

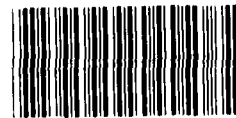
GAO

Report to the Congress

April 1986

FINANCIAL AUDIT

Panama Canal Commission's Financial Statements FY 1984 and 1983



129553

Comptroller General
of the United States
B-114839

April 8, 1986

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

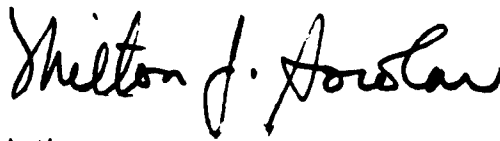
This report transmits our qualified opinion on the Panama Canal Commission's financial statements for the years ended September 30, 1984 and 1983. The report is qualified because the commission incorrectly computed interest on the United States investment in the canal and improperly established a reserve for floating equipment repairs. Appendix I is our report on the commission's internal accounting controls. Appendix II is our report on compliance with laws and regulations and contains recommendations to the Administrator of the Panama Canal Commission and to the Congress.

In commenting on our report (see appendix VII), the Administrator disagreed with our recommendations. His comments were considered in preparing our final report and are included where appropriate. We made our examination pursuant to the provisions of the Panama Canal Act of 1979 (22 U.S.C. 3601-3871 (1982)) and in accordance with generally accepted government auditing standards. We have issued qualified opinions on the commission's financial statements each year since fiscal year 1981.

The commission is a federal agency which was established on October 1, 1979, to carry out the responsibilities of the United States with respect to the Panama Canal under the Panama Canal Treaty of 1977. In fulfilling these obligations, the commission manages, operates, and maintains the canal and 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, when the Republic of Panama will assume full responsibility for the canal.

As required by the act, we are sending copies of this report to the President of the United States and the Secretary of the Treasury. Additionally, we are sending copies to the Administrator, Panama Canal

Commission; Director, Office of Management and Budget; and the Secretaries of State, Defense, and the Army.

A handwritten signature in black ink, reading "Shilton J. Aorlan". The signature is written in a cursive style with a large, stylized "S" and "A".

Acting
Comptroller General
of the United States

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**Comptroller General
of the United States
B-114839**

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

We have examined the balance sheets of the Panama Canal Commission as of September 30, 1984 and 1983, and the related statements of operations and noninterest-bearing investment, changes in the investment of the United States government, changes in financial position, and the status of appropriations for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In connection with our fiscal year 1984 examination, we also made a study and evaluation of the commission's system of internal accounting control (appendix I) and performed such other auditing procedures, including tests of compliance with applicable laws and regulations (appendix II), as we considered necessary in the circumstances. This report fulfills our audit responsibilities to the Congress under section 1313(b) of the Panama Canal Act of 1979 (22 U.S.C. 3723(b) (1982)).

As described in note 1 to the financial statements, the commission's policy is to prepare its financial statements on a basis of accounting as prescribed by the Panama Canal Act, which differs in some respects from generally accepted accounting principles. The accompanying financial statements present the financial position and results of operations of the Panama Canal Commission, in conformity with generally accepted accounting principles except as modified to comply with requirements of the act.

Section 1603 of the act requires the commission to compute interest on the investment of the United States in the Panama Canal and provides a formula for determining and adjusting the amount of that investment. Since fiscal year 1981, our annual reports on the commission's financial statements have included qualified opinions, due in part to the incorrect treatment of interest. The commission incorrectly reduces the United States interest-bearing investment by the amount of interest due each year. The incorrect interest reductions amounted to \$52 million for the period October 1, 1979, through September 30, 1984. As a result of the declining investment base, the commission understated interest costs (operating expenses) by \$6 million for the fiscal year ended

September 30, 1984, resulting in a cumulative understatement of \$15.2 million for fiscal years 1980 through 1984.

In July 1984, the commission established a reserve to provide for future repairs of floating equipment. At September 30, 1984, this reserve amounted to \$2.5 million, which increased 1984 operating expenses by the same amount. Since the commission is subject to a regulatory process by the Panama Canal Act, the amount of funds to be transferred into this reserve is required to be approved as part of the toll-setting process. The transfer of such funds was not provided for in setting the 1984 toll rates, which we believe is a necessary prerequisite before the commission can accumulate reserves for the recovery of future costs.

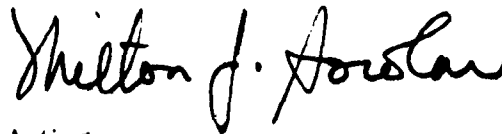
The commission's policy for fiscal year 1983 was to amortize the expenditure of capital advance funds collected from canal users in amounts which approximated the depreciation of assets acquired with such advances. As explained in note 6, the method of accounting for the amortization of advances for capital was changed for fiscal year 1984 to amortize expenditures in proportion to depreciation costs for capital improvements. We concur with the change. Accordingly, our opinion with regard to this issue on the fiscal year 1984 financial statements, as presented herein, differs from our opinion on the fiscal year 1983 financial statements in that it no longer is qualified with regard to this issue.

In our report dated April 17, 1985 (GAO/NSIAD-85-26), our opinion on the commission's fiscal year 1983 financial statements was also qualified due to the commission's application of its capitalization policies on several navigational improvement projects. The commission improperly expensed the costs of some projects which provided significant long-term improvements. This year, we did not identify any projects in which the costs were not in keeping with the commission's approved capitalization policies. Accordingly, we did not qualify our opinion on the fiscal year 1984 financial statements with respect to this issue.

In our opinion, except for the effects on the September 30, 1984, financial statements of establishing a reserve for floating equipment without regulatory approval, as described in the fourth paragraph, and except for the effects on the September 30, 1984 and 1983, financial statements of computing interest on the United States government investment as described in the third paragraph, the financial statements referred to above present fairly the financial position of the Panama Canal Commission at September 30, 1984 and 1983, the results of the commission's operations, changes in the investment of the United States, changes in

financial position, and the status of appropriations for the years then ended. The statements were prepared on the basis of accounting described in note 1, which basis has been consistently applied during the period except for the changes, with which we concur, in the method of accounting for the amortization of advances for capital, as described in note 6 to the financial statements.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The treaty-related cost schedules (appendix IV) are presented as required by the Panama Canal Act, and the schedule of property, plant, and equipment (appendix V) is presented for purposes of additional analysis. Neither schedule is a required part of the basic financial statements. The treaty-related cost schedules have not been subjected to the auditing procedures applied in examining the basic financial statements, and, accordingly, we express no opinion on them. While we do not specifically express an opinion on the schedule of property, plant, and equipment, the information contained in the schedule was included within the scope of examination for our opinion on the basic financial statements.



Acting
Comptroller General
of the United States

Report on Internal Accounting Controls

We have examined the financial statements of the Panama Canal Commission for the years ended September 30, 1984 and 1983, and have issued our report thereon. As part of our examinations, we made a study and evaluation of the commission's system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1984. (Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1983, is presented in GAO/NSIAD-85-26, April 17, 1985.) For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- treasury cycle,
- revenue cycle,
- expenditure cycle,
- payroll/personnel cycle,
- inventory management cycle,
- fixed assets cycle,
- budgetary cycle, and
- financial reporting cycle.

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the commission's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

The management of the commission is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting practices prescribed by the Panama Canal Act of 1979. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of

the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The commission evaluated its system of internal accounting and administrative controls in accordance with the Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255). The commission reported in December 1984 that its internal control system in effect during fiscal year 1984, taken as a whole, provided reasonable assurance that the commission's objectives were achieved within the limits described earlier in paragraph 3 of this appendix.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the Panama Canal Commission taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

Although our study and evaluation found no material weaknesses, it disclosed that the organizational location of the commission's internal audit function in the Office of Financial Management did not meet generally accepted government auditing standards for independence and impartiality. (See GAO/ID-83-14, November 22, 1982; GAO/NSIAD-83-34, September 2, 1983; and GAO/NSIAD-85-26, April 17, 1985.) Effective June 5, 1984, the Administrator of the commission became directly responsible for the internal audit function. This change in the organizational level satisfies generally accepted government auditing standards.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the Panama Canal Commission for the years ended September 30, 1984 and 1983. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1984. (Our report on the review of compliance with laws and regulations for the year ended September 30, 1983, is presented in GAO/NSIAD-85-26, April 17, 1985.)

In our opinion, the Panama Canal Commission, except for the three matters discussed in the following pages, complied with the terms and provisions of laws and regulations for the transactions tested.

Nothing came to our attention in connection with our examination, except for the matters discussed below, which caused us to believe that the commission was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Interest on the United States Investment

As required by the Panama Canal Act, tolls charged by the commission include an amount to recover interest costs on the investment of the United States government. Tolls are prescribed at rates calculated to cover, as nearly as practicable, all costs of maintaining and operating the canal, and interest on the United States investment is a cost that is included. The United States investment is divided into noninterest-bearing and interest-bearing segments. The noninterest-bearing portion is comprised of the cumulative net profit from 1952-1979, which was reinvested in the canal during those years; the interest-bearing portion is comprised of other amounts or property provided directly for investment in the canal.

Section 1603 of the act provides for the computation of interest on the interest-bearing portion of the United States investment in the Panama Canal. Since fiscal year 1981, our opinions on the commission's financial statements have been qualified on the basis that revenues ostensibly collected to cover required interest have been recorded as transferring an equivalent portion of interest-bearing United States investment in the canal to noninterest-bearing investment. Through September 30, 1984,

the interest-bearing account was thus incorrectly reduced by \$52 million. By virtue of the reduction, additional interest of \$15.2 million, which otherwise would have been collected, was foregone.

The \$52 million also is carried in a Panama Canal Commission account with the U.S. Treasury. The \$15.2 million, however, constitutes an out-of-pocket loss to the United States because it has not been collected in the tolls charged.

Table II.1 shows the correct United States interest-bearing investment to be \$52 million higher than what the commission shows for the portion of interest collected.

Table II.1: Interest-Bearing United States Investment*

Dollars in millions

Fiscal year	Commission's balance	Cumulative interest	GAO adjusted balance
October 1, 1979	\$187.6	\$ 0	\$187.6
September 30, 1980	148.2	11.9	160.1
September 30, 1981	128.4	23.2	151.6
September 30, 1982	89.8	32.3	122.1
September 30, 1983	108.9	42.2	151.1
September 30, 1984	84.0	52.0	136.0

*The interest-bearing United States investment is affected by other transactions also. For example, property transfers to the commission from other United States departments and agencies increase the United States interest-bearing investment. Property transfers by the commission to the Republic of Panama and other U.S. departments and agencies similarly decrease the investment.

