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Report to the Congress

August 1992

FINANCIAL AUDIT

Panama Canal Commission's 1991 and 1990 Financial Statements

147347

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-114839

August 18, 1992

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

This report presents the results of our audits of the Panama Canal Commission's financial statements for the years ended September 30, 1991 and 1990, its internal controls, and its compliance with laws and regulations.

The Commission is a federal executive 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.

We are required by the Panama Canal Act of 1979 to conduct an annual audit of the Commission. In our opinion, the Panama Canal Commission's financial statements present fairly, in all material respects, its financial position as of September 30, 1991 and 1990, and the results of its operations, changes in the investment of the U.S. government, and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Also in our opinion, internal controls in effect on September 30, 1991, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected. Our 1991 tests for compliance with the provisions of selected laws and regulations disclosed no material instances of noncompliance, and nothing came to our attention in the course of our work to indicate that material noncompliance with such provisions occurred. Our audit was conducted in accordance with generally accepted government auditing standards.

During the course of the audit, we also identified several matters for improvement in data processing and other operations which were not material to the financial statements. These matters are being communicated for the Commission's consideration in a separate management letter.

Scheduled Termination of the Commission

As provided by the Panama Canal Treaty of 1977, the Panama Canal Commission will terminate on December 31, 1999, when the Republic of Panama will assume full responsibility for the management, operation, and maintenance of the Panama Canal. The treaty provides that the Canal is to be turned over in operating condition and free of liens and debts.

To do this, the Commission needs to recover all of its costs from its revenues. The Commission operates as a rate-regulated utility, with approximately 75 percent of revenue obtained from tolls and the remaining 25 percent from nontoll revenue, such as navigation fees and electric power sales. The President of the United States serves as the rate regulator for tolls, which are established at a level to recover the costs of operating and maintaining the Canal. Retirement and worker injury compensation benefit costs are being funded from Canal revenues on an accelerated basis so as to be fully funded by 1999.

Results of Operations

The Commission ended fiscal year 1991 with net operating revenues of $3.6 million, compared to net operating revenues of $7 million for fiscal year 1990. Net operating revenue for 1991 eliminated carry forward losses from prior years of $2.7 million, leaving the remaining $875,000 to be paid to the Republic of Panama. The Panama Canal Act of 1979 requires that tolls be prescribed at rates calculated to recover such prior year losses. Under the Treaty, the first $10 million of net annual operating revenue is to be paid to the Republic of Panama.

From 1987 through 1991, toll and nontoll revenues increased an average of 4 percent annually. Fiscal year 1991 total operating revenues increased to $506 million, up 6.7 percent over fiscal year 1990. This was due to a slight increase in the number of ships transiting the Canal as a result of the Persian Gulf War and 6 percent more net tonnage. Nontoll revenue, which consists primarily of navigation fees and electric power sales, increased to $138 million during fiscal year 1991, up 15.6 percent from 1990. This increase was due to the recognition of $13 million of advance booking fees in 1991, which were accounted for as advances for capital in 1990.

From 1987 through 1991, total operating expenses increased an average of 3.8 percent annually. Fiscal year 1991 total operating expenses increased to $503 million, up 7.5 percent over fiscal year 1990. Most operating costs remained fairly constant between 1990 and 1991. Some of the highlights and their primary causes were:

- Tonnage payments to the Republic of Panama increased 15.6 percent in 1991 due to a 9.4 percent increase in the tonnage rate and higher Canal traffic.
- Cost of maintenance for the channels, dams, and spillways increased 20.8 percent over 1990, due to dredging of Canal waterways and overhauls of equipment.
- Supply and transportation services increased 20.3 percent in 1991 due to a $4.7 million provision for obsolete and excess inventory.
- General and administrative costs in 1991 remained constant due to the offset of salary and other costs by an increase in the credit for capital advance amortization and lower costs of employee repatriation back to their home countries.
- Interest expense decreased by 23.6 percent in 1991 due to lower rates and a lower balance in the U.S. interest-bearing investment.

