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REPORT TO THE CONGRESS



LM096581

Examination Of Financial Statements
Fiscal Years 1971 And 1970
Panama Canal Company And
Canal Zone Government

B-114839



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

B-114839

9,
To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the examination of the financial statements of the Panama Canal Company for the fiscal years ended June 30, 1971 and 1970, which is required by the Government Corporation Control Act (31 U.S.C. 841), and on the examination of financial statements of the Canal Zone Government for fiscal years 1971 and 1970.

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

A handwritten signature in cursive script, reading "James B. Stets".

Comptroller General
of the United States

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D I G E S T

WHY THE EXAMINATION WAS MADE

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

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion the financial statements accompanying the report, subject to certain qualifications as summarized below, present fairly the financial position of the Panama Canal Company and the Canal Zone Government at June 30, 1971 and 1970, the results of their operations for the years then ended, and the sources and application of funds of the Company for the years then ended, in conformity with the principles and standards of accounting prescribed for executive agencies by the Comptroller General.

GAO's opinions are qualified because:

- The Company's policy of not depreciating or amortizing the cost of certain assets results in an understatement of cost of operations of over \$3 million annually. (See pp. 10 and 11.)
- The collectibility of certain Company accounts receivable from the Republic of Panama, outstanding since January 1, 1961, and of Canal Zone Government accounts receivable, covering services provided to Republic of Panama prior to January 1, 1961, and during fiscal year 1963 through 1971, is not certain. (See pp. 11 and 12.)

OTHER MATTERS OF INTEREST

The report also includes a description of certain annual costs of about \$2.3 million that the U.S. Government contributes to the operation of the canal, which pursuant to law, are excluded from the Company's financial statements.

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Company continues to believe that it legally cannot amortize or depreciate the cost of certain assets without legislation authorizing it to do so and that the accounting treatment necessarily is founded on this construction of law. The Company, however, has agreed to reevaluate its position on this matter. (See pp. 10 and 11.)

GAO believes that the assets in question--excavation, embankments, fills, and related facilities--are limited-purpose land assets whose utility diminishes or terminates as the utility of the canal diminishes and that their costs should be depreciated or amortized. GAO believes that a change in legislation is not necessary to permit the Company to administratively determine the effective date of depreciation or amortization of these assets for the purpose of including the costs relative thereto in its financial statements. (See p. 11.)

The Company and the Canal Zone Government believe that, since the Republic of Panama historically has liquidated all delinquent accounts prior to the ratification of new treaties between the Republic and the United States that relate to the canal, these receivables are collectible. (See p. 12.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress, as required by law, to disclose the results of GAO's audit and such other information as necessary to keep the Congress informed of the operations and financial condition of the Company.

CHAPTER 1

INTRODUCTION

The Panama Canal Company, which was created as a wholly owned Government corporation by the act of June 29, 1948 (62 Stat. 1075), amended by the act of September 26, 1950 (64 Stat. 1038), has the management responsibility for the canal waterway and its supporting business activities. The act of September 26, 1950, also created the Canal Zone Government as an independent agency of the United States to perform the functions normally associated with civil government--including education, health, sanitation, and protection. The enterprise as a whole is referred to throughout this report as the canal organization.