To correct the understatement of the interest-bearing investment, generally accepted accounting principles would require the commission to make prior-period adjustments and compute the interest expense based on the adjusted investment base. Table II.2 shows that the cumulative interest on the United States investment would have increased by \$15.2 million had the proper investment base been used.

Table II.2: Interest Expense

Dollars in millions

Fiscal year	Using commission investment base	Using GAO adjusted investment base	Interest expense understatement
1980	\$11.9	\$12.4	\$.5
1981	11.3	12.8	1.5
1982	9.1	12.0	2.9
1983	9.9	14.2	4.3
1984	9.8	15.8	6.0
Total	\$52.0	\$67.2	\$15.2

In a June 19, 1985, report to Senator Lawton Chiles on the transfer of interest on the United States investment in the Panama Canal (GAO/AFMD-85-63), we made recommendations to the Congress that (1) the interest already collected be transferred from the commission's fund to the U.S. Treasury's general fund and (2) all future interest earned be transferred annually to the general fund of the Treasury. The Congress recently acted on our second recommendation by enacting a provision that requires the commission to transfer interest on the United States investment collected through tolls deposited in the Treasury beginning in fiscal year 1986. While the recent legislation did not take action on our first recommendation, other legislative initiatives being considered may do so.

Recommendation

We recommend that the Administrator of the Panama Canal Commission increase the interest-bearing United States investment account by \$52 million to reflect the proper balance and establish a liability account in favor of the United States for the interest not collected, which was \$15.2 million as of September 30, 1984.

Agency Comments and Our Evaluation

In a May 30, 1985, letter responding to a draft of this report (see appendix VII), the Administrator of the commission disagreed with our conclusions and recommendations and contended that the current law is being followed. We agree that the commission adhered to the law by depositing interest collections into the commission's fund. However, in our opinion, the Congress further intended that the commission transfer interest collected from the fund into the general fund of the Treasury as miscellaneous receipts. The commission has not done this.

The commission also states that transferring the interest would create "an untenable financial arrangement." The issue raised by the Commission is not cash requirements but rather the authority to obligate funds. This refers to the commission's contention that a lack of adequate funding authority the first 2 months of each fiscal year would be a problem unless a working capital base, which includes the interest collected, was allowed to remain. The commission believes it would lack adequate funding because of an administrative delay of 30-45 days for the U.S. Treasury to issue a warrant. However, Treasury officials informed us that while a warrant is needed to disburse funds, it is not needed for the commission to obligate funds as long as the obligations do not exceed the commission's fund balance and appropriation limitations.

Concerning the commission's obligation needs, on the first day of the fiscal year the commission records obligations for Department of Defense schools, the early retirement program, and payments to Panama for public services and for a fixed annuity. Office of Management and Budget officials informed us that annual obligations, such as these, may be recorded on a monthly or quarterly basis. For example, on a quarterly basis, the early retirement program only required \$4.9 million to be recorded as an obligation October 1 each year instead of the total annual obligation of \$19.6 million. Accordingly, we believe no financial arrangement problems would result. This issue was discussed in detail in our June 19, 1985, report to Senator Lawton Chiles.

The commission also contended that paying the interest to Treasury would be unfair to canal users because such payment of interest would impose an unexpected cost burden on the shipping industry. We disagree because toll rates already include the interest on the United States investment in the canal, and the commission has already collected from users and deposited into the fund \$52 million of interest as of September 30, 1984. However, the reinstatement of \$52 million to the interest-bearing investment will result in an increase in future interest. Tolls may have to be increased or annual canal profits may have to be reduced to provide necessary funds to pay additional interest.

Floating Equipment Reserve

In July 1984, the commission established a reserve for floating equipment repairs to provide for costs that are expected to be incurred in the future. At September 30, 1984, the reserve balance was \$2.5 million, and 1984 operating expenses were increased by the same amount. This reserve was not approved either through the regulatory process as an expense in the toll rates or by the commission's board of directors. The

commission is rate-regulated subject to generally accepted accounting standards for regulated operations. The President of the United States is, in effect, the regulator in establishing the canal's toll rates. Before a reserve can be established, a regulator must approve rates intended to recover costs that are expected to be incurred in the future. However, in this instance, the floating equipment reserves were not included in any toll rate proposals submitted for approval. The most recent revision to the toll rates was effective March 12, 1983, and did not consider this reserve as a component of the rates.

Recommendation

We recommend that the Administrator of the Panama Canal Commission include in the commission's next submission a proposal to raise toll rates to fund the reserve for floating equipment repairs.

**Agency Comments and
Our Evaluation**

In a May 30, 1985, letter (see appendix VII), the Administrator of the commission stated that the costs for overhaul of major floating equipment were included as a factor in the most recent toll rate increase. Also, the establishment of the reserve for floating equipment overhaul was based on the commission's Statement of Accounting Principles and Standards.

The commission has the authority to establish a "reserve by a charge to current operations" as stated in the GAO-approved Statement of Accounting Principles and Standards. However, the commission must establish, within the regulatory approval process, such a reserve of revenues to cover costs before the costs are incurred. This process requires reserves to be specifically identified as a reserve in a toll rate submission, and the toll rates must be approved by the regulator—the President of the United States. We agree that the commission included the estimated annual expenses for floating equipment repair in its toll rate submissions. However, the commission did not include in its submission the \$2.5 million to be specifically set aside from the revenues as a reserve for floating equipment repairs in the future. The effect of establishing this reserve was a reduction of fiscal year 1984 net income by \$2.5 million.

**Profit Payment to
Panama**

Public Law 98-63 appropriated \$378,635 to the commission in July 1983 for payment of fiscal year 1982 net operating revenues (profit) to the Republic of Panama, with the proviso that none of the funds could be expended prior to validation by GAO audit. The commission made the

payment to Panama in September 1983, shortly after issuance of our report (GAO/NSIAD-83-34, September 2, 1983). The opinion in our report was qualified subject to the resolution of the interest on the United States investment issue and the application of capitalization policies on several navigational improvement projects. Since the issues were unresolved, we could not validate the commission's payment to Panama.

The commission made this profit payment to the Republic of Panama in violation of the proviso in Public Law 98-63. The commission should recoup this payment by offsetting \$378,635 against future payments to the Republic of Panama. However, should the Congress decide to forgive the \$15.2 million of understated interest expense, no recoupment of profit payments would be necessary.

The commission's financial statements show net revenues payable to Panama of \$2.7 million for fiscal year 1984, which were paid to the Republic of Panama under the act. However, based on the effect of the interest issue, the commission's financial records may have to be adjusted. The result would be a net operating loss for fiscal year 1984. Unless the Congress resolves the interest on the United States investment issue in a manner that forgives the additional interest, the commission would have to recoup the \$2.7 million profit payment from Panama.

**Agency Comments and
Our Evaluation**

In commenting on a draft of this report, the commission stated that no adjustments to the fiscal year net operating revenue of \$2.7 million were necessary since the commission believes its position on the interest on the United States investment and on the floating equipment repair reserve to be correct. We have considered the commission's comments on both issues and have received no new evidence which will change our qualified opinion on the financial statements or our recommendations in our report on compliance with laws and regulations.

Impact on Opinion

The interest on the United States investment, the floating equipment reserves, and the profit payment to Panama were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination, and, except for computing interest on the United States investment and establishing a reserve without regulatory approval as discussed in our opinion on the financial statements, did not affect our opinion on the commission's financial statements for the year ended September 30, 1984.

Financial Statements

PANAMA CANAL COMMISSION
Balance Sheet
September 30, 1984 and 1983

<u>A S S E T S</u>	<u>1984</u>	<u>1983</u>
PROPERTY, PLANT AND EQUIPMENT:		
At cost (Note 1c).....	\$888,551,801	\$869,818,221
Less accumulated depreciation and valuation allowances (Notes 1e, 2 and 3).....	<u>420,152,474</u>	<u>402,676,579</u>
	<u>468,399,327</u>	<u>467,141,642</u>
CURRENT ASSETS:		
Cash and fund balances (Notes 4 and 5):		
Deposit funds and undeposited receipts:		
Postal fund.....	151,542	158,657
Trust fund.....	521,421	1,132,880
Cash receipts for deposit into U.S. Treasury.....	<u>917,191</u>	<u>282,793</u>
	<u>1,590,154</u>	<u>1,574,310</u>
Unexpended appropriated funds:		
Operating funds.....	46,185,064	45,222,217
Capital funds.....	28,986,025	28,517,883
Emergency fund.....	<u>10,000,000</u>	<u>10,000,000</u>
	<u>85,171,089</u>	<u>83,740,100</u>
	<u>86,761,243</u>	<u>85,314,410</u>
Accounts receivable.....	13,844,708	11,043,545
Other receivables (Note 7).....	<u>826,867</u>	<u>826,867</u>
	<u>14,671,575</u>	<u>11,870,412</u>
Inventories, less allowance for obsolete and excess stock of \$400,000 and \$750,154, respectively (Notes 1g and 6d).....	<u>40,718,200</u>	<u>42,010,283</u>
Other current assets.....	<u>262,627</u>	<u>354,383</u>
	<u>142,413,645</u>	<u>139,549,488</u>
OTHER ASSETS:		
Deferred charges:		
Cost of early retirement benefits (Note 1h).....	293,400,000	312,960,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	9,596,000	10,776,000
Other.....	<u>408,213</u>	<u>612,319</u>
	<u>303,404,213</u>	<u>324,348,319</u>
Unrecovered costs due from subsequent revenues (Notes 1b and 8).....	-	<u>4,132,804</u>
	<u>303,404,213</u>	<u>328,481,123</u>
TOTAL ASSETS.....	<u>\$914,217,185</u>	<u>\$935,172,253</u>

The accompanying notes are an integral part of this statement.