Assets, Liabilities, and Capital

Between September 30, 1990, and September 30, 1991, total assets of the Commission declined by 2.3 percent to $856 million, total liabilities declined by 4.9 percent to $383 million, and U.S. government capital remained at approximately $473 million. The most significant changes in individual account balances for this period were as follows.

- Property, plant, and equipment (excluding depreciation) increased by $25 million in 1991 to $1,023 million. This increase was due primarily to capital expenditures, such as $4.8 million for replacement of lock locomotive turntables, $4.6 million of motor vehicle replacements, $3.4 million of improvements to electric power and communication systems, $1.8 million for construction of a grit blasting and a painting facility, and $1.3 million for replacement of launches and launch engines.
- Current assets increased in 1991 by $5 million to $173 million, due primarily to higher cash balances generated by operations, offset by a $5.7 million decrease in inventory for an allowance for obsolete and excess items.
- Deferred charges declined by $30 million in 1991 to $186 million, primarily due to amortization of deferred charges for retirement and workers' compensation benefits.
- Current liabilities increased in 1991 by $4 million to $144 million, due primarily to higher year end fuel oil purchases and higher operating costs.
- Long-term liabilities decreased $27 million in 1991 to $181 million, primarily due to the amortization of employee benefits.

Treaty Related Costs

We are required by the Panama Canal Act of 1979 to include in our annual audit report to the Congress a statement listing (1) all direct and indirect costs incurred by the United States in implementing the 1977 Treaty, net of any savings, and (2) the cost of any property transferred to the Republic of Panama. The act also provides that direct appropriated costs of implementation should not exceed $666 million, adjusted for inflation over the life of the Treaty.

As part of the required annual audit, U.S. government agencies which provided services to the former Panama Canal Company and Canal Zone Government provide the net cost information required under the 1977 Treaty. This information is presented in unaudited supplementary schedules to the Commission's financial statements. From fiscal years 1980 to 1991, the net reported costs to the U.S. government under the Treaty amounted to $577 million, which is less than the act's inflation-adjusted target of $1,224 million as of September 30, 1991.

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 Administrator of the Panama Canal Commission.

Milton J. Socolar

for Comptroller General
of the United States

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Abbreviations

FECA	Federal Employees' Compensation Act
FMFIA	Federal Managers' Financial Integrity Act

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To the Board of Directors
Panama Canal Commission

Our audits of the Panama Canal Commission found

- the fiscal years 1991 and 1990 financial statements to be reliable in all material respects;
- internal controls on September 30, 1991 to be effective in protecting assets, assuring material compliance with budget authority and with laws and regulations we tested, and assuring that there were no material misstatements in the financial statements; and
- no material noncompliance with laws and regulations we tested for the fiscal year ended 1991.

Each of these conclusions is outlined in more detail below. This report also presents unaudited supplemental information and discusses the scope of our audit.

Opinion on Financial Statements

The financial statements and accompanying notes present fairly the Commission's

- assets, liabilities, and capital;
- operating revenue and expenses;
- changes in the investment of the United States government; and
- cash flows.

Opinion on Internal Controls

The internal controls we evaluated were those designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with budget authority and with laws and regulations we tested; and
- properly record, process, and summarize transactions to permit the preparation of financial statements and to maintain accountability for assets.

Those controls in effect on September 30, 1991, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected.

Compliance With Selected Laws and Regulations

Our 1991 tests for compliance with the provisions of selected laws and regulations disclosed no material instances of noncompliance. Also, nothing came to our attention in the course of our work to indicate that material noncompliance with such provisions occurred. Finally, nothing came to our attention to indicate that management's reports on internal controls prepared under the Federal Managers' Financial Integrity Act (FMFIA) conflict materially with the results of our evaluation of internal controls. The Commission reported no material weaknesses in its 1991 FMFIA Report.

Unaudited Supplementary Information

The treaty related cost schedules are presented as required by the Panama Canal Act of 1979, and the schedule of property, plant, and equipment is presented for purposes of additional analysis. We obtained treaty related cost data from other federal agencies and reviewed it for unusual fluctuations from amounts previously reported. Accordingly, we express no opinion on the schedules of treaty related costs. While we do not express an opinion on the detailed schedule of property, plant, and equipment, we compared this information for consistency with the financial statements taken as a whole.

