

June 1987

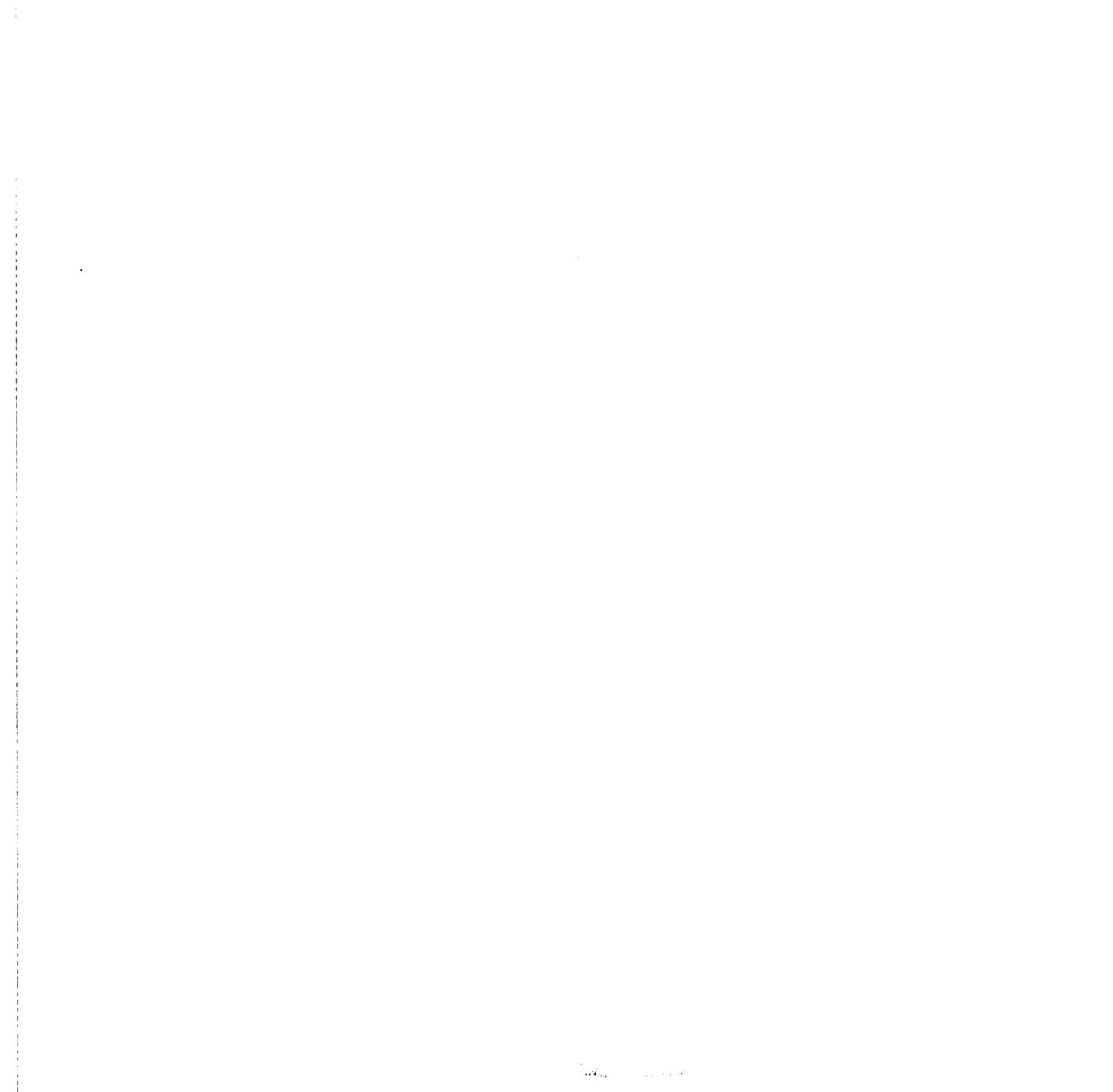
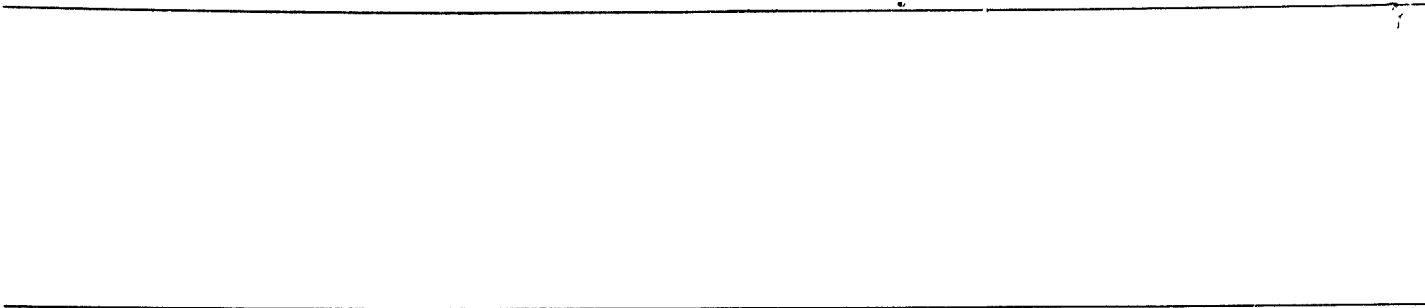
FINANCIAL AUDIT

Panama Canal Commission's Financial Statements for 1985 and 1984



133243

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

June 10, 1987

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, 1985 and 1984. The report is qualified because the commission improperly used a reserve for floating equipment repairs. Our previous qualification on the 1984 financial statements regarding the computation of interest has been removed due to the December 23, 1985, amendment to the Panama Canal Act of 1979. Our separate reports on the commission's internal accounting controls and on its compliance with laws and regulations follow our opinion. Our compliance report contains a recommendation to the Chairman of the Board of Directors of the Panama Canal Commission.

In commenting on a draft of our report, the commission disagreed with our opinion but agreed to include the floating equipment repair reserve in its next proposal for a toll rate adjustment. We considered the commission's comments in preparing our final report and included them 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.