**Appendix III
Financial Statements**

<u>LIABILITIES</u>	<u>1984</u>	<u>1983</u>
INVESTMENT OF THE UNITED STATES GOVERNMENT:		
Invested capital:		
Interest-bearing (10.208% and 9.885%, respectively) (Note 9).....	\$ 84,014,932	\$108,905,590
Non-interest-bearing.....	<u>277,910,116</u>	<u>268,748,245</u>
	<u>361,925,048</u>	<u>377,653,835</u>
Current budgetary accounts (Note 4):		
Obligated operating funds.....	46,185,064	45,222,217
Obligated capital funds.....	19,792,831	18,031,685
Unobligated capital funds.....	9,193,194	10,486,198
Unobligated emergency fund.....	<u>10,000,000</u>	<u>10,000,000</u>
	<u>85,171,089</u>	<u>83,740,100</u>
	<u>447,096,137</u>	<u>461,393,935</u>
CURRENT LIABILITIES:		
Accounts payable:		
U.S. Government agencies.....	4,861,685	3,914,323
Government of Panama.....	6,630,604	6,205,923
Other.....	<u>8,067,022</u>	<u>4,708,282</u>
	<u>19,559,311</u>	<u>14,828,528</u>
Accrued liabilities:		
Employees' leave.....	39,643,978	38,075,806
Salaries and wages.....	4,513,849	6,124,362
Cost of early retirement benefits (Note 1h).....	19,560,000	19,560,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	1,234,000	1,364,000
Employees' repatriation.....	1,270,000	1,457,000
Ship accident claims (Notes 7 and 10).....	8,569,562	9,818,560
Net revenue payable to Government of Panama (Note 11).....	2,704,695	-
Other.....	<u>5,010,926</u>	<u>2,432,361</u>
	<u>82,507,010</u>	<u>78,832,089</u>
Other current liabilities:		
Unfunded ship accident claims (Notes 7 and 10)....	19,782,519	17,890,038
Advances for capital - unexpended (Notes 1d and 12)	14,078,394	13,231,035
Other.....	<u>483,062</u>	<u>1,114,088</u>
	<u>34,343,975</u>	<u>32,235,161</u>
	<u>136,410,296</u>	<u>125,895,778</u>
DEFERRED CREDIT:		
Advances for capital being amortized (Notes 1d, 6a and 12).....	<u>17,501,785</u>	<u>14,437,009</u>
LONG-TERM LIABILITIES AND RESERVES:		
Cost of early retirement benefits (Note 1h).....	273,840,000	293,400,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	8,362,000	9,412,000
Employees' repatriation.....	10,728,400	10,200,000
Lock overhauls (Note 1i).....	5,395,232	7,607,574
Casualty losses (Notes 1j and 13).....	12,383,335	12,825,957
Floating equipment repair (Note 6c).....	<u>2,500,000</u>	<u>-</u>
	<u>313,208,967</u>	<u>333,445,531</u>
TOTAL LIABILITIES.....	<u>\$914,217,185</u>	<u>\$935,172,253</u>

Appendix III
Financial Statements

PANAMA CANAL COMMISSION
Statement of Operations and Non-Interest-Bearing Investment
Years Ended September 30, 1984 and 1983

	1984	1983
OPERATING REVENUES:		
Tolls (Note 1b).....	\$289,155,035	\$287,791,023
Advances for capital (Note 1d).....	-	(4,078,000)
Net tolls revenue.....	<u>289,155,035</u>	<u>283,713,023</u>
Other.....	120,114,444	111,417,549
Advances for capital (Note 12).....	(4,853,615)	(1,173,549)
Net other revenue.....	<u>115,260,829</u>	<u>110,244,000</u>
Total operating revenue.....	<u>404,415,864</u>	<u>393,957,023</u>
OPERATING EXPENSES:		
Payments to the Government of Panama (Note 11):		
Public services.....	10,000,000	10,000,000
Fixed annuity.....	10,000,000	10,000,000
Tonnage.....	<u>49,143,817</u>	<u>51,190,136</u>
	69,143,817	71,190,136
Maintenance of channels and harbors.....	39,633,790	35,970,930
Navigation service and control.....	71,396,827	72,452,357
Locks operation.....	46,516,500	45,641,090
General repair, storehouse, engineering and maintenance services.....	10,538,895	9,625,198
Transportation and utilities.....	35,607,259	42,104,531
Housing operations.....	7,009,386	8,871,031
General and administrative.....	70,460,073	69,126,899
Interest on interest-bearing investment (Note 9).....	9,796,269	9,943,192
Other.....	<u>37,475,549</u>	<u>33,164,463</u>
Total operating expenses.....	<u>397,578,365</u>	<u>398,089,827</u>
NET OPERATING REVENUE (LOSS) (Notes 1b, 8 and 11).....	6,837,499	(4,132,804)
INVESTED CAPITAL - NON-INTEREST-BEARING:		
Unrecovered costs (recovered) deferred (Notes 1b and 8).....	(4,132,804)	4,132,804
Net revenue payable to Government of Panama (Note 11).....	(2,704,695)	-
Investment at beginning of year.....	268,748,245	258,511,310
Miscellaneous receipts deposited into the U.S. Treasury.....	282,793	576,536
Due U.S. Treasury for undeposited receipts.....	(917,191)	(282,793)
Interest on interest-bearing investment (Note 9).....	<u>9,796,269</u>	<u>9,943,192</u>
INVESTED CAPITAL - NON-INTEREST-BEARING AT END OF YEAR.	<u>\$277,910,116</u>	<u>\$268,748,245</u>

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Changes in the Investment of the United States Government
Year Ended September 30, 1983

INVESTMENT AT OCTOBER 1, 1982.....
Appropriation by the Congress for FY 1983.

INCREASES IN INVESTMENT:

Prior year receipts deposited into the U.S.
Treasury.....
Expenditures from capital appropriations..
Expenditures from operating appropriations
Funds covered into U.S. Treasury.....
Repayment to the U.S. Treasury of FY 1980
appropriation lapsed.....
Interest on interest-bearing investment...
Property transferred from other U.S.
Government agencies.....
Unrecovered costs deferred
(Notes 1b and 8).....

DECREASES IN INVESTMENT:

Funds to be covered into the U.S. Treasury
Receipts deposited into the U.S. Treasury.
Due U.S. Treasury for undeposited receipts
Property transferred to the
Government of Panama.....
Property transferred to other U.S.
Government agencies.....
Net loss (Notes 1b, 8 and 11).....

INVESTMENT AT SEPTEMBER 30, 1983.....

**Appendix III
Financial Statements**

<u>Invested Capital</u>		<u>Emergency Fund</u>	<u>Operating Funds</u>	<u>Capital Funds</u>	<u>Total</u>
<u>Interest- Bearing</u>	<u>Non-Interest Bearing</u>				
\$ 89,763,345	\$258,511,310	\$ 10,000,000	\$ 74,440,013	\$ 21,424,115	\$454,138,783
-	-	-	<u>405,378,634</u>	<u>29,024,000</u>	<u>434,402,634</u>
<u>89,763,345</u>	<u>258,511,310</u>	<u>10,000,000</u>	<u>479,818,647</u>	<u>50,448,115</u>	<u>888,541,417</u>
-	576,536	-	-	-	576,536
21,930,232	-	-	-	(21,930,232)	-
395,875,547	-	-	(395,875,547)	-	-
(28,200,421)	-	-	-	-	(28,200,421)
28,200,421	-	-	(28,200,421)	-	-
-	9,943,192	-	-	-	9,943,192
3,356	-	-	-	-	3,356
-	<u>4,132,804</u>	-	-	-	<u>4,132,804</u>
<u>417,809,135</u>	<u>14,652,532</u>	-	<u>(424,075,968)</u>	<u>(21,930,232)</u>	<u>(13,544,533)</u>
-	-	-	10,520,462	-	10,520,462
398,461,068	-	-	-	-	398,461,068
-	282,793	-	-	-	282,793
141,303	-	-	-	-	141,303
64,519	-	-	-	-	64,519
-	<u>4,132,804</u>	-	-	-	<u>4,132,804</u>
<u>398,666,890</u>	<u>4,415,597</u>	-	<u>10,520,462</u>	-	<u>413,602,949</u>
<u>\$108,905,590</u>	<u>\$268,748,245</u>	<u>\$ 10,000,000</u>	<u>\$ 45,222,217</u>	<u>\$ 28,517,883</u>	<u>\$461,393,935</u>
(Note 9)					

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Changes in the Investment of the United States Government
Year Ended September 30, 1984

INVESTMENT AT OCTOBER 1, 1983.....
Appropriation by the Congress for FY 1984.

INCREASES IN INVESTMENT:

Prior year receipts deposited into the U.S.
Treasury.....
Expenditures from capital appropriations..
Expenditures from operating appropriations
Interest on investment.....
Net revenue (Notes 1b and 8).....

DECREASES IN INVESTMENT:

Funds to be covered into the U.S.Treasury.
Receipts deposited into the U.S. Treasury.
Due U.S. Treasury for undeposited receipts
Property transferred to the
Government of Panama.....
Property transferred to other U.S.
Government agencies.....
Net revenue contingently payable to
Government of Panama (Notes 1b and 8)....

INVESTMENT AT SEPTEMBER 30, 1984.....

**Appendix III
Financial Statements**

<u>Invested Capital</u>		<u>Emergency Fund</u>	<u>Operating Funds</u>	<u>Capital Funds</u>	<u>Total</u>
<u>Interest- Bearing</u>	<u>Non-Interest Bearing</u>				
\$108,905,590	\$268,748,245	\$ 10,000,000	\$ 45,222,217	\$ 28,517,883	\$461,393,935
-	-	-	<u>391,912,000</u>	<u>21,813,000</u>	<u>413,725,000</u>
<u>108,905,590</u>	<u>268,748,245</u>	<u>10,000,000</u>	<u>437,134,217</u>	<u>50,330,883</u>	<u>875,118,935</u>
-	282,793	-	-	-	282,793
21,344,858	-	-	-	(21,344,858)	-
360,006,716	-	-	(360,006,716)	-	-
-	9,796,269	-	-	-	9,796,269
-	<u>2,704,695</u>	-	-	-	<u>2,704,695</u>
<u>381,351,574</u>	<u>12,783,757</u>	-	<u>(360,006,716)</u>	<u>(21,344,858)</u>	<u>12,783,757</u>
-	-	-	30,942,437	-	30,942,437
405,954,027	-	-	-	-	405,954,027
-	917,191	-	-	-	917,191
116,358	-	-	-	-	116,358
171,847	-	-	-	-	171,847
-	<u>2,704,695</u>	-	-	-	<u>2,704,695</u>
<u>406,242,232</u>	<u>3,621,886</u>	-	<u>30,942,437</u>	-	<u>440,806,555</u>
<u>\$ 84,014,932</u>	<u>\$277,910,116</u>	<u>\$ 10,000,000</u>	<u>\$ 46,185,064</u>	<u>\$ 28,986,025</u>	<u>\$447,096,137</u>

(Note 9)

The accompanying notes are an integral part of this statement.