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

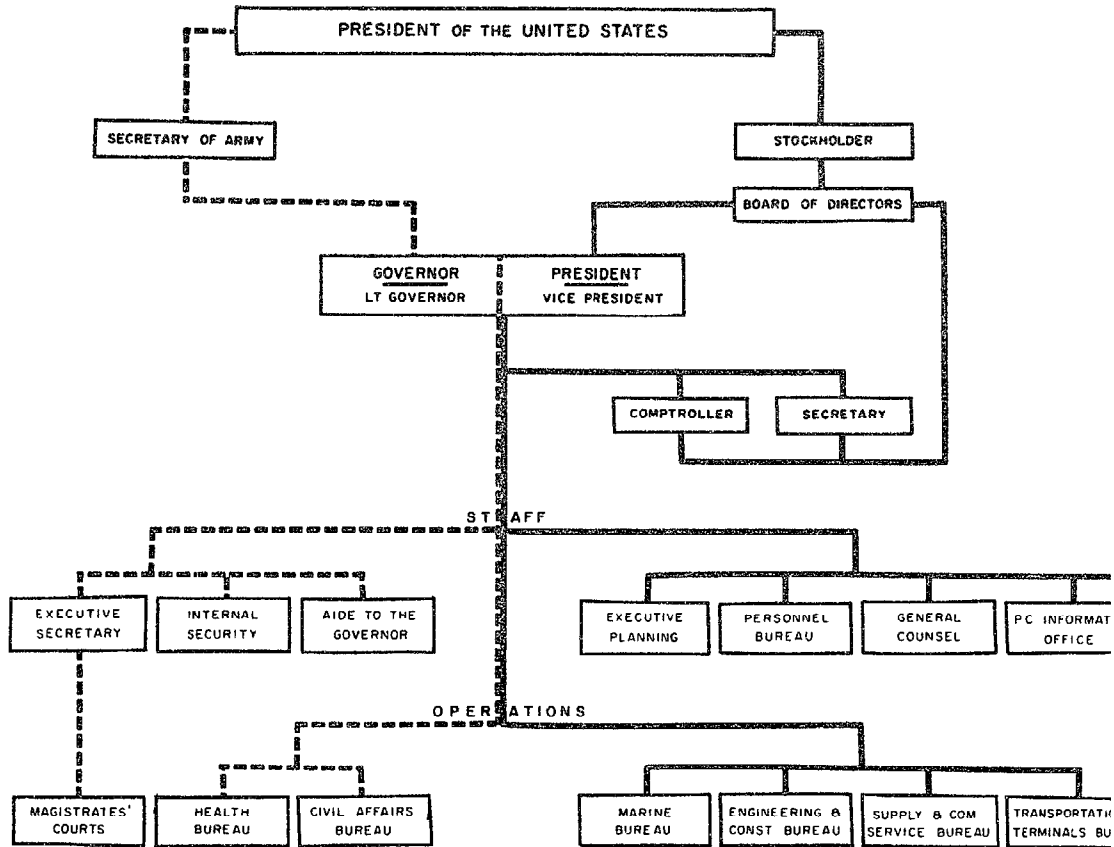
The management of the Company is vested in a board of directors; the management of the Canal Zone Government is vested in the Governor of the Canal Zone. Both organizations are subject to the supervision of the President of the United States. This supervision has been delegated to the Secretary of the Army who is designated as the sole stockholder of the Company and the personal representative of the President of the United States in matters concerning the activities of the Canal Zone Government.

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