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. Also, we are sending copies to the Director of the Office of Management and

Budget; the Secretaries of State, Defense, and the Army; and the
Chairman of the Board of Directors of the Panama Canal Commission.

A handwritten signature in black ink that reads "Milton F. Fowler". The signature is written in a cursive style with a large initial 'M' and 'F'.

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 statement of financial position of the Panama Canal Commission as of September 30, 1985 and 1984, and the related statements of operations and non-interest-bearing investment, the changes in the investment of the United States government, the 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.

Section 1603 of the Panama Canal 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, we have issued qualified opinions on the commission's financial statements, due in part to the commission's treatment of interest. The commission had been reducing the United States interest-bearing investment base by the amount of interest due each year. The interest reductions amounted to \$59.7 million for the period October 1, 1979, through September 30, 1985. As a result of the reduced interest-bearing investment base, the commission understated interest costs (operating expenses) by \$8.6 million for the fiscal year ended September 30, 1985, resulting in a cumulative understatement of \$23.8 million for fiscal years 1980 through 1985. These matters were further discussed in our June 19, 1985, report, Transfer of Interest on U.S. Investment in the Panama Canal (GAO/AFMD-85-63). Subsequently, on December 23, 1985, the Panama Canal Act of 1979 was amended to require the commission to deposit into the U.S. Treasury as miscellaneous receipts that portion of tolls that covers interest on the investment of the United States collected on or after the date of the amendment. This amendment eliminated the commission's practice of reducing the United States interest-bearing investment base by the amount of interest due each year. Separate legislation aimed at restoring the \$59.7 million in past reductions to the interest-bearing investment base was introduced in the 99th Congress. However, the legislation was subsequently dropped in conference committee. Some continuing congressional interest may result in the introduction of legislation to address this issue in the future. However, we believe the action the Congress has taken to date is sufficient to remove our qualification related

to the interest matter on the commission's 1984 financial statements, as presented herein.

In July 1984, the commission established a reserve to provide for future repairs of floating equipment. As of September 30, 1984, this reserve amounted to \$2.5 million, which increased 1984 operating expenses by the same amount. During fiscal year 1985, certain expenses of repairing floating equipment were charged to the reserve, and as of September 30, 1985, the reserve balance was \$2.4 million. Since the commission is subject to a regulatory process by the Panama Canal Act, the amount of funds to be transferred into this reserve must be approved as part of the regulatory/toll-setting process. The transfer of such funds was not provided for in setting the 1984 or 1985 toll rates, which we believe is necessary before the commission can accumulate reserves for the recovery of future costs. Because the commission did not obtain regulatory approval in advance of establishing the floating equipment reserve, we have qualified our opinions on the financial statements for the years ended September 30, 1985 and 1984.

In our opinion, except for establishing a reserve for floating equipment without regulatory approval as previously described, the financial statements referred to above present fairly the financial position of the Panama Canal Commission as of September 30, 1985 and 1984, the results of the commission's operations, the changes in the investment of the United States, the changes in financial position, and the status of appropriations for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after the change, with which we concur, in reclassifying certain expenses, as described in note 6(d) 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 are presented as required by the Panama Canal Act, and the schedule of property, plant, and equipment 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 express an opinion on the detailed schedule of property, plant, and equipment, the aggregate amount has been tested within

the scope of our examination on the basic financial statements taken as a whole.

Milton F. Fowler

Acting Comptroller General
of the United States

March 6, 1986

Except as to legislative actions
discussed in the second paragraph,
as to which the date is
October 18, 1986

Report on Internal Accounting Controls

We have examined the financial statements of the Panama Canal Commission for the years ended September 30, 1985 and 1984, and have issued our report thereon. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1985. (Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1984, is presented in GAO/AFMD-86-15, dated April 8, 1986.)

As part of our examination, 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. The purpose of our study and evaluation was limited to determining the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the commission's financial statements. For the purpose of this report, we have classified the significant internal accounting controls in the following cycles:

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

Our study and evaluation included all of the control cycles listed above. For each cycle, we obtained a knowledge and understanding of the control procedures, assessed the type and magnitude of errors and irregularities that could occur, and identified and evaluated the adequacy of significant internal accounting controls.

The management of the commission is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are 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 (1) assets are safeguarded against loss from unauthorized use or disposition and (2) 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

control, 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 (Public Law 97-255). The commission reported in December 1985 that its internal control system in effect during fiscal year 1985, taken as a whole, provided reasonable assurance that the commission's objectives were achieved within the limits described above. The commission's evaluation was reviewed and considered in conducting our study and evaluation and determining the nature, timing, and extent of audit tests.

Our study and evaluation was made for the limited purpose described in the second paragraph and would not necessarily disclose all material weaknesses in the system of internal accounting controls. Accordingly, we do not express an opinion on the system of internal accounting controls of the commission taken as a whole or on any of the control cycles identified in the second paragraph. However, our study and evaluation and the commission's Financial Integrity Act report disclosed no condition that we believed to be a material weakness.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the Panama Canal Commission for the years ended September 30, 1985 and 1984, and have issued our report thereon. 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 tests of 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, 1985. (Our report on compliance with laws and regulations for the year ended September 30, 1984, is presented in GAO/AFMD-86-15, dated April 8, 1986.)

In our opinion, the commission, except for the matter related to the floating equipment reserve as discussed below, complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements. In connection with our examination, nothing came to our attention except for the matters of the floating equipment reserve that 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.

During the course of our examination, we identified four areas in which the commission could improve its financial statements in accordance with title 2 and which were reported separately in a management letter dated December 8, 1986.

Floating Equipment Reserve

In July 1984, the commission established a reserve for floating equipment repairs to provide for future costs. As of September 30, 1984, the reserve balance was \$2.5 million and 1984 operating expenses were increased by the same amount. During fiscal year 1985, the reserve increased by \$2.5 million and was reduced by \$2.6 million in charges to the reserve for normal repairs and maintenance. As of September 30, 1985, the reserve balance was \$2.4 million.