Objective, Scope, and Methodology

Management has the responsibility for

- preparing financial statements on the basis of accounting principles described in note 1 to the financial statements,
- establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of the FMFIA are met, and
- complying with applicable laws and regulations.

We have the responsibility to obtain reasonable assurance about whether the financial statements are reliable (free of material misstatement and presented fairly in accordance with applicable accounting principles) and relevant internal controls are in place and operating effectively. We also are responsible for testing compliance with provisions of selected laws and regulations and for performing limited procedures with respect to unaudited supplementary information appearing in this report. Our work was done in accordance with generally accepted government auditing standards.

In order to fulfill these responsibilities we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting standards used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- evaluated and tested relevant internal controls which encompassed the following cycles
  - financial reporting and budgeting,
  - treasury,
  - inventory,
  - fixed assets,
  - revenue,
  - expenditures, and
  - payroll;
- tested compliance with certain provisions of the following laws and regulations
  - Panama Canal Act of 1979,
  - Anti-Deficiency Act,
  - Prompt Payment Act, and
  - Accounting and Auditing Act of 1950; and
- considered compliance with the process required by FMFIA for evaluating and reporting on internal control and accounting systems.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA Act and implementing guidance, such as those relevant to preparing statistical reports and ensuring efficient operations. We limited our work to accounting and other controls necessary to achieve the objective outlined in our opinion on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

Milton J. Socolar

for Comptroller General
of the United States

May 5, 1992

Financial Statements

Statements of Financial Position

September 30, 1991 and 1990
(Dollars in thousands)

A S S E T S	1991	1990
PROPERTY, PLANT AND EQUIPMENT:		
At cost	$1,022,626	$997,155
Less accumulated depreciation and valuation allowances	525,303	505,029
	497,323	492,126
CURRENT ASSETS:		
Cash	127,135	114,481
Accounts receivable	11,687	13,331
Inventories, less allowance for obsolete and excess inventory of $6,467 and $800, respectively	33,900	40,000
Other	205	172
	172,927	167,984
DEFERRED CHARGES:		
Early retirement benefits	121,152	136,296
Compensation benefits for work injuries	59,530	71,685
Retirement benefits to certain former employees	5,178	5,587
Unrecovered costs due from subsequent revenues	-	2,713
	185,860	216,281
TOTAL ASSETS	$ 856,110	$876,391

The accompanying notes are an integral part of this statements.

CAPITAL AND LIABILITIES	1991	1990
CAPITAL:		
Investment of the United States Government:		
Interest-bearing (9.949% and 10.135%, respectively)	$120,557	$133,176
Non-interest-bearing	352,622	340,663
	473,179	473,839
CURRENT LIABILITIES:		
Accounts payable:		
Commercial vendors and other	17,706	12,932
U.S. Government agencies	1,905	3,927
Republic of Panama	8,827	8,388
	28,438	25,247
Accrued liabilities:		
Employees' leave	50,590	47,713
Salaries and wages	4,826	9,544
Early retirement benefits	15,144	15,144
Compensation benefits for work injuries	8,460	8,018
Retirement benefits to certain former employees	692	684
Employees' repatriation	785	833
Marine accident claims	21,034	19,531
Net operating revenue payable to Republic of Panama	875	-
Other	1,969	2,536
	104,375	104,003
Other current liabilities:		
Advances for capital - unexpended	9,079	10,473
Other	2,100	463
	11,179	10,936
	143,992	140,186
DEFERRED CREDIT:		
Advances for capital being amortized	57,760	54,249
LONG-TERM LIABILITIES AND RESERVES:		
Early retirement benefits	106,008	121,152
Compensation benefits for work injuries	51,070	63,667
Retirement benefits to certain former employees	4,486	4,903
Employees' repatriation	6,121	7,340
Lock overhauls	1,957	1,892
Marine accidents and casualty losses	8,000	6,994
Floating equipment overhauls	3,537	2,169
	181,179	208,117
TOTAL CAPITAL AND LIABILITIES	$856,110	$876,391

The accompanying notes are an integral part of this statement.