**Appendix III
Financial Statements**

**PANAMA CANAL COMMISSION
Statement of Changes in Financial Position
Years Ended September 30, 1984 and 1983**

SOURCE OF FUNDS:	1984	1983
From Operations:		
Revenue.....	\$ 404,415,864	\$ 393,957,023
Less operating expenses:		
Interest on interest-bearing investment.....	9,796,269	9,943,192
Payments to the Government of Panama (Note 11)....	69,143,817	71,190,136
Other expenses.....	<u>318,638,279</u>	<u>316,956,499</u>
Total operating expenses.....	<u>397,578,365</u>	<u>398,089,827</u>
Net operating revenue (loss) (Notes 1b, 8 and 11)...	6,837,499	(4,132,804)
Unrecovered costs for fiscal year 1983 (recovered) deferred (Notes 1b and 8).....	(4,132,804)	-
Net revenue payable to Government of Panama (Notes 1b, 8 and 11).....	(2,704,695)	-
Unrecovered costs for fiscal year 1983 deferred (Notes 1b, 8 and 11).....	-	4,132,804
Add transactions not requiring outlay of funds:		
Depreciation (Note 1e).....	19,586,529	18,514,996
Provision for lock overhauls (Note 1i).....	5,071,000	4,354,000
Provision for casualty losses (Note 1j).....	7,400,000	3,117,088
Provision for floating equipment repair (Note 6c).	2,500,000	-
Other.....	<u>5,665,966</u>	<u>1,970,819</u>
	<u>40,223,495</u>	<u>27,956,903</u>
Change in investment of the U.S. Government:		
Interest on interest-bearing investment.....	9,796,269	9,943,192
Receipts deposited into U.S. Treasury.....	(405,954,027)	(398,461,068)
Disbursements from appropriated funds.....	381,351,575	446,006,200
Repayment to the U.S. Treasury of the FY 1980 appropriation lapsed.....	-	(28,200,421)
Net property transfers.....	(288,206)	(202,466)
Other.....	<u>(634,399)</u>	<u>293,744</u>
	<u>(15,728,788)</u>	<u>29,379,181</u>
Amortization of advances for capital.....	<u>941,478</u>	<u>919,711</u>
Advances for capital being amortized (Notes 1d, 6a and 12).....	<u>3,064,777</u>	<u>2,480,771</u>
Total source of funds.....	<u>28,500,962</u>	<u>60,736,566</u>
APPLICATION OF FUNDS:		
Lock overhauls expenditures.....	7,283,342	5,040,623
Casualty losses.....	7,842,622	4,214,134
Accrued capital expenditures.....	<u>22,456,349</u>	<u>21,704,598</u>
Total application of funds.....	<u>37,582,313</u>	<u>30,959,355</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u>\$ (9,081,351)</u>	<u>\$ 29,777,211</u>
ANALYSIS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash.....	\$ 15,843	\$ (185,931)
Receivables.....	2,801,163	1,055,670
Inventories.....	(1,292,084)	7,429,667
Other.....	<u>(91,755)</u>	<u>150,646</u>
	<u>1,433,167</u>	<u>8,450,052</u>
Decrease (increase) in current liabilities:		
Accounts payable.....	(4,730,783)	21,268,127
Accrued liabilities.....	(3,674,921)	(555,681)
Other.....	<u>(2,108,814)</u>	<u>614,713</u>
	<u>(10,514,518)</u>	<u>21,327,159</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u>\$ (9,081,351)</u>	<u>\$ 29,777,211</u>

The accompanying notes are an integral part of this statement.

**Appendix III
Financial Statements**

PANAMA CANAL COMMISSION
Statement of Status of Appropriations
Years Ended September 30, 1984 and 1983

SOURCE OF APPROPRIATIONS:	<u>1984</u>	<u>1983</u>
Operating funds:		
Current year operating appropriation.....	\$391,912,000	\$405,378,634
Obligated operating funds brought forward:		
Fiscal year 1980.....	2,543,398	23,684,912
Fiscal year 1981.....	3,424,423	5,623,556
Fiscal year 1982.....	4,717,168	45,131,545
Fiscal year 1983.....	<u>34,537,228</u>	<u>-</u>
	<u>45,222,217</u>	<u>74,440,013</u>
	<u>437,134,217</u>	<u>479,818,647</u>
Capital funds:		
Current year capital appropriation (no year).....	<u>21,813,000</u>	<u>29,024,000</u>
Obligated capital funds brought forward:		
Fiscal year 1980.....	273,632	358,549
Fiscal years 1981 through 1982.....	-	15,347,121
Fiscal years 1981 through 1983.....	<u>17,758,053</u>	<u>-</u>
	<u>18,031,685</u>	<u>15,705,670</u>
Unobligated capital funds (no year) brought forward:		
Fiscal year 1980.....	201,847	599,957
Fiscal years 1981 through 1982.....	-	5,118,488
Fiscal years 1981 through 1983.....	<u>10,284,351</u>	<u>-</u>
	<u>10,486,198</u>	<u>5,718,445</u>
	<u>50,330,883</u>	<u>50,448,115</u>
 Emergency fund (no year).....	 <u>10,000,000</u>	 <u>10,000,000</u>
 TOTAL SOURCE OF APPROPRIATIONS.....	 <u>\$497,465,100</u>	 <u>\$540,266,762</u>

The accompanying notes are an integral part of this statement.

**Appendix III
Financial Statements**

**PANAMA CANAL COMMISSION
Statement of Status of Appropriations
Years Ended September 30, 1984 and 1983**

APPLICATION OF APPROPRIATIONS:	<u>1984</u>	<u>1983</u>
Operating funds:		
Expenditures from operating appropriations:		
Repayment to the U.S. Treasury of the FY 1980 appropriation lapsed.....	\$ -	\$ 28,200,421
Fiscal year 1980.....	886,097	21,121,981
Fiscal year 1981.....	1,167,815	2,830,821
Fiscal year 1982.....	2,326,651	38,274,112
Fiscal year 1983.....	29,591,407	333,648,633
Fiscal year 1984.....	<u>326,034,746</u>	<u>-</u>
	<u>360,006,716</u>	<u>424,075,968</u>
Obligated operating funds:		
Fiscal year 1980.....	1,692,534	2,543,398
Fiscal year 1981.....	3,558,134	3,424,423
Fiscal year 1982.....	2,854,042	4,717,168
Fiscal year 1983.....	3,887,554	34,537,228
Fiscal year 1984.....	<u>34,192,800</u>	<u>-</u>
	<u>46,185,064</u>	<u>45,222,217</u>
Unobligated operating funds lapsed.....	<u>30,942,437</u>	<u>10,520,462</u>
	<u>437,134,217</u>	<u>479,818,647</u>
Capital funds:		
Expenditures from capital appropriations:		
Fiscal year 1980.....	229,106	483,026
Fiscal years 1981 through 1983.....	-	21,447,206
Fiscal years 1981 through 1984.....	<u>21,115,752</u>	<u>-</u>
	<u>21,344,858</u>	<u>21,930,232</u>
Obligated capital funds:		
Fiscal year 1980.....	159,269	273,632
Fiscal years 1981 through 1983.....	-	17,758,053
Fiscal years 1981 through 1984.....	<u>19,633,562</u>	<u>-</u>
	<u>19,792,831</u>	<u>18,031,685</u>
Unobligated capital funds (no year):		
Fiscal year 1980.....	87,103	201,848
Fiscal years 1981 through 1983.....	-	10,284,350
Fiscal years 1981 through 1984.....	<u>9,106,091</u>	<u>-</u>
	<u>9,193,194</u>	<u>10,486,198</u>
	<u>50,330,883</u>	<u>50,448,115</u>
Unobligated emergency fund (no year).....	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL APPLICATION OF APPROPRIATIONS.....	<u>\$497,465,100</u>	<u>\$540,266,762</u>

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION

Notes to Financial Statements

1. Summary of Significant Accounting Policies.

The Comptroller General of the United States approved the Accounting Principles and Standards Statement of the Panama Canal Commission in his letter dated September 14, 1982. A summary of significant accounting policies follows:

a. Accounting and reporting. As required by section 1311(a) of the Panama Canal Act of 1979, hereinafter 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, 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.

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 payments to the contributory United States Civil Service 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. The liability of the Commission for future annuity payments to these former employees or their eligible widows is reflected in the balance sheet as "Retirement Benefits to Certain Former Employees 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. 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 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.

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) \$5.5 million at September 30, 1984, and \$5.6 million at September 30, 1983, to reduce to usable value the cost of property, plant and equipment transferred; (b) \$50.9 million at September 30, 1984, and 1983, to offset interest costs imputed for the original Canal construction period; and (c) \$42.8 million at September 30, 1984, and 1983, to offset the cost of defense facilities and suspended construction projects, the latter being principally the partial construction of a third set of locks abandoned in the early part of World War II.

Property, plant and equipment offset by valuation allowances, when fully or partially reactivated, are reinstated by a reduction in the valuation allowance and by an increase to the non-interest-bearing investment of the United States Government in proportion to the value to the Commission of the reactivated asset.

3. Depreciation as a Percentage of Average Cost of Plant.

The provision for depreciation, expressed as a percentage of average cost of depreciable plant exclusive of valuation allowances, was 2.63% for fiscal year 1984 and 2.55% for fiscal year 1983.

4. Cash and Fund Balances.

As of September 30, 1984, the cash and fund balances of \$86,761,243 are made up of \$83,845,968 on deposit in the United States Treasury, \$1,209,019 on deposit in commercial banks, and \$1,706,256 on hand. Of the total, \$85,171,089 is comprised of current budgetary accounts which include appropriated funds for operations, capital and the emergency fund.

As of September 30, 1983, the cash and fund balances of \$85,314,410 were made up of \$80,721,975 on deposit in the United States Treasury, \$1,647,360 on deposit in commercial banks, and \$2,945,075 on hand. Of the total, \$83,740,100 was comprised of current budgetary accounts which included appropriated funds for operations, capital and the emergency fund.

The emergency fund represents the amount on deposit in the United States Treasury which is to be used "...to defray emergency expenditures and to insure the continuous efficient and safe operation of the Panama Canal when funds appropriated for the operation and maintenance of the Canal prove insufficient for such purposes...."