As indicated in our report on the commission's financial statements for fiscal year 1984, this reserve was not approved through the regulatory process as an expense in the toll rates. The commission did not implement the recommendation from our 1984 audit that it submit a toll rate proposal to include the funding of the floating equipment reserve. In a May 5, 1985, letter the commission stated that the costs of floating equipment overhauls were already in the toll rates, and that establishing the reserve merely adjusted the timing of the recognition of costs to

retain better matching of costs with revenues produced by the rates. Our analysis does not support this position. The commission is rate-regulated subject to generally accepted accounting principles 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 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. If a toll rate proposal is not immediately forthcoming, an approval letter from the regulator would be sufficient to resolve this issue because, to date, the reserve has not been large enough to affect toll rates.

Recommendation

We recommend that the Chairman of the Board of Directors of the Panama Canal Commission direct the administrator to obtain approval from the regulator to establish and fund the reserve for floating equipment repairs.

Agency Comments and Our Evaluation

In a January 15, 1987, letter, the commission stated that in the absence of specific regulatory guidance, costs and accounting changes historically have been submitted for approval in subsequent toll rate submissions. However, in regard to the regulatory process, we believe charging of any future costs in a current period requires that such costs be specifically set out in the rate proposal and approved in advance. The commission indicated in its letter that it will include the reserve in its next toll rate proposal.

In response to our management letter and a draft of this report, the commission stated that, except for one minor instance, its financial statements for fiscal year 1985 met reporting requirements. The commission has subsequently incorporated several of our presentation and footnote disclosure changes into its 1986 financial statements to conform to title 2. In addition, in its response to our management letter, the commission indicated that it will comply with 1987 Treasury reporting and will prepare a statement of reconciliation to budget reports, if required. The commission's current reporting of retirement deferred charges and liabilities on the balance sheet instead of in the footnotes is not correct under Statement of Financial Accounting Standards No. 35, "Accounting

and Reporting by Defined Benefit Pension Plans.” However, the commission’s pension reporting is in accordance with Statement of Financial Accounting Standards No. 87, “Employers’ Accounting For Pensions,” which is effective for fiscal years beginning after December 15, 1988. The new standard allows early application.

Financial Statements

Statement of Financial Position

PANAMA CANAL COMMISSION
Statement of Financial Position
September 30, 1985 and 1984

A S S E T S	1985	1984
PROPERTY, PLANT AND EQUIPMENT:		
At cost (Note 1c).....	\$896,689,808	\$888,551,801
Less accumulated depreciation and valuation allowances (Notes 1e, 2 and 3).....	<u>426,669,494</u>	<u>420,152,474</u>
	470,020,314	468,399,327
CURRENT ASSETS:		
Cash and fund balances (Notes 4 and 5):		
Deposit funds and undeposited receipts:		
Postal fund.....	146,195	151,542
Trust fund.....	1,172,298	521,421
Cash receipts for deposit into U.S. Treasury.....	<u>456,513</u>	<u>917,191</u>
	1,775,006	1,590,154
Unexpended appropriated funds:		
Operating funds.....	43,357,867	46,185,064
Capital funds.....	24,605,692	28,986,025
Emergency fund.....	<u>10,000,000</u>	<u>10,000,000</u>
	77,963,559	85,171,089
	79,738,565	86,761,243
Accounts receivable:		
Regular.....	11,310,945	13,844,708
Other (Note 7).....	<u>826,867</u>	<u>826,867</u>
	12,137,812	14,671,575
Inventories, less allowance for obsolete and excess stock of \$423,954 and \$400,000, respectively (Notes 1g and 6c).....		
	<u>40,695,032</u>	<u>40,718,200</u>
Other current assets.....		
	<u>400,566</u>	<u>262,627</u>
	132,971,975	142,413,645
OTHER ASSETS:		
Deferred charges:		
Cost of early retirement benefits (Note 1h).....	273,840,000	293,400,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	8,740,000	9,596,000
Other.....	<u>204,106</u>	<u>408,213</u>
	282,784,106	303,404,213
TOTAL ASSETS.....	<u>\$885,776,395</u>	<u>\$914,217,185</u>

The accompanying notes are an integral part of this statement.

Financial Statements

L I A B I L I T I E S

	<u>1985</u>	<u>1984</u>
INVESTMENT OF THE UNITED STATES GOVERNMENT:		
Invested capital:		
Interest-bearing (10.720% and 10.208%, respectively) (Note 9).....	\$ 76,901,053	\$ 84,014,932
Non-interest-bearing.....	<u>286,084,032</u>	<u>277,910,116</u>
	<u>362,985,085</u>	<u>361,925,048</u>
Current budgetary accounts (Note 4):		
Obligated operating funds.....	43,357,867	46,185,064
Obligated capital funds.....	15,232,473	19,792,831
Unobligated capital funds.....	9,373,219	9,193,194
Unobligated emergency fund.....	<u>10,000,000</u>	<u>10,000,000</u>
	<u>77,963,559</u>	<u>85,171,089</u>
	<u>440,948,644</u>	<u>447,096,137</u>
CURRENT LIABILITIES:		
Accounts payable:		
U.S. Government agencies.....	4,851,421	4,861,685
Government of Panama.....	6,423,722	6,630,604
Other.....	<u>9,069,465</u>	<u>8,067,022</u>
	<u>20,344,608</u>	<u>19,559,311</u>
Accrued liabilities:		
Employees' leave.....	40,368,754	39,643,978
Salaries and wages.....	5,391,152	4,513,849
Cost of early retirement benefits (Note lh).....	19,560,000	19,560,000
Retirement benefits to certain former employees of predecessor agencies (Note lh).....	1,152,000	1,234,000
Employees' repatriation.....	951,000	1,270,000
Marine accident claims (Notes 7 and 10).....	5,499,542	8,569,562
Net revenue payable to Government of Panama.....	1,118,755	2,704,695
Other.....	<u>2,269,221</u>	<u>5,010,926</u>
	<u>76,310,424</u>	<u>82,507,010</u>
Other current liabilities:		
Unfunded marine accident claims (Notes 7 and 10)...	23,052,507	19,782,519
Advances for capital - unexpended (Notes ld and ll)	9,614,130	14,078,394
Other.....	<u>1,188,069</u>	<u>483,062</u>
	<u>33,854,706</u>	<u>34,343,975</u>
	<u>130,509,738</u>	<u>136,410,296</u>
DEFERRED CREDIT:		
Advances for capital being amortized (Notes ld, 6a and ll).....	<u>26,082,854</u>	<u>17,501,785</u>
LONG-TERM LIABILITIES AND RESERVES:		
Cost of early retirement benefits (Note lh).....	254,280,000	273,840,000
Retirement benefits to certain former employees of predecessor agencies (Note lh).....	7,588,000	8,362,000
Employees' repatriation.....	7,386,000	10,728,400
Lock overhauls (Note li).....	2,796,648	5,395,232
Marine accidents (Note lj).....	13,053,215	11,771,923
Casualty losses (Note lj).....	745,693	611,412
Floating equipment repair (Notes lk and 6b).....	<u>2,385,603</u>	<u>2,500,000</u>
	<u>288,235,159</u>	<u>313,208,967</u>
TOTAL LIABILITIES.....	<u>\$885,776,395</u>	<u>\$914,217,185</u>