Statements of Operations

Fiscal Years Ended September 30, 1991 and 1990
(Dollars in thousands)

	1991	1990
OPERATING REVENUES:		
Tolls revenue	$374,625	$355,558
Advances for capital	(5,929)	-
Net tolls revenue	368,696	355,558
Other revenues	137,725	119,115
Total operating revenues	506,421	474,673
OPERATING EXPENSES:		
Payments to Republic of Panama:		
Public services	10,000	10,000
Fixed annuity	10,000	10,000
Tonnage	67,593	58,457
	87,593	78,457
Maintenance of channels, dams and spillways	35,628	29,482
Navigation service and control	86,221	78,912
Locks operation	53,778	48,294
General repair, engineering and maintenance services	25,775	23,074
Supply and transportation services	23,851	19,829
Utilities	31,772	29,854
Administrative and general	78,576	77,697
Depreciation	22,685	23,393
Fire and facility protection	13,351	12,699
Interest on interest-bearing investment	11,544	15,113
Other	32,059	30,853
Total operating expenses	502,833	467,657
Net Operating Revenue	3,588	7,016
Recovery of prior year losses	(2,713)	(7,016)
NET OPERATING REVENUE PAYABLE TO REPUBLIC OF PANAMA	$ 875	$ -

The accompanying notes are an integral part of this statement.

Statements of Changes in the Investment of the United States Government

Fiscal Years Ended September 30, 1990 and 1991
(Dollars in thousands)

	1990 Invested Capital Interest-Bearing	1990 Invested Capital Non-Interest Bearing	Total
INVESTMENT AT OCTOBER 1, 1989	$147,893	$325,398	$473,291
CHANGES IN INVESTMENT:			
Expenditures from Panama Canal Revolving Fund	469,595	(469,595)	-
Tolls and other receipts deposited into Panama Canal Revolving Fund	(484,188)	484,188	-
Net change in undeposited receipts	-	672	672
Property transferred to other U.S. Government agencies	(124)	-	(124)
	(14,717)	15,265	548
INVESTMENT AT SEPTEMBER 30, 1990	$133,176	$340,663	$473,839

	1991 Invested Capital Interest-Bearing	1991 Invested Capital Non-Interest Bearing	Total
INVESTMENT AT OCTOBER 1, 1990	$133,176	$340,663	$473,839
CHANGES IN INVESTMENT:			
Expenditures from Panama Canal Revolving Fund	503,009	(503,009)	-
Tolls and other receipts deposited into Panama Canal Revolving Fund	(515,001)	515,001	-
Net change in undeposited receipts	-	(33)	(33)
Adjustments for properties previously transferred to Republic of Panama	(63)	-	(63)
Property transferred to other U.S. Government agencies	(564)	-	(564)
	(12,619)	11,959	(660)
INVESTMENT AT SEPTEMBER 30, 1991	$120,557	$352,622	$473,179

The accompanying notes are an integral part of this statement.

Statements of Cash Flows

Fiscal Years Ended September 30, 1991 and 1990
(Dollars in thousands)

	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net operating revenue	$ 3,588	$ 7,016
Adjustments to reconcile net revenue to net cash provided by operating activities:		
Depreciation	22,685	23,393
Net change in reserves and other	2,455	2,500
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	1,644	(1,959)
(Increase)/decrease in inventories	6,100	(2,276)
Decrease in other assets	14	534
Increase in liabilities	4,453	8,816
Total adjustments	37,351	31,008
Net cash provided by operating activities	40,939	38,024
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances for capital	5,929	10,473
Capital expenditures	(34,214)	(35,858)
Net cash used in investing activities	(28,285)	(25,385)
Net increase in cash	12,654	12,639
Cash, beginning of year	114,481	101,842
CASH, END OF YEAR	$127,135	$114,481

	1991	1990
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during year for interest	$ 11,562	$ 15,124

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

The Panama Canal Commission ("Commission") is an agency of the Executive Branch of the United States Government, provided for by the Panama Canal Treaty of 1977, ("Treaty") and established by the Panama Canal Act of 1979 ("Act") enacted September 27, 1979. The Commission was established to carry out the responsibilities of the United States with respect to the Panama Canal under the Treaty. In fulfilling these obligations, the Commission manages, operates, and maintains the Canal, its complementary works, installations, and equipment, and provides for the orderly transit of vessels through the Canal. The Commission will perform these functions until the Treaty terminates on December 31, 1999, at which time the Republic of Panama will assume full responsibility for the Canal, which shall be turned over in operating condition and free of liens and debts, except as the two parties may otherwise agree.