The postal fund consists of outstanding money orders, postal savings and interest accrued thereon. This fund will remain available until liquidated. The trust fund primarily includes deposits made by customers for future tolls and other service payments.

5. Panama Canal Commission Fund.

The Panama Canal Commission Fund as established by the Panama Canal Act of 1979 (Public Law No. 96-70) is made up of receipts deposited in the United States Treasury less appropriation warrants issued during the fiscal year. The balance in this account, \$171.2 million as of September 30, 1984, and \$146.3 million as of September 30, 1983, is available for future appropriations.

Section 1302 of the Panama Canal Act of 1979 (Public Law No. 96-70) provides that all appropriations necessary to operate the Panama Canal shall be issued from the Panama Canal Commission Fund. The appropriations for fiscal year 1980 were issued to the Commission from the General Fund of the United States Treasury. The status of the amount still owed to the General Fund of the United States Treasury for fiscal year 1980 is as follows:

Appendix III
Financial Statements

Millions of Dollars

Operating Appropriation	\$ 427.2	
Capital Appropriation	<u>36.6</u>	\$ 463.8
Repaid to General Fund (07/81)	(350.0)	
Repaid to General Fund (12/82)	<u>(28.2)</u>	<u>(378.2)</u>
Amount owed General Fund of U.S. Treasury as of September 30, 1984		\$ <u>85.6</u>

6. Accounting Changes.

a. Amortization of Advances for Capital (see Note 1d) was implemented in fiscal year 1983 based on the following procedure: At the beginning of each fiscal year, an amount equivalent to any capital advance funds disbursed for plant replacement, expansion, or improvement during the previous fiscal year is reclassified and amortized over the average accounting life of assets acquired in the fiscal year in which the funds were expended. Beginning in fiscal year 1984 a new method was adopted for amortizing disbursements based on the flow of costs from construction work in progress. Disbursements are amortized in proportion to depreciation costs arising from completed projects transferred from construction work in progress.

b. The intent of the lock overhauls reserve policy is to normalize costs directly related to the periodic repair and maintenance of the locks.

Repair and maintenance costs of caissons, which are used exclusively for lock overhauls, have increased dramatically in recent years. To minimize significant fluctuations in results of operations, these costs are now charged to the reserve. In fiscal year 1983, \$754,136 for repair and maintenance of caissons was charged to the reserve for lock overhauls.

c. During fiscal year 1984 a reserve was established for floating equipment repair similar to the reserves now in existence for lock overhauls and marine accidents. A one-time charge to expense of \$2.5 million was made to establish the reserve. The annual accrual will be reviewed and adjusted as appropriate.

d. Effective with fiscal year 1984, there was a change in the method of applying the accounting policy for certain inventories. Inventories of manufactured materials and supplies and water system chemicals valued at \$1.3 million were written off by a charge to operations in fiscal year 1984.

7. Other Receivables.

Other receivables represent services provided in connection with ship accidents for which the vessel is considered to be responsible awaiting final settlement. This amount is also included in the computation of estimated liabilities established for ship accident claims.

8. Unrecovered Costs Due from Subsequent Revenues.

Pursuant to the provisions of section 1341(e) and section 1602(b) of the Panama Canal Act of 1979 (Public Law No. 96-70) the net loss of \$4.1 million

from fiscal year 1983 operations was recovered from fiscal year 1984 operating revenue.

9. 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 Panama Canal Act of 1979. The interest-bearing investment of the United States Government at September 30, 1984, and September 30, 1983, was determined as follows:

	<u>Millions of Dollars</u>
Investment at September 30, 1982	\$ 89.8
Fiscal year 1983 transactions:	
Disbursements	\$ 446.0
Receipts	(398.5)
Repayment to United States Treasury of FY 1980 lapsed funds	(28.2)
Net property transfers	(0.2)
Net change	<u>19.1</u>
Investment at September 30, 1983	108.9
Fiscal year 1984 transactions:	
Disbursements	\$ 381.4
Receipts	(406.0)
Net property transfers	(0.3)
Net change	<u>(24.9)</u>
Investment at September 30, 1984	<u>\$ 84.0</u>

10. Ship Accident Claims.

Liabilities arising from ship accident claims are divided into fund and non-fund categories. The fund category is made up of the following:

a. Accidents which occurred prior to October 1, 1979.

b. Accidents which occurred within the locks after September 30, 1979.

c. Accidents which occurred outside the locks after September 30, 1979, for which the claim or estimated liability is \$120,000 or less per ship per accident.

Settlement of liabilities for ship accidents which occurred outside the locks where the claim exceeds \$120,000 requires specific Congressional approval. Until Congressional action is completed, liabilities for these accidents are booked as non-fund.

11. Payments to the Government of Panama.

Based on Article III and Article XIII of the Treaty, the Government of Panama has received payment for public services, fixed annuity and thirty cents per Panama Canal net ton. In addition to these payments, an amount of \$2.7 million is payable to the Government of Panama in accordance with paragraph 4(c) of Article XIII, which states that an annual amount of up to \$10 million will be paid out of operating revenues to the extent that such revenues exceed expenditures of the Commission. This amount is subject to the limitations set forth in section 1341(e) of the Panama Canal Act of 1979 (Public Law No. 96-70).

12. Advances for Capital - Transit Booking System Fees.

During fiscal year 1982, with approval of the Board of Directors, the

Commission tested a system whereby shippers, for a fee, could make an advance reservation for vessel transit. The system was activated in fiscal year 1983 and generated funds of \$1.2 million and \$4.9 million in fiscal year 1984. Such funds are considered capital advances from Canal users. By direction of the Board of Directors, these fees are set aside for capital improvements.

13. Reserve for Casualty Losses.

The reserve for casualty losses at September 30, 1984, of \$12.4 million includes \$11.8 million for marine accidents and \$0.6 million for other casualty losses. The monthly accrual for the reserve for marine accidents in fiscal year 1984 was \$0.3 million per month for a total of \$4.0 million.

The reserve for casualty losses at September 30, 1983, of \$12.8 million included \$12.5 million for marine accidents and \$0.3 million for other casualty losses. As a result of a management analysis of accident frequency and severity, the regular monthly accrual of \$0.8 million was adjusted downward to recognize in the reserve account balance the decreased loss trend for larger vessels and the reduced potential loss exposure resulting from the significant drop in overall transit levels. Accordingly, the reserve for marine accidents was adjusted during fiscal year 1983 to maintain a balance of \$12.5 million in the account.

14. Contingent Liabilities and Commitments.

In addition to recorded liabilities, the estimated maximum contingent liability which could result from pending claims and lawsuits was \$3.4 million at September 30, 1984, and \$9.8 million at September 30, 1983. In the opinion of management and Commission 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 \$29.7 million at September 30, 1984, and \$30.8 million at September 30, 1983. Of this amount \$0.1 million in unfilled purchase orders were prepaid as of September 30, 1984, and \$0.2 million at September 30, 1983. In addition, the Panama Canal Commission is liable for an indeterminable amount with respect to death and disability payments under the Federal Employees' Compensation Act.

Cash and negotiable securities of a kind acceptable by the United States Government in the amount of \$6.3 million were held by United States depositories designated by the Panama Canal Commission at September 30, 1984, and \$6.5 million at September 30, 1983, 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 Panama Canal Act of 1979 (Public Law No. 96-70). 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, 1984, the balance contingently payable to the Government of Panama amounts to \$44.2 million. As of September 30, 1983, the balance contingently payable to the Government of Panama amounted to \$36.9 million.

15. 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.

Schedules of Treaty-Related Costs

Unaudited

SCHEDULE OF TREATY-RELATED COSTS

Department of Defense (DOD) Costs (Savings) Through Fiscal Year 1984

<u>Agency</u>	<u>Prior to FY 1983^a</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>Total</u>
U.S. Army				
Base Operations	\$38,655,634	\$13,605,219	\$17,774,017	\$70,034,870
Communications	6,154,073	2,420,993	3,202,749	11,777,815
Commissary	4,407,964	955,907	822,185	6,186,056
Transportation	2,087,946	394,598	405,271	2,887,815
Technical Assistance	202,600	31,940	49,858	284,398
Health Services	30,378,232	9,335,025	9,484,499	49,197,756
Disposal of Remains	619,437	214,348	224,418	1,058,203
Criminal Investigations	121,257	57,392	63,242	241,891
Tropic Test Center	35,408	0	0	35,408
Procurement of Equipment	3,046,789	0	0	3,046,789
Military Construction	35,793,530	0	592,303	36,385,833
Military Pay	23,257,213	9,155,000	8,606,000	41,018,213
Ports	165,868	0	0	165,868
Family Housing Operations	0	0	219,792	219,792
Total Army	144,925,951	36,170,422	41,444,334	222,540,707
U.S. Air Force	9,175,131	5,057,411	4,880,762	19,113,304
U.S. Navy	359,976	(115,493)	(123,776)	120,707
DOD Dependents' Schools ^b	4,824,000	(155,000)	(932,000)	3,737,000
Defense Mapping Agency/IAGS	1,158,764	note c	note c	1,158,764
Total DOD	\$160,443,822	\$40,957,340	\$45,269,320	\$246,670,482

^aIncludes prior-year adjustments.^bObligations incurred rather than actual expenditures.^cNot reported.

Appendix IV
Schedules of Treaty-Related Costs

Unaudited

SCHEDULE OF TREATY-RELATED COSTS

Non-DOD Costs (Savings) Through Fiscal Year 1984

<u>Agency</u>	<u>Prior FY costs^a</u>	<u>FY 1983 costs</u>	<u>FY 1984 costs</u>	<u>Total costs</u>
State Department	\$(3,218,925)	\$(1,782,935)	\$(1,794,870)	\$ (6,796,730)
Federal Aviation Administration	(7,025,200)	(4,034,800)	(4,148,583)	(15,208,583)
American Battle Monuments Commission	943,757	513,763	259,633	1,717,153
Panama Canal Commission	300,000	0	0	300,000
General Accounting Office	548,399	152,961	97,122	798,482
Smithsonian Tropical Research Institute	736,463	342,590	386,708	1,465,761
Gorgas Memorial Laboratory	(16,380)	(5,829)	(7,283)	(29,492)
Canal Area Court System				
U.S. Attorney	(97,500)	(101,400)	(109,147)	(308,047)
U.S. Marshall	(129,081)	(43,740)	45,490	(218,311)
Clerk of Court	(346,624)	(465,590)	(508,816)	(1,321,030)
Bureau of Prisons	197,021	187,000	109,293	493,314
Foreign Broadcast Information Service	12,233	6,158	26,356	44,747
National Oceanic and Atmospheric Administration	<u>1,819</u>	<u>442</u>	<u>442</u>	<u>2,703</u>
Total Non-DOD	<u>\$(8,094,018)</u>	<u>\$(5,231,380)</u>	<u>\$(5,734,635)</u>	<u>\$(19,060,033)</u>

^aIncludes prior-year adjustments.