Statement of Operations and Non-Interest-Bearing Investment

PANAMA CANAL COMMISSION
Statement of Operations and Non-Interest-Bearing Investment
Years Ended September 30, 1985 and 1984

	<u>1985</u>	<u>1984</u>
OPERATING REVENUES:		
Tolls (Note 1b).....	\$300,807,914	\$289,155,035
Advances for capital (Note 1d).....	-	-
Net tolls revenue.....	<u>300,807,914</u>	<u>289,155,035</u>
Other.....	111,669,114	120,114,444
Advances for capital (Note 1l).....	<u>(5,753,649)</u>	<u>(4,853,615)</u>
Net other revenues.....	<u>105,915,465</u>	<u>115,260,829</u>
Total operating revenues.....	<u>406,723,379</u>	<u>404,415,864</u>
OPERATING EXPENSES (Note 6d):		
Payments to the Government of Panama:		
Public services.....	10,000,000	10,000,000
Fixed annuity.....	10,000,000	10,000,000
Tonnage.....	<u>52,803,013</u>	<u>49,143,817</u>
	72,803,013	69,143,817
Maintenance of channels and harbors.....	42,384,789	39,633,790
Navigation service and control.....	66,755,872	71,396,827
Locks operation.....	42,881,108	46,516,500
General repair, engineering and maintenance services.....	19,044,297	5,074,102
Supply and logistics.....	15,517,805	7,612,534
Utilities.....	34,680,996	34,538,353
Housing operations.....	6,893,595	6,121,134
General and administrative.....	65,937,035	70,460,073
Interest on interest-bearing investment (Note 9).....	7,713,238	9,796,269
Other.....	<u>30,992,876</u>	<u>37,284,966</u>
Total operating expenses.....	<u>405,604,624</u>	<u>397,578,365</u>
NET OPERATING REVENUE (Notes 1b and 8).....	1,118,755	6,837,499
INVESTED CAPITAL - NON-INTEREST-BEARING:		
Unrecovered costs (recovered) deferred (Notes 1b and 8).....	-	(4,132,804)
Net revenue payable to Government of Panama.....	(1,118,755)	(2,704,695)
Investment at beginning of year.....	277,910,116	268,748,245
Miscellaneous receipts deposited into the U.S. Treasury.....	917,191	282,793
Due U.S. Treasury for undeposited receipts.....	<u>(456,513)</u>	<u>(917,191)</u>
Interest on interest-bearing investment (Note 9).....	<u>7,713,238</u>	<u>9,796,269</u>
INVESTED CAPITAL - NON-INTEREST-BEARING AT END OF YEAR.....	<u>\$286,084,032</u>	<u>\$277,910,116</u>

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Changes in Financial Position

PANAMA CANAL COMMISSION
Statement of Changes in Financial Position
Years Ended September 30, 1985 and 1984

SOURCE OF FUNDS:	1985	1984
From Operations:		
Revenue.....	\$ 406,723,379	\$ 404,415,864
Less operating expenses:		
Interest on interest-bearing investment.....	7,713,238	9,796,269
Payments to the Government of Panama.....	72,803,013	69,143,817
Other expenses.....	<u>325,088,373</u>	<u>318,638,279</u>
Total operating expenses.....	<u>405,604,624</u>	<u>397,578,365</u>
Net operating revenue (Notes 1b and 8).....	1,118,755	6,837,499
Unrecovered costs for fiscal year 1983 (recovered) deferred (Notes 1b and 8).....	-	(4,132,804)
Net revenue payable to Government of Panama (Notes 1b and 8).....	(1,118,755)	(2,704,695)
Add transactions not requiring outlay of funds:		
Depreciation (Note 1e).....	18,415,373	19,586,529
Provision for lock overhauls (Note 1i).....	3,741,000	5,071,000
Provision for casualty losses (Note 1j).....	5,200,000	7,400,000
Provision for floating equipment repair (Notes 1k and 6b).....	2,500,000	2,500,000
Other.....	<u>4,482,630</u>	<u>5,665,966</u>
	<u>34,339,003</u>	<u>40,223,495</u>
Change in investment of the U.S. Government:		
Interest on interest-bearing investment.....	7,713,238	9,796,269
Receipts deposited into U.S. Treasury.....	(416,106,788)	(405,954,027)
Disbursements from appropriated funds.....	412,614,464	381,351,575
Net property transfers.....	(3,621,554)	(288,206)
Other.....	<u>460,677</u>	<u>(634,399)</u>
	<u>1,060,037</u>	<u>(15,728,788)</u>
Amortization of advances for capital.....	<u>1,636,845</u>	<u>941,478</u>
Advances for capital being amortized (Notes 1d, 6a and 1l).....	<u>8,581,069</u>	<u>3,064,777</u>
Total source of funds.....	<u>45,616,954</u>	<u>28,500,962</u>
APPLICATION OF FUNDS:		
Lock overhauls expenditures.....	6,339,585	7,283,342
Casualty losses expenditures.....	3,784,427	7,842,622
Accrued capital expenditures.....	29,212,127	22,456,349
Floating equipment repair expenditures.....	<u>2,614,397</u>	<u>-</u>
Total application of funds.....	<u>41,950,536</u>	<u>37,582,313</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u>\$ 3,666,418</u>	<u>\$ (9,081,351)</u>
ANALYSIS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash.....	\$ 184,853	\$ 15,843
Receivables.....	(2,533,763)	2,801,163
Inventories.....	(23,168)	(1,292,084)
Other.....	<u>137,938</u>	<u>(91,755)</u>
	<u>(2,234,140)</u>	<u>1,433,167</u>
Decrease (increase) in current liabilities:		
Accounts payable.....	(785,297)	(4,730,783)
Accrued liabilities.....	6,196,586	(3,674,921)
Other current liabilities.....	<u>489,269</u>	<u>(2,108,814)</u>
	<u>5,900,558</u>	<u>(10,514,518)</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u>\$ 3,666,418</u>	<u>\$ (9,081,351)</u>