The canal organization is designed to be financially self-sustaining. The Company finances its operating and capital expenditures with revenues from its transit and supporting-service operations. Congressional appropriations are used to repay the Company for cash advanced to cover the operating and capital expenditures of the Canal Zone Government. Pursuant to section 62g, title 2 of the Canal Zone Code, however, the Company uses its revenues to reimburse the U.S. Treasury for the net cost of operating the Canal Zone Government--the amount by which the cost of operating the Canal Zone Government, including depreciation of fixed assets, exceeds its revenues.

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

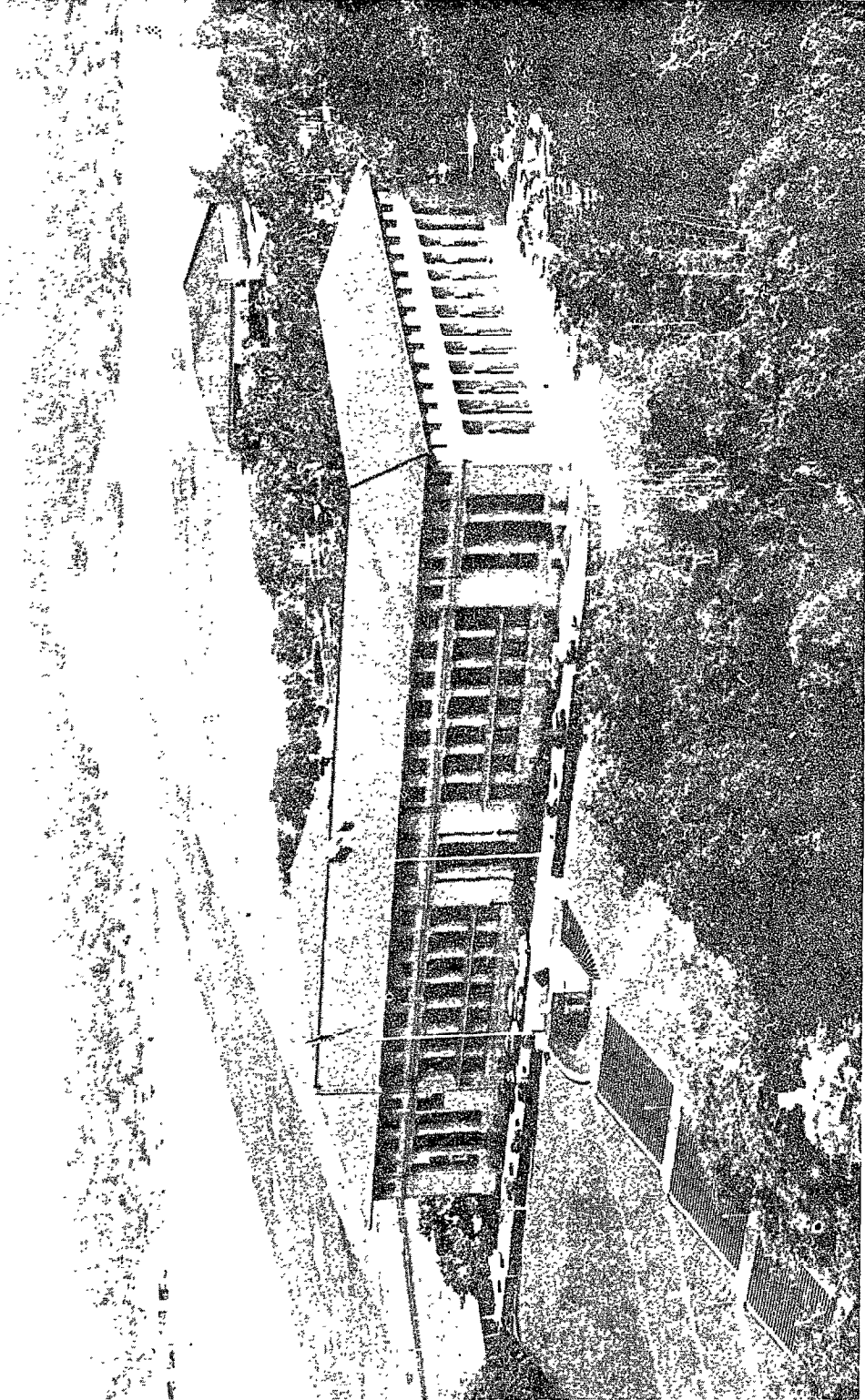
ORGANIZATION CHART
OF THE
CANAL ORGANIZATION