The operation of the waterway is conducted on a self-financing basis. The Commission is expected to recover through tolls and other revenues all costs of operating and maintaining the Canal, including interest, depreciation, working capital, capital for plant replacement, expansion and improvements, and payments to the Republic of Panama for public services and annuities. Revenues from tolls and all other sources are deposited in the U.S. Treasury in an account known as the Panama Canal Revolving Fund. The resources in this fund are available for continuous use and serve to finance Canal operating and capital programs which are reviewed annually by the Congress.

1. Summary of Significant Accounting Policies

A summary of significant accounting policies follows:

a. Accounting and Reporting. The accounts of the Commission are maintained pursuant to the Accounting and Auditing Act of 1950. Under this Act, the Comptroller General of the United States prescribes the principles, standards, and related requirements to be met. The Commission maintains its accounts in accordance with generally accepted accounting principles and follows Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation."

b. Reclassifications. Certain amounts for fiscal year 1990 have been reclassified to conform with the current financial statement presentation.

c. Cost Recovery. The basis for tolls rates ("statutory tolls formula") is prescribed in section 1602(b) of the Act and provides:

"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."

Unrecovered costs for any year are to be recovered from revenues in subsequent years.

d. Property, Plant and Equipment. Property, plant and equipment are recorded at cost. The cost of minor items of property, plant, and equipment is charged to expense as incurred. Administrative and other related general expenses are recovered currently and not capitalized.

e. Advances for Capital. The Board of Directors may program a portion of tolls in excess of depreciation 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 year 1991, $5.9 million from tolls were programmed for this purpose. For fiscal year 1990, no amount was programmed.

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. In fiscal year 1990, this system generated funds of $10.5 million. As authorized by the Board of Directors, funds generated by this system in fiscal year 1991 were accounted for as general revenues.

f. Depreciation. Property, plant, and equipment are depreciated over their estimated service lives at rates computed using the straight-line method. Composite depreciation is provided 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.

g. Accounts Receivable. Uncollectible accounts are recognized as a reduction in revenue when written off.

h. Inventories. Operating materials and supplies are stated at average cost, plus cost of transportation. An allowance is provided for the estimated cost of obsolete and excess stock.

i. Retirement Benefits. Employer contributions to the United States Civil Service Retirement System, the Federal Employee Retirement System, and the Republic of Panama Social Security System are charged to expense when paid. 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, receive benefits under a separate annuity plan. Payments made under this plan are recorded as a current year expense. Annual amounts expended for this plan were $1.1 million in fiscal years 1991 and 1990, respectively. The liability for future annuity payments is reflected in the Statement of Financial Position as "Retirement benefits to certain former employees" and an equal amount is recorded as a deferred charge.

As required by the Act, the Commission is liable for the increase in the unfunded liability of the United States Civil Service Retirement Fund for benefits payable to employees and their survivors under the early retirement provisions of the Act. The deferred charge and liability recorded in these statements reflect the payments due to the Office of Personnel Management over the life of the Treaty. The annual installment of $15.1 million to liquidate the increased liability was determined by the Office of Personnel Management. The gross amount to be recovered from tolls over the remaining life of the Treaty was $121.2 million as of fiscal year 1991 and $136.3 million as of fiscal year 1990.

j. Reserves. Reserves required to normalize expenses for incorporation in the tolls process are provided for through annual charges to operations. These reserves cover such irregular costs as lock overhauls, floating equipment overhauls, probable losses from marine accidents, fire, damages other than fire, public liability, and other casualties.

k. 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 Republic of Panama under the terms of the Treaty. The cost to manage, maintain, and provide livability improvements to these quarters is charged to expense. Rental income is included in other revenues.

l. Compensation Benefits for Work Injuries. The Federal Employees' Compensation Act (FECA) 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. Budgetary Resources

a. Cash, accounts receivable, and the borrowing authority are the resources used by the Commission to determine its solvency position. Incurring obligations in excess of the solvency position would be a violation of the Antideficiency Act.

b. The Commission has authority to borrow funds from the U.S. Treasury up to $100 million. No funds were borrowed during fiscal years 1991 and 1990.