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Changes in the Investment of the United States Government

PANAMA CANAL COMMISSION
Statement of Changes in the Investment of the United States Government
Year Ended September 30, 1985

	Invested Capital		Emergency Fund	Operating Funds	Capital Funds	Total
	Interest-Bearing	Non-Interest Bearing				
INVESTMENT AT OCTOBER 1, 1984.....	\$ 84,014,932	\$277,910,116	\$ 10,000,000	\$ 46,185,064	\$ 28,986,025	\$447,096,137
Appropriation by the Congress for FY 1985.	-	-	-	404,646,000	25,200,000	429,846,000
	<u>84,014,932</u>	<u>277,910,116</u>	<u>10,000,000</u>	<u>450,831,064</u>	<u>54,186,025</u>	<u>876,942,137</u>
INCREASES IN INVESTMENT:						
Prior year receipts deposited into the U.S. Treasury.....	-	917,191	-	-	-	917,191
Expenditures from capital appropriations..	29,580,333	-	-	-	(29,580,333)	-
Expenditures from operating appropriations	383,034,130	-	-	(383,034,130)	-	-
Interest on interest-bearing investment...	-	7,713,238	-	-	-	7,713,238
Property transferred from other U.S. Government agencies.....	73,414	-	-	-	-	73,414
Net revenue (Note 1b).....	-	1,118,755	-	-	-	1,118,755
	<u>412,687,877</u>	<u>9,749,184</u>	<u>-</u>	<u>(383,034,130)</u>	<u>(29,580,333)</u>	<u>9,822,598</u>
DECREASES IN INVESTMENT:						
Funds to be covered into the U.S. Treasury.	-	-	-	24,439,067	-	24,439,067
Receipts deposited into the U.S. Treasury.	416,106,788	-	-	-	-	416,106,788
Due U.S. Treasury for undeposited receipts	-	456,513	-	-	-	456,513
Property transferred to the Government of Panama.....	3,437,013	-	-	-	-	3,437,013
Property transferred to other U.S. Government agencies.....	257,955	-	-	-	-	257,955
Net revenue payable to Government of Panama (Note 1b).....	-	1,118,755	-	-	-	1,118,755
	<u>419,801,756</u>	<u>1,575,268</u>	<u>-</u>	<u>24,439,067</u>	<u>-</u>	<u>445,816,091</u>
INVESTMENT AT SEPTEMBER 30, 1985.....	\$ <u>76,901,053</u>	\$ <u>286,084,032</u>	\$ <u>10,000,000</u>	\$ <u>43,357,867</u>	\$ <u>24,605,692</u>	\$ <u>440,948,644</u>
	(Note 9)					

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Changes in the Investment of the United States Government

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

	Invested Capital		Emergency Fund	Operating Funds	Capital Funds	Total
	Interest Bearing	Non-Interest Bearing				
INVESTMENT AT OCTOBER 1, 1983.....	\$108,905,590	\$268,748,245	\$ 10,000,000	\$ 45,222,217	\$ 28,517,883	\$461,393,935
Appropriation by the Congress for FY 1984.	-	-	-	391,912,000	21,813,000	413,725,000
	<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>
INCREASES IN INVESTMENT:						
Prior year receipts deposited into the U.S. Treasury.....	-	282,793	-	-	-	282,793
Expenditures from capital appropriations..	21,344,858	-	-	-	(21,344,858)	-
Expenditures from operating appropriations	360,006,716	-	-	(360,006,716)	-	-
Interest on interest-bearing investment...	-	9,796,269	-	-	-	9,796,269
Net revenue (Notes 1b and 8).....	-	2,704,695	-	-	-	2,704,695
	<u>381,351,574</u>	<u>12,783,757</u>	<u>-</u>	<u>(360,006,716)</u>	<u>(21,344,858)</u>	<u>12,783,757</u>
DECREASES IN INVESTMENT:						
Funds to be covered into the U.S. Treasury.	-	-	-	30,942,437	-	30,942,437
Receipts deposited into the U.S. Treasury.	405,954,027	-	-	-	-	405,954,027
Due U.S. Treasury for undeposited receipts	-	917,191	-	-	-	917,191
Property transferred to the Government of Panama.....	116,358	-	-	-	-	116,358
Property transferred to other U.S. Government agencies.....	171,847	-	-	-	-	171,847
Net revenue payable to Government of Panama (Notes 1b and 8).....	-	2,704,695	-	-	-	2,704,695
	<u>406,242,232</u>	<u>3,621,886</u>	<u>-</u>	<u>30,942,437</u>	<u>-</u>	<u>440,806,555</u>
INVESTMENT AT SEPTEMBER 30, 1984.....	\$ 84,014,932	\$277,910,116	\$ 10,000,000	\$ 46,185,064	\$ 28,986,025	\$447,096,137
	(Note 9)					

The accompanying notes are an integral part of this statement.