Unaudited

SCHEDULE OF TREATY-RELATED COSTS

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

<u>Agency</u>	<u>Acquisition Cost</u>			
	<u>Prior transfers</u>	<u>FY 1983 transfers</u>	<u>FY 1984 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$168,317,629	\$ 0	\$ 0	\$168,317,629
Panama Canal Commission	<u>9,068,251</u>	<u>442,995</u>	<u>347,789</u>	<u>9,859,035</u>
Total	<u>\$177,385,880</u>	<u>\$442,995</u>	<u>\$347,789</u>	<u>\$178,176,664</u>

<u>Agency</u>	<u>Net Book Value</u>			
	<u>Prior transfers</u>	<u>FY 1983 transfers</u>	<u>FY 1984 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$84,886,222	\$ 0	\$ 0	\$84,886,222
Panama Canal Commission	<u>3,787,991</u>	<u>141,303</u>	<u>116,359</u>	<u>4,045,653</u>
Total	<u>\$88,674,213</u>	<u>\$141,303</u>	<u>\$116,359</u>	<u>\$88,931,875</u>

Unaudited

SCHEDULE OF TREATY-RELATED COSTS

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

<u>Agency</u>	<u>Acquisition Cost</u>			
	<u>Prior transfers</u>	<u>FY 1983 transfers</u>	<u>FY 1984 transfers</u>	<u>Total transfers</u>
Department of Defense				
U.S. Army	\$32,083,058	\$ 62,358	\$ 0	\$32,145,416
U.S. Navy	4,698,687	0	232,082	4,930,769
U.S. Air Force	<u>275,874</u>		<u>0</u>	<u>275,874</u>
Total DOD	37,057,619	62,358	232,082	37,352,059
Federal Aviation Administration	<u>1,366,388</u>	<u>95,571</u>	<u>1,553,830</u>	<u>3,015,789</u>
Total	<u>\$38,424,007</u>	<u>\$ 157,929</u>	<u>\$1,785,912</u>	<u>\$40,367,848</u>

Schedule of Property, Plant, and Equipment

September 30, 1984 and 1983

Unaudited

PANAMA CANAL COMMISSION
Schedule of Property, Plant and Equipment
September 30, 1984 and 1983

Titles and treaty rights.....
Interest during construction.....
Canal excavation, fills and embankments....
Canal structures and equipment.....
Supporting and general facilities.....
Minor items of plant and equipment.....
Facilities held for future use.....
Plant additions in progress.....
Suspended construction projects.....
TOTAL.....

Appendix V
Schedule of Property, Plant, and Equipment
September 30, 1984 and 1983

1 9 8 4		1 9 8 3	
<u>Cost</u>	<u>Depreciation and valuation allowances</u>	<u>Cost</u>	<u>Depreciation and valuation allowances</u>
\$ 14,728,889	\$ 4,142,501	\$ 14,728,889	\$ 3,774,278
50,892,311	50,892,311	50,892,311	50,892,311
347,536,452	97,504,007	347,536,452	88,974,673
227,921,383	111,597,988	223,188,786	107,678,797
163,216,450	102,770,199	159,531,771	98,621,330
10,339,272	10,339,272	10,081,037	10,081,037
2,915,933	2,760,398	3,166,947	2,508,355
30,855,313	-	20,546,230	-
<u>40,145,798</u>	<u>40,145,798</u>	<u>40,145,798</u>	<u>40,145,798</u>
<u>\$888,551,801</u>	<u>\$420,152,474</u>	<u>\$869,818,221</u>	<u>\$402,676,579</u>

GAO Opinion on Interest Issue B-214242-O.M., Dated December 26, 1984

UNITED STATES GOVERNMENT

GENERAL ACCOUNTING OFFICE

Memorandum

December 26, 1984

TO : Director, NSIAD - Frank C. Conahan

FROM : General Counsel - *Harry R. Van Cleve*
Harry R. Van Cleve

SUBJECT: Return on U.S. Investment in Panama Canal-
B-214242-O.M.

This responds to a request from the Development Assistance group of your division and the Latin America Office for our opinion on two questions concerning how interest should be computed and paid on the United States investment in the Panama Canal.^{1/} Our findings have been discussed informally with your staff, and the issues were discussed in testimony by Associate Director Samuel W. Bowlin ("GAO Views Concerning Return on U.S. Investment in the Panama Canal") presented on May 16, 1984, before the Subcommittee on Panama Canal/Outer Continental Shelf, House Committee on Merchant Marine and Fisheries. Since the issues are likely to be recurring ones in view of the Panama Canal Commission's apparent disagreement with GAO's position, the purpose of this memorandum is to set forth in more detail the basis of and support for our conclusions.

As will be discussed in more detail below in answer to the specific questions presented, the Panama Canal Treaty and the Panama Canal Act of 1979 both contemplated that an amount representing interest on the investment of the United States should be included in tolls charged by the Panama Canal Commission. The Treaty and the Act also contemplate that such interest would inure to the benefit of the United States taxpayer by being deposited into the Treasury. However, on the basis of a literal reading of the Act, the

^{1/} The original request (dated January 20, 1984) raised several additional questions as well. However, in subsequent discussions between our respective staffs it was agreed that our response would be limited to the two questions addressed in this memorandum.

Panama Canal Commission has retained interest payments in the Panama Canal Commission Fund in the Treasury instead of depositing them in the general fund of the Treasury. Retention in the Panama Canal Commission Fund results in the interest payments not accruing to the benefit of the U.S. taxpayers but being used instead to gradually repay the amount previously invested in the Canal by the United States.

The Commission's treatment of interest on the United States investment has resulted in qualified GAO opinions on Commission financial statements and reports to the Congress suggesting clarification of the Panama Canal Act. Although legislative clarification would be desirable, this memorandum explains how the Commission can comply with the evident congressional intent under the existing law.

The specific questions and our answers are set forth below.

Question 1: If interest collections (along with other receipts) are to be deposited to the Panama Canal Commission Fund, is the PCC required to subsequently pay/transfer the interest collections to miscellaneous receipts of the Treasury? If so, when?

Answer: The Panama Canal Act of 1979 (Act) requires the Panama Canal Commission to deposit its toll collections into the Panama Canal Commission Fund (Fund). Toll rates include interest on the United States investment in the Canal. Although not expressly stated in the Act, Congress intended that the Commission transfer the interest receipts from the Fund into the general fund of the Treasury as miscellaneous receipts.

By way of background, it should be understood that technically, the Panama Canal Commission Fund exists as an account in the United States Treasury. 22 U.S.C. § 3712(a). Although in the Treasury, the Fund constitutes a distinct pool of funds which are used exclusively to pay the Commission's expenses. Section 1602 of the Act provides, in effect, that all of the costs of maintaining and operating the Canal are to be covered by the tolls the Commission collects. 22 U.S.C. § 3792(b). The Congress established the Fund as part of a statutory scheme designed to insure that the Canal's operations would be self-sustaining.

To facilitate the Canal's operation on a self-sustaining basis, the Fund operates as a revolving fund. At

the same time, the Congress controls Commission expenditures from the Fund through the appropriations process. The Act requires the Commission to deposit all tolls collected into the Fund. 22 U.S.C. § 3712(b). The Congress must appropriate the amounts collected as tolls "out of the fund" before the Commission may expend them. 22 U.S.C. § 3712(c)(1). Consistent with the self-sustaining concept, the Act limits the amounts of Commission appropriations which may be derived from the Fund for a fiscal year to the amount of revenues deposited into it during that fiscal year plus the amount of unexpended deposits from prior years. 22 U.S.C. § 3712(c).

Thus, although situated in the Treasury, the Fund represents monies which are separate and apart from those normally appropriated by the Congress to fund the Government's activities--the general fund. Accordingly, what is under discussion here is the Commission's authority to deposit interest collections into the Fund and whether it is required to transfer them from the Fund into the general fund as miscellaneous receipts.

Two Act provisions, read together, clearly indicate that the Commission is required to deposit interest collections into the Fund. As noted, section 1602(b) of the Act, 22 U.S.C. § 3792(b), provides that the Commission is to prescribe tolls for use of the Canal at rates calculated to produce revenues to cover as nearly as practicable all costs of maintaining and operating the Canal, including interest on the United States investment. Section 1302(b), 22 U.S.C. § 3712(b), specifies that tolls for the use of the Panama Canal "shall be deposited in the Treasury in the Panama Canal Commission Fund." Thus, under the Act, the Commission receives as part of its toll collections an amount sufficient to cover the interest on the United States investment, and it is required to deposit that amount into the Panama Canal Commission Fund along with the rest of its toll collections.

The Act does not state what the Commission should do with respect to interest collections after they are deposited into the Fund. However, the legislative history indicates that they should be transferred from the Fund into miscellaneous receipts, because the Congress intended that interest collections should inure to the benefit of the U.S. taxpayer.

Before the Panama Canal Treaty was executed in 1977, the Panama Canal Company, which operated the Canal, was

required to pay interest on the U.S. investment into the Treasury. C.Z. Code tit. 2, § 62(e) (1962). When the Senate ratified the Treaty, it did so with the express reservation that:

"After the date of entry into force of the Treaty, the Panama Canal Commission shall, unless otherwise provided by legislation enacted by the Congress of the United States of America, be obligated to reimburse the Treasury of the United States of America, as nearly as possible, for the interest cost of the funds or other assets directly invested in the Commission by the Government of the United States of America and for the interest cost of the funds for other assets directly invested in the predecessor Panama Canal Company by the Government of the United States of America and not reimbursed before the date of entry into force of the Treaty. * * * Panama Canal Treaty, September 7, 1977, United States-Panama, annex, TIAS 10030.