3. Unrecovered Costs Due From Subsequent Revenues

Unrecovered costs from prior years must be recovered before determining any net operating revenue due to the Republic of Panama. The cumulative unrecovered costs from prior fiscal years operations were $9.7 million as of September 30, 1989. Of this amount, $7 million was recovered in fiscal year 1990. Net operating revenue for fiscal year 1991 was $3.6 million, which when netted against the outstanding unrecovered costs of $2.7 million, leaves a balance of $0.9 million payable to the Republic of Panama.

4. Allowance for Obsolete and Excess Stock

The allowance for obsolete and excess stock provides for: (1) the specific disposal of individual inventory items likely to occur and (2) the systematic cost recognition for inventory items retained for possible use, but whose actual use most often does not occur. During fiscal year 1991, a comprehensive evaluation of inventory items that are infrequently issued, but retained for possible use, was completed which indicated the need to increase the allowance for these items by $5.6 million.

5. Compensation Benefits for Work Injuries

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. 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, 1991, was prepared by an independent actuarial firm. The values for year-end 1991 assets and liabilities were adjusted accordingly. There was no material change in the amounts. The gross amount to be recovered from tolls over the remaining life of the Treaty to retire this liability is $59.5 million in fiscal year 1991 and $71.7 million in fiscal year 1990.

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 was $120.6 million at September 30, 1991 and $133.2 million at September 30, 1990.

7. Temporary 20 Percent Surcharge

In fiscal years 1989 to 1991, the Commission has incurred additional costs due to the political and unsafe conditions that existed in the Republic of Panama.

The Board of Directors approved the recovery of these costs through a temporary 20 percent surcharge on linehandling and tug service. The surcharge was terminated on February 28, 1991. Surcharge revenues of $5.9 million and $6.5 million for fiscal years 1991 and 1990 respectively, were included in "Other revenues."

8. Contingent Liabilities and Commitments

The Commission is a defendant in certain legal actions related to personal injury, employment disputes, and other matters related to the Commission's business. In the opinion of management, the settlement of these legal actions will not have a material adverse effect on the financial position of the Commission.

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to $31.7 million at September 30, 1991 and $34.3 million at September 30, 1990.

Cash and negotiable securities held by United States depositories for the Commission to guarantee payment by third parties of their obligations were $14.5 million and $13.2 million at September 30, 1991 and 1990, respectively.

The Treaty provides that an annual amount of up to $10.0 million per year be paid to the Republic of Panama out of operating revenues to the extent that such revenues exceed expenditures. If the 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. The balance contingently payable to the Republic of Panama amounted to $110.2 million and $101.1 million at September 30, 1991 and 1990, respectively. However, as set forth in the Treaty and in the Act, nothing shall be construed as obligating the United States Government to pay, after the date of the termination of the Treaty, any unpaid balance accumulated before such date.

Supplementary Information (Unaudited)

Schedules of Treaty Related Costs

Department of Defense (DOD) Costs (Savings) Through FY 1991

Agency	Cumulative Costs 9/30/90	FY 91 Activity	Cumulative Costs 9/30/91
U.S. Army			
Base Operation	$174,796,469	$19,385,511	$194,181,980
Communications	29,652,499	3,174,274	32,826,773
Commissary	9,717,200	74,754	9,791,954
Transportation	2,904,813	2,290	2,907,103
Technical Assistance	360,240	0	360,240
Health Services	137,635,787	20,130,789	157,766,576
Disposition of Remains	3,469,382	405,587	3,874,969
Criminal Investigations	827,420	105,984	933,404
Tropical Test Center	35,408	0	35,408
Procurement of Equipment	3,046,789	0	3,046,789
Miltary Construction	36,397,791	0	36,397,791
Military Pay	87,721,960	8,369,211	96,091,171
Ports	165,868	0	165,868
Family Housing Operations	13,956,310	474,674	14,430,984
Executive Agent Costs	3,695,152	6,000,000	9,695,152
Total U.S. Army	504,383,088	58,123,074	562,506,162
U.S. Air Force	39,098,503	2,026,447	41,124,950
U.S. Navy	1,165,172	415,031	1,580,203
DOD Dependent Schools*	17,712,000	9,980,000	27,692,000
Defense Mapping Agency	1,158,764	0	1,158,764
Total DOD	$563,517,527	$70,544,552	$634,062,079