Statement of Status of Appropriations

PANAMA CANAL COMMISSION
Statement of Status of Appropriations
Years Ended September 30, 1985 and 1984

SOURCE OF APPROPRIATIONS:	<u>1985</u>	<u>1984</u>
Operating funds:		
Current year operating appropriation.....	\$404,646,000	\$391,912,000
Obligated operating funds brought forward:		
Fiscal year 1980.....	1,692,534	2,543,398
Fiscal year 1981.....	-	3,424,423
Fiscal year 1982.....	-	4,717,168
Fiscal years - Merged.....	6,412,176	-
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>
	<u>450,831,064</u>	<u>437,134,217</u>
Capital funds:		
Current year capital appropriation (no year).....	<u>25,200,000</u>	<u>21,813,000</u>
Obligated capital funds brought forward:		
Fiscal year 1980.....	159,270	273,632
Fiscal years 1981 through 1983.....	-	17,758,053
Fiscal years 1981 through 1984.....	<u>19,633,561</u>	<u>-</u>
	<u>19,792,831</u>	<u>18,031,685</u>
Unobligated capital funds (no year) brought forward:		
Fiscal year 1980.....	87,103	201,847
Fiscal years 1981 through 1983.....	-	10,284,351
Fiscal years 1981 through 1984.....	<u>9,106,091</u>	<u>-</u>
	<u>9,193,194</u>	<u>10,486,198</u>
	<u>54,186,025</u>	<u>50,330,883</u>
Emergency fund (no year).....	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL SOURCE OF APPROPRIATIONS.....	<u>\$515,017,089</u>	<u>\$497,465,100</u>

The accompanying notes are an integral part of this statement.

Financial Statements

APPLICATION OF APPROPRIATIONS:	<u>1985</u>	<u>1984</u>
Operating funds:		
Expenditures from operating appropriations:		
Fiscal year 1980.....	\$ 909,463	\$ 886,097
Fiscal year 1981.....	-	1,167,815
Fiscal year 1982.....	-	2,326,651
Fiscal years - Merged.....	4,054,389	-
Fiscal year 1983.....	1,642,554	29,591,407
Fiscal year 1984.....	29,914,041	326,034,746
Fiscal year 1985.....	<u>346,513,683</u>	-
	<u>383,034,130</u>	<u>360,006,716</u>
Obligated operating funds:		
Fiscal year 1980.....	713,275	1,692,534
Fiscal year 1981.....	-	3,558,134
Fiscal year 1982.....	-	2,854,042
Fiscal years - Merged.....	1,729,337	-
Fiscal year 1983.....	1,957,813	3,887,554
Fiscal year 1984.....	3,197,827	34,192,800
Fiscal year 1985.....	<u>35,759,615</u>	-
	<u>43,357,867</u>	<u>46,185,064</u>
Unobligated operating funds lapsed.....	<u>24,439,067</u>	<u>30,942,437</u>
	<u>450,831,064</u>	<u>437,134,217</u>
Capital funds:		
Expenditures from capital appropriations:		
Fiscal year 1980.....	68,453	229,106
Fiscal years 1981 through 1984.....	-	21,115,752
Fiscal years 1981 through 1985.....	<u>29,511,880</u>	-
	<u>29,580,333</u>	<u>21,344,858</u>
Obligated capital funds:		
Fiscal year 1980.....	124,574	159,269
Fiscal years 1981 through 1984.....	-	19,633,562
Fiscal years 1981 through 1985.....	<u>15,107,899</u>	-
	<u>15,232,473</u>	<u>19,792,831</u>
Unobligated capital funds (no year):		
Fiscal year 1980.....	53,346	87,103
Fiscal years 1981 through 1984.....	-	9,106,091
Fiscal years 1981 through 1985.....	<u>9,319,873</u>	-
	<u>9,373,219</u>	<u>9,193,194</u>
	<u>54,186,025</u>	<u>50,330,883</u>
Unobligated emergency fund (no year).....	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL APPLICATION OF APPROPRIATIONS.....	<u>\$515,017,089</u>	<u>\$497,465,100</u>

Notes to Financial Statements

PANAMA CANAL COMMISSION

Notes to Financial Statements1. 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.

Financial Statements

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. Reserve for floating equipment repair. A reserve is provided through an annual charge to expense to cover the estimated cost of repairs to major floating equipment.

l. Housing use rights. No monetary value is assigned to the rights granted to the United States Government by the Republic of Panama to use Canal Area housing transferred to the 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) \$4.8 million at September 30, 1985, and \$5.5 million at September 30, 1984, to reduce to usable value the cost of property, plant and equipment transferred; (b) \$50.9 million at September 30, 1985, and 1984, to offset interest costs imputed for the original Canal construction period; and (c) \$42.5 million at September 30, 1985, and \$42.8 million at September 30, 1984, 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 2.53% for fiscal year 1985 and 2.63% for fiscal year 1984.

4. Cash and Fund Balances.

As of September 30, 1985, the cash and fund balances of \$79,738,565 are made up of \$74,572,119 on deposit in the United States Treasury, \$1,509,718 on deposit in commercial banks, and \$3,656,728 on hand. Of the total, \$77,963,559 is comprised of current budgetary accounts which include appropriated funds for operations, capital and the emergency fund.

As of September 30, 1984, the cash and fund balances of \$86,761,243 were 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 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, \$180.8 million as of September 30, 1985, and \$171.2 million as of September 30, 1984, 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:

Financial Statements

	<u>Millions of Dollars</u>	
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, 1985		\$ <u>85.6</u>

6. Accounting Changes.

a. In fiscal year 1984 a new method was adopted for amortizing advances for capital 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. 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.

c. 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.

d. During fiscal year 1985 the Commission virtually eliminated transfers of costs from performers of services to requesters of these services to simplify and streamline accounting for costs. Additionally, in fiscal year 1985, the operating expenses for storehouse, transportation, sanitation and grounds management services and the employee fitness program were reclassified in order to reflect more closely the Commission's functional alignment of costs. For comparability, fiscal year 1984 expenses were recast to reflect the same cost alignment as fiscal year 1985. In this connection, storehouse expenses of \$6,543,628 and transportation expenses of \$1,068,906 were combined and restated under the Supply and logistic classification. Sanitation and grounds maintenance services expenses, \$1,078,835, were combined with the General repair, engineering and maintenance services classification and expenses for the employee fitness program, \$888,251, were combined with the Other classification. These expenses were originally classified in fiscal year 1984 as follows. Storehouse expenses were included in the General repair, engineering and maintenance services classification; transportation expenses with the Utilities classification; sanitation and ground maintenance services with the Other classification; and employee fitness program costs with the Housing operations classification.