After the Senate ratified the Treaty, it became necessary for the Congress to enact legislation implementing it. The implementation bill introduced on behalf of the Administration, H.R. 1716, contained a provision which would have eliminated the right of the United States to receive interest on its investment in the Canal. H.R. 1716, 96th Cong., 1st Sess. § 202 (1979). The administration recommended elimination of the interest obligation because it believed that this would help keep the Commission self-sustaining and would avoid an uneconomic increase in tolls. H.R. Doc. No. 39, 96th Cong., 1st Sess. 75 (1979). The Congress considered the administration's proposal but did not adopt it.

The Act's provisions governing the inclusion of interest in the toll base and the calculation of interest come from the House bill, H.R. 111. The bill's primary sponsor, Representative Murphy, was the Chairman of the House of Representatives subcommittee with oversight responsibilities over the Canal, the Subcommittee on the Panama Canal and Outer Continental Shelf, Committee on Merchant Marine and Fisheries. In explaining his bill's interest provisions during the floor debates, Chairman Murphy stated:

"The question has been raised in the course of deliberations on H.R. 111 as to whether interest on the investment of the United States in the canal organization is a proper element in the tolls formula. The discontinuance of this element in the tolls formula, as provided in the administration draft of legislation, would have deprived the Treasury of some \$400 million over the next 20 years. Testimony received by the committee in the hearings on the bill overwhelmingly supports the view that interest is a normal cost of operation that should be recovered from user charges. Furthermore collection of interest by the United States constitutes one of the very few benefits that can be provided to U.S. taxpayers under a treaty arrangement that is oriented primarily to satisfaction of the financial goals of Panama.

"Interest on the cost of capital in the canal enterprise has been considered a cost not just since the formation of the present corporate organization that operates the canal but rather since the time the canal was completed and opened to traffic. According to documentation introduced into the record of the hearings on H.R. 111, before 1950 canal tolls were calculated to cover a return of interest at 3 percent per annum upon the investment of the United States in the canal enterprise as a whole. Provision for payment of interest by canal users recognized that the Panama Canal was more than a public works project for the benefit of the United States but that the benefits were also enjoyed by the interoceanic commerce of the entire world." 125 Cong. Rec. 11953 (1979).

Comments by other members of the House of Representatives during debate on H.R. 111 further indicate that the House did not intend to follow the Administration's proposal, but rather intended to legislate the payment of interest on the U.S. investment into the U.S. Treasury for the benefit of the taxpayer. For example, in the course of remarking upon the extent to which the Treaty and the bill would place a financial burden on the taxpayer, Representative Dannemeyer stated:

"* * * H.R. 111 improves upon the President's original proposal to the extent that the United States would still collect the \$20 to \$25 million a year interest it has been collecting on its canal investment * * *,"
125 Cong. Rec. 15760 (1979).

Similarly, Representative Levitas remarked:

"It is interesting to note several things at this point. One, the Panama Canal Commission has been completely self-sufficient financially since it began in 1951. Although it is authorized to seek appropriations to cover both losses and capital needs and to borrow up to \$40 million, it has never done so. Also, during its 28 years of existence, the Commission has paid back to the U.S. Treasury \$40 million in dividends as a return on the Government's investment in the canal.

"As a matter of fact, under this legislation, the United States will continue to receive interest payments on our investments in Panama into the Treasury for the next 20 years so that, at the end of that period, we will have made a profit of \$382 million on all our nonmilitary outlays in Panama."
125 Cong. Rec. 16015 (1979).

Representative Bowen stated during debate on the bill:

"I would like to point out to some of you, those of you who have read the ads that have circulated around the Nation--you know, the gold brick ads, the ones that talk about \$4 billion, \$20 billion, all the different amounts of money that somehow are alleged to be a part of the cost of this operation--to remind you that if we pass the legislation we will still receive interest on our investments in Panama.

"Currently they are running at about \$20 million a year. At that rate by the end of the century we will have received a profit of some \$262 million on all our nonmilitary outlays in Panama since 1903, and I call that a good deal.

* * * * *

"If we pass this legislation, we get continued payments of interest to us, interest payments which, as I say, by the turn of the century will make us a substantial profit on all of our investments down there. Just count all the investments. Count the \$387 million we paid to construct the canal, count the \$40 million we paid to France for the concession, count the first \$10 million we paid to Panama for the right to use the canal. Count every piece of property we bought down there, every stick and stone we spent a dime on, count every bit of it, and then count the revenues that have come into our Treasury. Count the profits that came in up until 1950 when we put profits directly into the Treasury. Count the interest payments after that time that have come and still will come in, and when you add them up, by the end of this century your taxpayers and mine, the citizens of this country will be making a profit of somewhere between \$200 million and \$300 million on the canal enterprise." 125 Cong. Rec. 17563 (1979).

These excerpts from the House debate indicate clearly that the intention of the House of Representatives was that interest on the U.S. investment be paid into the Treasury for the benefit of the United States.

The language of the interest provisions in the Senate bill was somewhat different. Nevertheless it clearly indicated that the Senate's intent with respect to the treatment of interest on the U.S. investment was the same as that of the House of Representatives. The Senate bill would have amended 2 C.Z.C. § 62(e), the provision cited above which required the Panama Canal Company to pay interest into the Treasury, so as to make the payment requirement applicable to the Commission. It provided as follows:

"(a) Subsection (e) of section 62 of title 2 of the Panama Canal Code is amended to read as follows:

"(e) In order to reimburse the Treasury, as nearly as possible, for the

interest cost of the funds or other assets directly invested in it, the Commission shall pay interest to the Treasury on the net direct investment of the Government in it as defined by subsections (a), (c), and (d) of this section, and shown by the receipt described therein at a rate determined by the Secretary of the Treasury." H.R. 111, 96th Cong., 1st Sess., § 202, 125 Cong. Rec. 20759 (1979).

The conference committee adopted the House provisions, which were less explicit on the issue of payment of interest by the Commission. In commenting on the "calculation of interest" provision, which is now 22 U.S.C. § 3793, the conference report stated:

"Interest Rate--(Section 1603)

"Section 202 of the Senate amendment provided that the rate of interest to be paid by the Panama Canal Commission to the Treasury on the net direct interest-bearing investment of the United States in the canal enterprise should be determined by the Secretary of the Treasury. Section 413(d) of the House bill repeated the requirement that interest be paid, but stipulated that it should be calculated at the 'average market yield' rate.

"The conferees adopted the House provision on interest but with the Senate language allowing the Secretary of the Treasury to determine the rate. It is the intention of the conferees that the Commission should continue to pay interest at the 'coupon' rate, the rate paid by the Panama Canal Company before October 1, 1979." H.R. Rep. No. 473, 96th Cong., 1st Sess. 62, reprinted in 1979 U.S. Code Cong. & Ad. news 1137, 1145.

Thus, the conference report suggests that the conferees accepted what both Houses had intended--that the Commission pay interest collections into the Treasury for the benefit of the United States.

In order to carry out Congress' intent that interest on the U.S. investment in the Panama Canal accrue for the

benefit of the United States Treasury, the Commission should transfer interest collections from the Panama Canal Fund into the appropriate miscellaneous receipts account of the Treasury. Although the Panama Canal Fund is technically "in the Treasury," when interest collections stay in the Fund they do not benefit the Treasury in the sense Congress intended. The legislative history discussed above shows that the Congress included interest on the U.S. investment in the Canal toll base so that the Treasury would receive a return on funds appropriated from it for investment in the Canal which would ultimately benefit the taxpayers.

As we discussed earlier, the financial system established for the Commission is designed to make its operations self-sustaining. The Canal users provide the funds for the Commission's expenses through their toll payments. The tolls collected from the Canal users are deposited into the Fund and then appropriated out of the Fund to pay the Commission's expenses. Thus, monies in the Fund are used only to pay the Commission's operating expenses--something which was not intended to be the responsibility of the Treasury or the taxpayers.

If interest collections are not transferred from the Fund to miscellaneous receipts, they could be appropriated along with other collections only for the purpose of paying the Commission's expenses. Using interest collections for that purpose does not benefit the Treasury or alleviate the burden of the taxpayer since the Canal users, and not the taxpayer, are supposed to bear the expenses of the Commission's operations. If the interest collections are not appropriated but remain in the Fund, they similarly do not benefit the taxpayer. It is only when the funds are transferred into miscellaneous receipts so that they can then be reappropriated for some other purpose that they really inure to the benefit of the taxpayer in the sense that Congress intended. Accordingly, we conclude that the Commission should transfer interest collections in the Panama Canal Fund to miscellaneous receipts.

No amendment to the Panama Canal Act is necessary in order for the Commission to make the interest collection

transfers.^{2/} In our view, the provisions of the Act discussed above provide sufficient authority. Generally, the Commission receives an annual lump-sum appropriation derived from the Panama Canal Fund for its expenses. Since a lump sum appropriation is available for any authorized purpose of the agency receiving it, the Commission could, based on the authority of the cited Panama Canal Act provisions, transfer interest collections in the Fund into miscellaneous receipts pursuant to its annual appropriation.

To remove any doubt in this area, the Commission could specifically request that the Congress provide for interest transfers when it annually considers the Commission's authorization and appropriations bills. This would be in accord with the suggestion made in Mr. Bowlin's May 16 testimony referred to earlier. Alternatively, an amendment to the Panama Canal Act would seem desirable in view of the long-standing disagreement between our Office and the Commission on the transfer question.

With regard to your question as to when the Commission should make such transfers, we do not believe that there is any legally mandated time period in which interest collections must be transferred from the Fund into miscellaneous receipts. However, in light of the congressional intent that such collections inure to the benefit of the taxpayer, we believe transfers should be made as soon as is reasonably practical for the Commission to do so. This would also be consistent with the intent of 31 U.S.C. § 3302(b) (1982).

Question 2: If interest collections are not required to be transferred from the Fund to miscellaneous receipts, is it reasonable to interpret (as the Commission has done) that the interest-bearing investment base--on which future interest is computed--should be decreased for interest

^{2/} Page 12 of GAO's report "Examination of the Panama Canal Commission's Fiscal Year 1980 Financial Statements and Treaty-Related Issues" (ID-81-49, June 29, 1981) states that an amendment to the Panama Canal Act would be necessary in order for the Commission to transfer interest recovered through tolls into miscellaneous receipts. After further considering this question in preparing this memorandum, we are now of the opinion that legislation is not necessary from the strictly legal perspective, although it may be desirable in practical terms because of the Commission's disagreement with our conclusion.

collections deposited to, but not paid out of, the Panama Canal Commission Fund? Are other interpretations more reasonable?

