290
Commissary	8,590,791	436,705	9,027,496
Transportation	2,901,066	1,473	2,902,539
Technical Assistance	360,240	0	360,240
Health Services	104,984,703	13,052,504	118,037,207
Disposition of Remains	2,661,940	412,021	3,073,961
Criminal Investigations	597,781	143,555	741,336
Tropical Test Center	35,408	0	35,408
Procurement of Equipment	3,046,789	0	3,046,789
Military Construction	36,397,791	0	36,397,791
Military Pay	77,276,347	6,063,603	83,339,950
Ports	165,868	0	165,868
Family Housing Operations	11,813,728	1,659,542	13,473,270
Executive Agent Costs	0	1,712,152	1,712,152
 Total Army	 411,116,197	 46,383,049	 457,499,246
 U.S. Air Force	 34,017,722	 2,863,609	 36,881,331
 U.S. Navy	 943,022	 (205,978)	 737,044
 DOD Dependents Schools (note b)	 3,887,000	 5,068,000	 8,955,000
Defense Mapping Agency	<u>1,158,764</u>	<u>0</u>	<u>1,158,764</u>
 Total DOD	 <u>\$451,122,705</u>	 <u>\$54,108,680</u>	 <u>\$505,231,385</u>

Notes

a Includes prior year adjustments

b Obligations incurred rather than actual expenditures

Property Transferred by the Dept. of Defense
and the Federal Aviation Administration to
the Republic of Panama Since October 1, 1979

<u>Agency</u>	<u>Prior transfers</u>	<u>FY 1989 transfers</u>	<u>Total transfers</u>
Department of Defense			
U.S. Army	\$40,338,046	\$ 0	\$40,338,046
U.S. Navy	4,930,769	0	4,930,769
U.S. Air Force	<u>275,874</u>	<u>0</u>	<u>275,874</u>
Total DOD	45,544,689	0	45,544,689
Federal Aviation Administration	<u>4,638,360</u>	<u>0</u>	<u>4,638,360</u>
Total	<u>\$50,183,049</u>	<u>\$ 0</u>	<u>\$50,183,049</u>

Property Transferred by the Panama Canal
Commission and Predecessor Organizations to
the Republic of Panama Since October 1, 1979

Acquisition Cost

<u>Agency</u>	<u>Prior transfers</u>	<u>FY 1989 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$168,317,629	\$ 0	\$168,317,629
Panama Canal Commission	<u>29,225,827</u>	<u>0</u>	<u>29,225,827</u>
Total	<u>\$197,543,456</u>	<u>\$ 0</u>	<u>\$197,543,456</u>

Net Book Value

<u>Agency</u>	<u>Prior transfers</u>	<u>FY 1989 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$84,886,222	\$ 0	\$84,886,222
Panama Canal Commission	<u>9,614,749</u>	<u>0</u>	<u>9,614,749</u>
Total	<u>\$94,500,971</u>	<u>\$ 0</u>	<u>\$94,500,971</u>

Supplementary Information

Schedule of Property, Plant, and Equipment (Unaudited)

September 30, 1989 and 1988					
	Estimated Service Life	1 9 8 9		1 9 8 8	
		Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
Titles and treaty rights.....	40 yrs.	\$ 14,728,889	\$ 5,983,612	\$ 14,728,889	\$ 5,615,390
Interest during construction.....	-	50,892,311	50,892,311	50,892,311	50,892,311
Canal excavation, fills and embankments....	15-100 yrs.	347,753,732	140,138,508	347,555,199	131,595,146
Canal structures and equipment.....	4-100 yrs.	326,975,387	157,356,034	317,897,397	151,022,970
Supporting and general facilities.....	5-100 yrs.	146,352,516	87,790,847	131,459,891	83,223,723
Facilities held for future use.....	10-100 yrs.	3,330,878	2,577,077	2,824,202	2,377,516
Plant additions in progress.....	-	39,450,822	-	30,607,367	-
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>\$269,630,333</u>	<u>\$484,884,187</u>	<u>\$236,111,054</u>	<u>\$464,872,854</u>

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