Financial Statements

7. Other Receivables.

Other receivables represent services provided in connection with marine 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 marine 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, 1985, and September 30, 1984, was determined as follows:

	<u>Millions of Dollars</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		84.0
Fiscal year 1985 transactions:		
Disbursements	412.6	
Receipts	(416.1)	
Net property transfers	___(3.6)	
Net change		<u>(7.1)</u>
Investment at September 30, 1985		\$ <u>76.9</u>

10. Marine Accident Claims.

Liabilities arising from marine 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 marine 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. Public Law 99-209, dated December 23, 1985, granted authority to the Commission to adjust and pay these claims. At September 30, 1985, such claims which have accrued since October 1, 1979, totaled \$23.1 million. The authority under Public Law 99-209 is retroactive to October 1, 1979, however, any payments will require appropriations action by the Congress.

11. 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 \$5.8 million in fiscal year 1985 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.

12. 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, 1985, and September 30, 1984. 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 \$25.9 million at September 30, 1985, and \$29.7 million at September 30, 1984. Of these amounts \$0.2 million in unfilled purchase orders were prepaid as of September 30, 1985, and \$0.1 million at September 30, 1984. In addition, the Panama Canal Commission is liable for an indeterminate 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 \$7.3 million were held by United States depositories designated by the Panama Canal Commission at September 30, 1985, and \$6.3 million at September 30, 1984, 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, 1985, the balance contingently payable to the Government of Panama amounts to \$53.1 million. As of September 30, 1984, the balance contingently payable to the Government of Panama amounted to \$44.2 million.

13. Treaty Impact.

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

Supplementary Information

Schedules of Treaty-Related Costs

PANAMA CANAL COMMISSION
SCHEDULE OF TREATY-RELATED COSTS

Statement Unaudited

Department of Defense (DOD) Costs (Savings)
Through Fiscal Year 1985

Agency	Prior FY costs ^a	FY 1984 costs	FY 1985 costs	Total costs
U.S. Army				
Base operations	\$52,260,853	\$17,774,017	\$19,093,540	\$89,128,410
Communications	8,575,066	3,202,749	3,214,988	14,992,803
Commissary	5,363,871	822,185	353,332	6,539,388
Transportation	2,482,544	405,271	4,958	2,892,773
Technical assistance	234,540	49,858	51,825	336,223
Health services	39,713,257	9,484,499	14,241,931	63,439,687
Disposition of remains	833,785	224,418	394,117	1,452,320
Criminal investigations	178,649	63,242	66,766	308,657
Tropic heat center	35,408	0	0	35,408
Procurement of equipment	3,046,789	0	0	3,046,789
Military construction	35,793,530	592,303	11,958	36,397,791
Military pay	32,412,213	8,606,000	13,120,157	54,138,370
Ports	165,868	0	0	165,868
Family housing operations	0	219,792	4,982,818	5,202,610
Total Army	181,096,373	41,444,334	55,536,390	278,077,097
U.S. Air Force	14,232,542	4,880,762	4,939,594	24,052,898
U.S. Navy	244,483	(123,776)	(87,348)	33,359
DOD Dependents' Schools ^c	4,669,000	(932,000)	(818,000)	2,919,000
Defense Mapping Agency/DAGS	1,158,764	note b	note b	1,158,764
Total DOD	\$201,401,162	\$45,269,320	\$59,570,636	\$306,241,118

^aIncludes prior-year adjustments.

^bNot reported.

^cObligations incurred rather than actual expenditures.

Supplementary Information

PANAMA CANAL COMMISSION
SCHEDULE OF TREATY-RELATED COSTS

Statement Unaudited

Non-DOD Costs (Savings) Through Fiscal Year 1985

Agency	Prior FY costs ^a	FY 1984 costs	FY 1985 costs	Total costs
State Department	\$ (5,001,860)	\$ (1,794,870)	\$ note b	\$ (6,796,730)
Federal Aviation Administration	(11,060,000)	(4,148,583)	(4,251,300)	(19,459,883)
American Battle Monuments Commission	1,457,520	259,633	376,050	2,093,203
Panama Canal Commission	300,000	0	0	300,000
General Accounting Office ^c	575,633	175,757	237,605	988,995
Smithsonian Tropical Research Institute	1,079,053	386,708	394,689	1,860,450
Gorgas Memorial Laboratory	(22,209)	(7,283)	(91,564)	(121,056)
Canal Area Court System				
U.S. attorney	(198,900)	(109,147)	(115,700)	(423,747)
U.S. marshall	(172,821)	(45,490)	(47,310)	(265,621)
Clerk of court	(812,214)	(508,816)	(535,685)	(1,856,715)
Bureau of Prisons	384,021	109,293	197,542	690,856
Foreign Broadcast Information Service	18,391	26,356	41,671	86,418
National Oceanic and Atmospheric Administration	2,261	442	4,042	6,745
Total non-DOD	<u>\$ (13,451,125)</u>	<u>\$ (5,656,000)</u>	<u>\$ (3,789,960)</u>	<u>\$ (22,897,085)</u>

^aIncludes prior-year adjustments.

bNot reported.

^cFigures include FY 1984 and prior year adjustments.

Supplementary Information

PANAMA CANAL COMMISSION
SCHEDULE OF TREATY-RELATED COSTS

Statement Unaudited

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 1984 transfers</u>	<u>FY 1985 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$168,317,629	\$ 0	\$ 0	\$168,317,629
Panama Canal Commission	9,511,246	347,789	13,658,934	23,517,969
Total	<u>\$177,828,875</u>	<u>\$347,789</u>	<u>\$13,658,934</u>	<u>\$191,835,598</u>

<u>Agency</u>	<u>Net Book Value</u>			
	<u>Prior transfers</u>	<u>FY 1984 transfers</u>	<u>FY 1985 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$84,886,222	\$ 0	\$ 0	\$84,886,222
Panama Canal Commission	3,929,294	116,359	3,437,013	7,482,666
Total	<u>\$88,815,516</u>	<u>\$116,359</u>	<u>\$3,437,013</u>	<u>\$92,368,888</u>