Answer: We concluded in answering Question 1 that interest collections should be transferred from the Fund into miscellaneous receipts. Nevertheless, whether or not the Commission effects the transfer, its interpretation that the computation base on the U.S. investment should be decreased for interest collections deposited into the Fund is consistent with the Act's language. As explained below, the Commission's interpretation appears to be unreasonable because it is erroneously failing to transfer interest collections as the Act contemplates. If the Commission made the transfers, then decreasing the investment base not only technically follows the Act's provisions but is logical as well.

Section 1603 of the Act, 22 U.S.C. § 3793, prescribes how the Commission is to determine the investment base. It provides in part:

"(a) For purposes of sections 3721 and 3792 of this title, interest shall be computed, at a rate determined by the Secretary of the Treasury, on the investment of the United States in the Panama Canal as shown in the accounts of the Panama Canal Company at the close of business on the day preceding October 1, 1979, and as adjusted in accordance with subsections (b) and (c) of this section. Capital investment for interest purposes shall not include any interest during construction.

"Increases and decreases in investment of
United States

"(b) The investment of the United States described in subsection (a) of this section--

"(1) shall be increased by--

"(A) the amount of expenditures from appropriations to the Commission made on or after October 1, 1979, and

"(B) the value of property transferred to the Commission by any other department or agency of

the United States, as determined in accordance with subsection (c) of this section; and

"(2) shall be decreased by--

"(A) the amount of the funds covered into the Treasury pursuant to section 3712 of this title.

"(B) the value of property transferred to the Republic of Panama pursuant to this chapter or any other Act on or after October 1, 1979, and

"(C) the value of property transferred by the Commission to any other department or agency of the United States." (Emphasis added.)

Section 3712 indicates that toll revenues, including interest collections, are to be considered "covered into the Treasury" for purposes of decreasing the U.S. investment under section 3793(b)(2) when they are deposited into the Panama Canal Commission Fund. Section 3712(b) provides:

"[T]olls for the use of the Panama Canal and all other receipts of the Commission * * * shall be deposited in the Treasury in the Panama Canal Commission Fund." (Emphasis added.)

The inclusion of the phrase "in the Treasury" in conjunction with the reference to the Panama Canal Commission Fund indicates that for purposes of determining the U.S. investment base, Congress considered deposits into the Fund to be deposits into the Treasury. Accordingly, the Commission is technically correct when it decreases the U.S. interest-bearing investment base on its books for interest collections deposited into but not transferred out of the Fund.

The problem is that the Commission's failure to transfer interest collections to miscellaneous receipts artificially lowers the U.S. investment base. This in turn causes the Commission's interest collections which are calculated upon that base to be too low. As noted, 22 U.S.C. § 3793(b)(2) provides that the investment base

should be decreased for interest collections deposited into the Fund. Section 3793(b)(1)(A) provides that the investment base should be increased for expenditures from appropriations (from the Fund). Since interest collections are deposited into the Fund the base is decreased, but since currently they are not expended from the Fund (into miscellaneous receipts, as we think Congress intended) there is no corresponding increase in the investment base. What results is a disproportionate decrease annually in the interest base, which means that the Commission is not collecting as much interest on the U.S. investment as it should. This problem could be corrected simply by the Commission's transferring interest from the Fund into miscellaneous receipts, as discussed above.

Panama Canal Commission Comments Dated May 30, 1985

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



BALEOA
REPUBLIC OF PANAMA

PANAMA CANAL COMMISSION OFFICE OF THE ADMINISTRATOR

U.S. MAILING ADDRESS
APO MIAMI 34011

May 30, 1985

Mr. Frederick D. Wolf, Director
Accounting and Financial Management Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Wolf:

We have reviewed the GAO draft report entitled "Examination of the Panama Canal Commission's Financial Statements for the Years Ended September 30, 1984 and 1983." The following comments address GAO's qualified opinion on the financial statements and certain other aspects of the draft report. The Commission requests that these comments be included as an attachment to the final report.

Interest on the United States Investment

On pages 1 and 2 of the draft report, GAO concludes that because the Commission "... improperly reduces the investment base on which interest is computed," the Commission has understated interest expense about \$15.2 million. Additional discussion of the interest issue is included on pages 8 through 13 of the draft. For reasons discussed below, the Commission disagrees with GAO's conclusions and recommendations.

The Commission follows current law with respect to the treatment of interest and has since its inception in fiscal year 1980. Current law requires that interest be considered a cost of operating the waterway, that it be included in the toll base, and that all Commission receipts be deposited into the Panama Canal Commission Fund. The Commission is in full compliance with these requirements. This position is sustained by action in the House which, on two separate occasions, has passed bills to amend the interest provisions of the Panama Canal Act of 1979. In both instances, the House amendments called for prospective, not retroactive adjustments, as proposed by GAO.

Accordingly, no improprieties exist with respect to the Commission's current treatment of the investment base or the calculation of interest expense. It is the Commission's position that there can be no change in the treatment of interest without a change in legislation. Until such legislation is enacted, GAO has no basis for expressing a qualified opinion on the financial

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See comment 1.

See comment 2.

Mr. Frederick D. Wolf, Director

statements because of the treatment of interest. Moreover, if legislative changes are made, the following points should be considered:

a. Accumulated interest is required to be retained as funding authority for the Commission over the remaining period of United States management of the Panama Canal. Accordingly, if the GAO succeeds in effecting the transfer of accumulated interest to the general fund, the Commission will be faced, in a very short while, with an untenable financial arrangement.

b. Transfer of the accumulated interest to the general fund would not result in any additional cash for the United States Treasury and, therefore, would not assist in the funding of appropriations for other Government programs because Commission receipts are treated in the same manner as all other funds paid into the Treasury, i.e., they are used to meet the financing requirements of the United States Government on a current basis.

c. Retroactive transfer of interest from the special fund to the general fund of the Treasury should only be made with a corresponding change in the source of Commission appropriations, i.e., from the Panama Canal Commission Fund to the general fund of the United States Treasury. In rejecting legislative changes to the source of Commission appropriations, it was clear that the Congress recognized the need for this Agency to continue to have accumulated interest available as a source of funding authority.

d. It would be unfair to Canal users for the United States Government to retroactively change the law with respect to the treatment of interest and thereby impose an unexpected increase in the cost burden on the shipping industry. The majority of Canal business is related to maritime trade to or from the United States.

In view of the pending Congressional consideration of the interest issue, the actions recommended by GAO on pages 12 and 13 of the draft are premature. The Commission requests that the recommendations be deleted from the final report and that the matter be left for resolution by the Congress.

Floating Equipment Repair Reserve

The GAO draft report contends that the President of the United States, as the regulator in establishing Canal toll rates, did not approve this element of cost in the last proposal to increase toll rates; therefore, these costs should not have been included as an operating expense in fiscal year 1984.

GAO's contention that these costs were not included in the Commission's last proposal to increase tolls is erroneous. Paragraph 41 of the Report on the Adequacy of Toll Rates, March 1982, which formed the basis for the toll rate that went into effect on March 12, 1983, shows that the "overhaul of major items of Commission floating equipment" is specifically included as a factor in the costs to be covered by the toll rates. Furthermore, the establishment of the reserve for floating equipment overhaul was based on the Commission's Statement of Accounting Principles and Standards, which was approved by the

See comment 3.

Mr. Frederick D. Wolf, Director

Comptroller General on September 14, 1982. It states that the "Commission follows the rate-regulated accounting practice of normalizing cyclical or unpredictable costs such as locks overhauls and marine accidents by creating reserves by a charge to current operations;" (underscoring supplied).

Because the costs of floating equipment overhauls were already in the toll rates, the establishment of the reserve merely adjusted the timing of the recognition of costs to retain the proper matching of costs with the revenues produced by these rates. This action was an accounting change made in accordance with the Commission's approved Statement of Accounting Principles and Standards and properly disclosed in the notes to the fiscal year 1984 financial statements.

In view of the above, the Commission sees no basis for the GAO exception and requests that it be deleted from the final report. Since the costs of overhauls of major items of floating equipment are already included in the toll rates, the Commission requests that the recommendation on this matter also be deleted from the final report.

Profit Payment to Panama

GAO restated its position that it could not validate the Commission's payment of the fiscal year 1982 net revenues to Panama pending resolution of its exceptions regarding how the interest on the United States investment was calculated and how the Commission applied its capitalization policy for certain navigational maintenance projects. The Commission has previously provided GAO, OMB, and Congressional Oversight Committees with detail rationale for proceeding with that payment. Briefly, the Commission's position was that it would have been inappropriate for the United States to unilaterally violate the terms of the Treaty by withholding payment indefinitely based on some uncertainty the GAO perceived in the interest law and a differing opinion on how the Commission should have applied its capitalization policy.

GAO indicates that based on the effects of the interest and the floating equipment repair reserve issues, the Commission's fiscal year 1984 net operating revenues of \$2.7 million will have to be adjusted. For the reasons previously discussed in this letter, the Commission believes its position is correct on these two issues and disagrees that adjustment is necessary. Accordingly, the Commission considers the net operating revenue of \$2.7 million payable to Panama its final operating results for fiscal year 1984 and sees no basis for GAO's recommendation.

Other Matters

On page 2, there are several places in which the word "improper" has been used regarding the Commission's treatment of the investment base and the calculation of interest expense. The Commission suggests that the word

See comment 4.

See comment 5.

See comment 6.

Mr. Frederick D. Wolf, Director

"improper" be deleted since it adds nothing to the report, but rather reflects GAO's prejudicial attitude on this matter. Also, exception is taken to the implication of wrongdoing on the part of the Commission.

On page 7, Appendix I, the corrective action shown for the change in the organizational level of the internal audit function is misstated. The results of internal audit work have always been reported to the Administrator. The Commission suggests that wording similar to that contained in your prior report (GAO/NSIAD-85-26, April 17, 1985) be used to show the change in organizational alignment.

On page 10, the quote of P.L. 96-70, Sec. 1603(a) is incorrect. Specifically, the Secretary of the Treasury determines the interest rate--not the amount.

Thank you for providing us the opportunity to comment on the draft report before its publication. The Commission appreciates your efforts to have the report published at the earliest possible date.

Sincerely,


D. P. McAuliffe
Administrator

The following are GAO's comments on the Panama Canal Commission letter dated May 30, 1985.

GAO Comments

1. Now on pages 6 and 7.
2. Now on pages 12 through 14.
3. Now on page 14.
4. Reference deleted.
5. Now on page 11.
6. Reference deleted.

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