* Obligations incurred rather than actual expenditures

Non-DOD Costs (Savings) Through Fiscal Year 1991

Agency	Cumulative Costs 9/30/90	Corrections to 1990	FY 91 Activity	Cumulative Costs 9/30/91
State Department	($17,554,282)		($1,800,000)	($19,354,282)
Federal Aviation Administration	(36,465,083)	($4,251,300) *	(4,251,300)	(44,967,683)
American Battle Monuments Commission	3,560,950		241,000	3,801,950
Panama Canal Commission	300,000		0	300,000
General Accounting Office	1,648,985		230,160	1,879,145
Smithsonian Tropical Research Institute	4,030,774		602,115	4,632,889
Gorgas Memorial Laboratory	(257,351)		0	(257,351)
Canal Area Court System				
U.S. Attorney	(1,082,090)		(141,092)	(1,223,182)
U.S. Marshall	(529,275)		(59,800)	(589,075)
Clerk of Court	(4,214,415)		0	(4,214,415)
Bureau of Prisons	2,483,716		180,642	2,664,358
Foreign Broadcast Information System	478,916		118,954	597,870
National Oceanic & Atmospheric Administration	78,679		0	78,679
Total Non-DOD	(47,520,476)	(4,251,300)	(4,879,321)	(56,651,097)
Total DOD	563,517,527		70,544,552	634,062,079
Total DOD and Non-DOD	$515,997,051	($4,251,300)	$65,665,231	$577,410,982

* FY 1990 savings previously reported as zero.

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

Agency	Cumulative Transfers 9/30/90	FY 91 Transfers	Cumulative Transfers 9/30/91
Department of Defense			
U.S. Army	$40,338,046	$5,950,000	$46,288,046
U.S. Navy	4,930,769	0	4,930,769
U.S. Air Force	275,874	0	275,874
Total DOD	45,544,689	5,950,000	51,494,689
Federal Aviation Administration	4,638,360	0	4,638,360
Total	$50,183,049	$5,950,000	$56,133,049

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

	Acquisition Cost		
Agency	Cumulative Transfers 9/30/90	FY 91 Transfers	Cumulative Transfers 9/30/91
Canal Zone Government and Panama Canal Company	$168,317,629	$0	$168,317,629
Panama Canal Commission	29,225,827	0	29,225,827
Total	$197,543,456	$0	$197,543,456

	Net Book Value		
Agency	Cumulative Transfers 9/30/90	FY 91 Transfers	Cumulative Transfers 9/30/91
Canal Zone Government and Panama Canal Company	$84,886,222	$0	$84,886,222
Panama Canal Commission	9,614,749	0	9,614,749
Total	$94,500,971	$0	$94,500,971

Schedule of Property, Plant, and Equipment

September 30, 1991 and 1990
(Dollars in thousands)

		1991		1990	
	Estimated Service Life	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
Titles and treaty rights	40 yrs.	$ 14,729	$ 6,720	$ 14,729	$ 6,352
Interest during construction	-	50,892	50,892	50,892	50,892
Canal excavation, fills and embankments.	15-100 yrs.	348,240	157,284	347,758	148,683
Canal structures and equipment. . .	4-100 yrs.	354,859	170,779	350,010	164,873
Supporting and general facilities. . . .	3-100 yrs.	165,509	96,905	154,328	91,506
Facilities held for future use. .	10-100 yrs.	3,331	2,577	3,331	2,577
Plant additions in progress . . .	-	46,920	-	35,961	-
Suspended construction projects	-	40,146	40,146	40,146	40,146
TOTAL		$1,022,626	$525,303	$997,155	$505,029

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