Supplementary Information

PANAMA CANAL COMMISSION
SCHEDULE OF TREATY-RELATED COSTS

Statement Unaudited

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

Agency	Acquisition Cost			Total transfers
	Prior transfers	FY 1984 transfers	FY 1985 transfers	
Department of Defense				
U.S. Army	\$32,145,416	\$ 0	\$8,085,689	\$40,231,105
U.S. Navy	4,698,687	232,082	0	4,930,769
U.S. Air Force	275,874	0	0	275,874
Total DOD	\$37,119,977	\$ 232,082	\$8,085,689	\$45,437,748
Federal Aviation Administration	1,461,959	1,553,830	1,622,571	4,638,360
Total	\$38,581,936	\$1,785,912	\$9,708,260	\$50,076,108

Supplementary Information

Schedule of Property, Plant, and Equipment

PANAMA CANAL COMMISSION
Schedule of Property, Plant and Equipment
(UNAUDITED)
September 30, 1985 and 1984

	Estimated Service Life	1 9 8 5		1 9 8 4	
		Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
Titles and treaty rights.....	40 yrs.	\$ 14,728,889	\$ 4,510,723	\$ 14,728,889	\$ 4,142,501
Interest during construction.....	-	50,892,311	50,892,311	50,892,311	50,892,311
Canal excavation, fills and embankments....	15-100 yrs.	347,536,452	106,030,626	347,536,452	97,504,007
Canal structures and equipment.....	4-100 yrs.	240,486,121	115,534,805	227,921,383	111,597,988
Supporting and general facilities.....	5-100 yrs.	154,169,752	96,534,802	163,216,450	102,770,199
Minor items of plant and equipment.....	-	10,569,651	10,569,650	10,339,272	10,339,272
Facilities held for future use.....	15-100 yrs.	2,858,777	2,450,779	2,915,933	2,760,398
Plant additions in progress.....	-	35,302,057	-	30,855,313	-
Suspended construction projects.....	-	<u>40,145,798</u>	<u>40,145,798</u>	<u>40,145,798</u>	<u>40,145,798</u>
TOTAL.....		<u>\$896,689,808</u>	<u>\$426,669,494</u>	<u>\$888,551,801</u>	<u>\$420,152,474</u>

The accompanying notes are an integral part of this statement.

Comments From the Panama Canal Commission



BALBOA
REPUBLIC OF PANAMA

PANAMA CANAL COMMISSION OFFICE OF THE ADMINISTRATOR

U.S. MAILING ADDRESS
APO MIAMI 34011

JAN 15 1987

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 "Panama Canal Commission's Financial Statements for 1985 and 1984 (GAO/AFMD-87-4). The following comments address GAO's qualified opinion on the financial statements and 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

The Commission is pleased to note the removal of GAO's qualified opinion related to the interest matter following the recent amendment to the Panama Canal Act of 1979. The Commission will fully comply with the interest requirements of the Act as amended just as it fully met those requirements prior to the amendment.

Floating Equipment Repair Reserve

The draft report is qualified because GAO contends that the President of the United States, the final regulator in establishing Canal toll rates, did not approve the transfer of funds into the floating equipment reserve. The Commission does not agree with the qualification for the reasons discussed below.

The Commission is different from other regulated businesses in that there is no regulatory agency that has established guidelines and criteria for determining what costs may be used in the rate-making process. As such, there are no statutes, regulations, or procedures which prescribe that the President of the United States must approve specific cost items or changes in accounting treatment for the Canal operation.

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Mr. Frederick D. Wolf, Director JAN 15 1987

The Commission, like its predecessor agency, has been consistent in its treatment of accounting changes through the rate-making process. Approval of any accounting changes that have been adopted since the last toll rate adjustment is inherent in this process but is not, of course, the purpose of the process. The Commission does not go through the rate-making process solely for the purpose of having changes in accounting policy or methods approved.

As provided by generally accepted accounting principles, accounting changes to improve the matching of costs and revenues have always been implemented when identified and incorporated into the next rate-making proposal to the President, whenever that occurs. Even the most cursory review of the Canal's accounting history refutes the GAO's contention that a change in accounting method requires the advance approval of the President. For example, a series of major accounting changes were implemented in fiscal year 1973 with the approval of GAO. These changes affected the subsequent evaluation of the adequacy of tolls and resulted in a proposal to increase toll rates approved by the President effective in fiscal year 1975. Also, the Commission's tolls proposal submitted in 1982 incorporated accounting changes adopted since the previous rate change. An increase in the toll rates did not occur until March 1983.

Under these circumstances, it is difficult to understand the basis for GAO's qualified opinion. Nevertheless, the Commission, in line with its established procedures and as recommended by GAO, will include this accounting change in the next proposal for a toll rate adjustment.

Management letter

The draft report refers to a management letter being prepared to address the need for the Commission to begin modifying its financial statements to conform to the revised Title 2 for federal agencies. The draft implies that nonconformance violates the terms and provisions of laws and regulations.

The Commission does not agree that its financial statements need to be modified. As pointed out in the Commission's response to the management letter (copy enclosed), it is important to recognize the clear distinction between the financial statement requirements of Title 2, the Treasury Financial Manual, and the Panama Canal Act of 1979. As a rate-regulated public utility, the Commission prepares financial statements for use by the shipping industry, our principal customer; the Government of Panama; and the President and Congress of the United States on the basis of generally accepted accounting principles except as modified to comply with the requirements of the Act. As an executive agency, the Commission also prepares financial statements required by Title 2 and the Treasury Financial Manual for use by the Secretary of the Treasury in preparing "...comprehensive reports on all the financial activities of the U.S. Government". Except for one minor instance, the Commission's financial statements for fiscal year 1985 met the separate but distinct reporting requirements.

Comments From the Panama
Canal Commission

Mr. Frederick D. Wolf, Director JAN 1 1987

In view of the above and the enclosed response, the Commission requests that reference to the management letter and conformance to Title 2 be deleted from the final report. In the future, the Commission would appreciate discussing financial statement topics to be included in the reports with GAO in the audit exit conference.

Thank you for providing us the opportunity to comment on the draft report before its publication.

Sincerely,


D. P. McAuliffe
Administrator

Enclosure



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