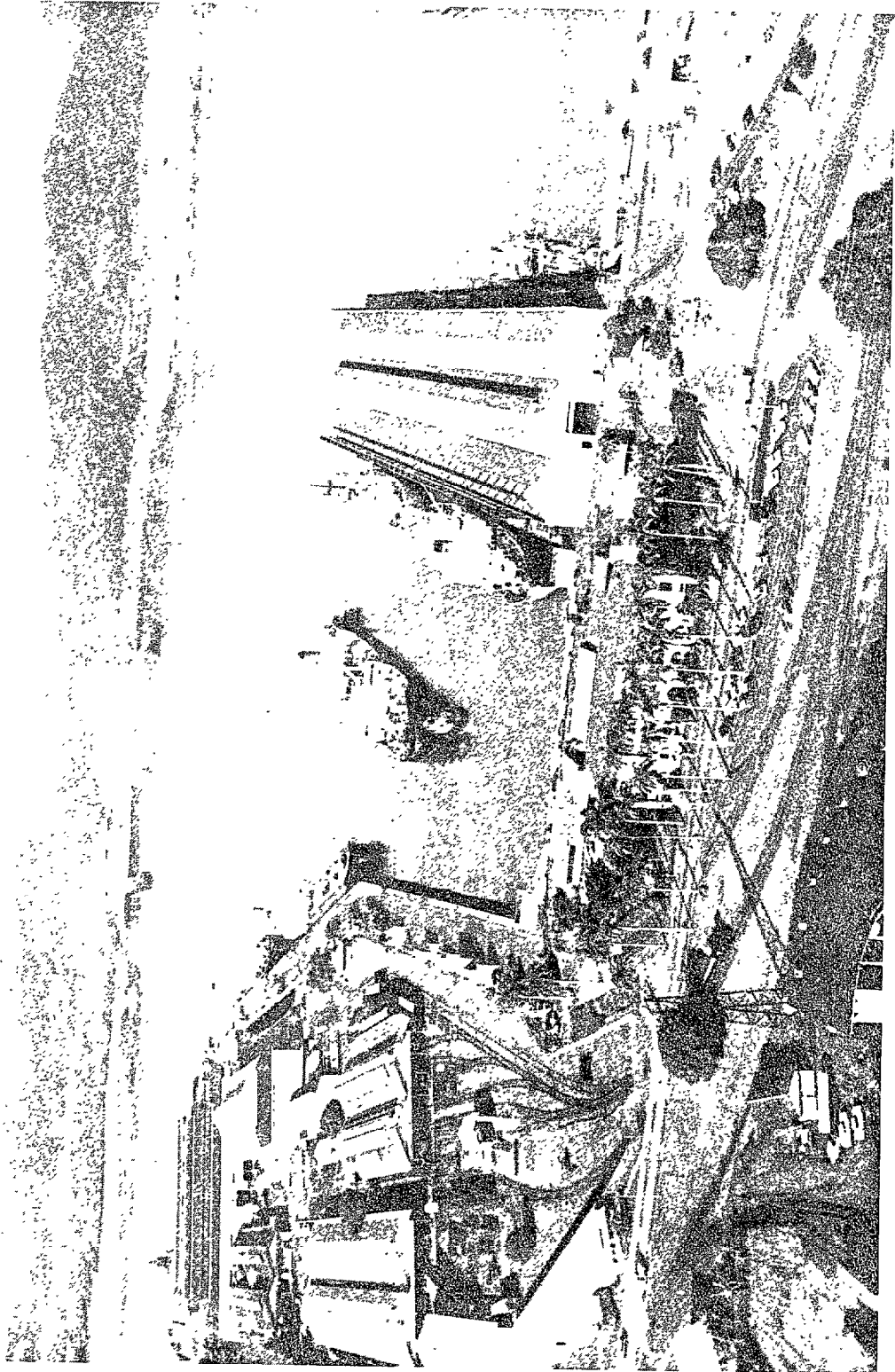
CANAL ZONE GOVERNMENT

PANAMA CANAL

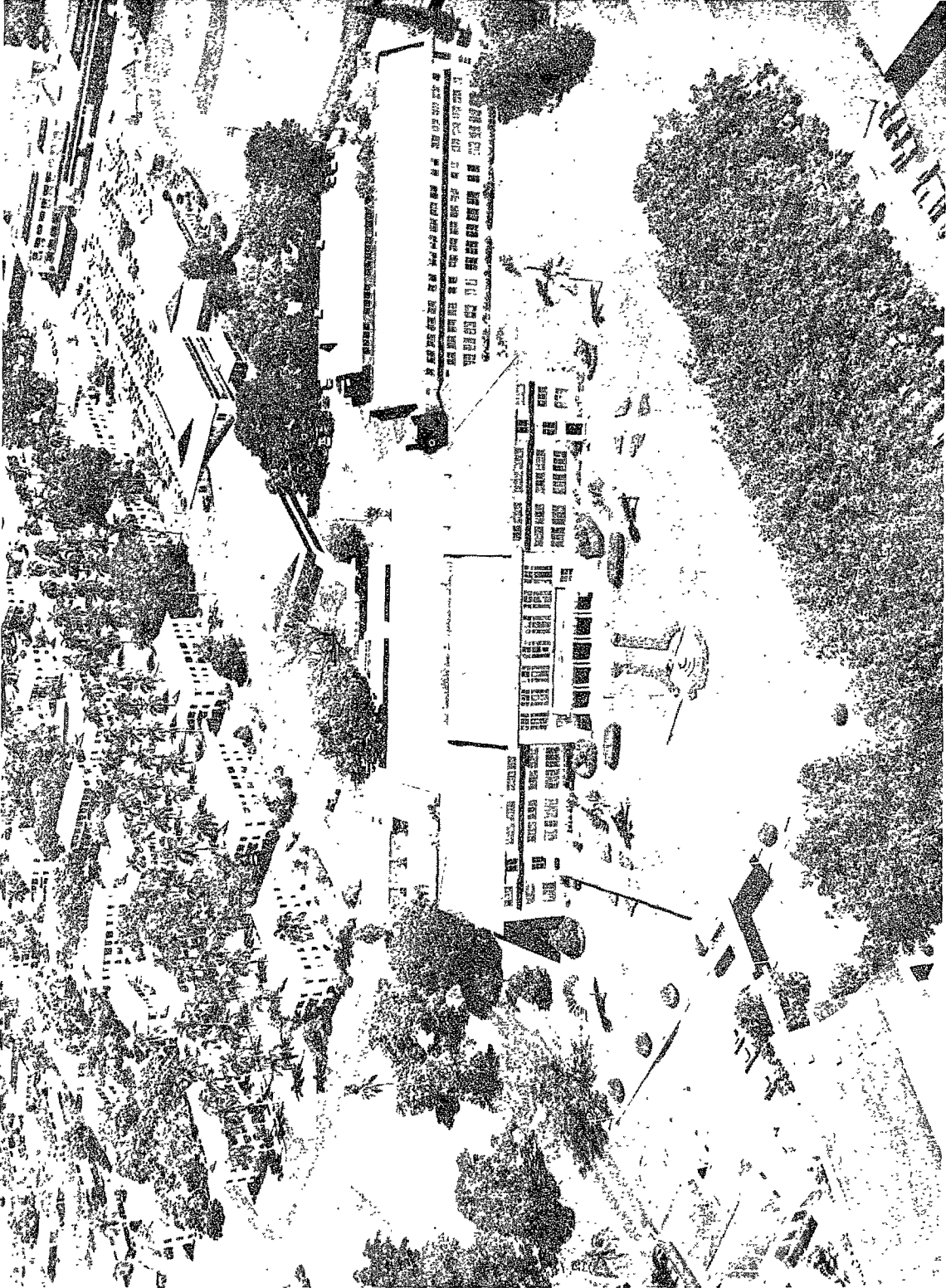
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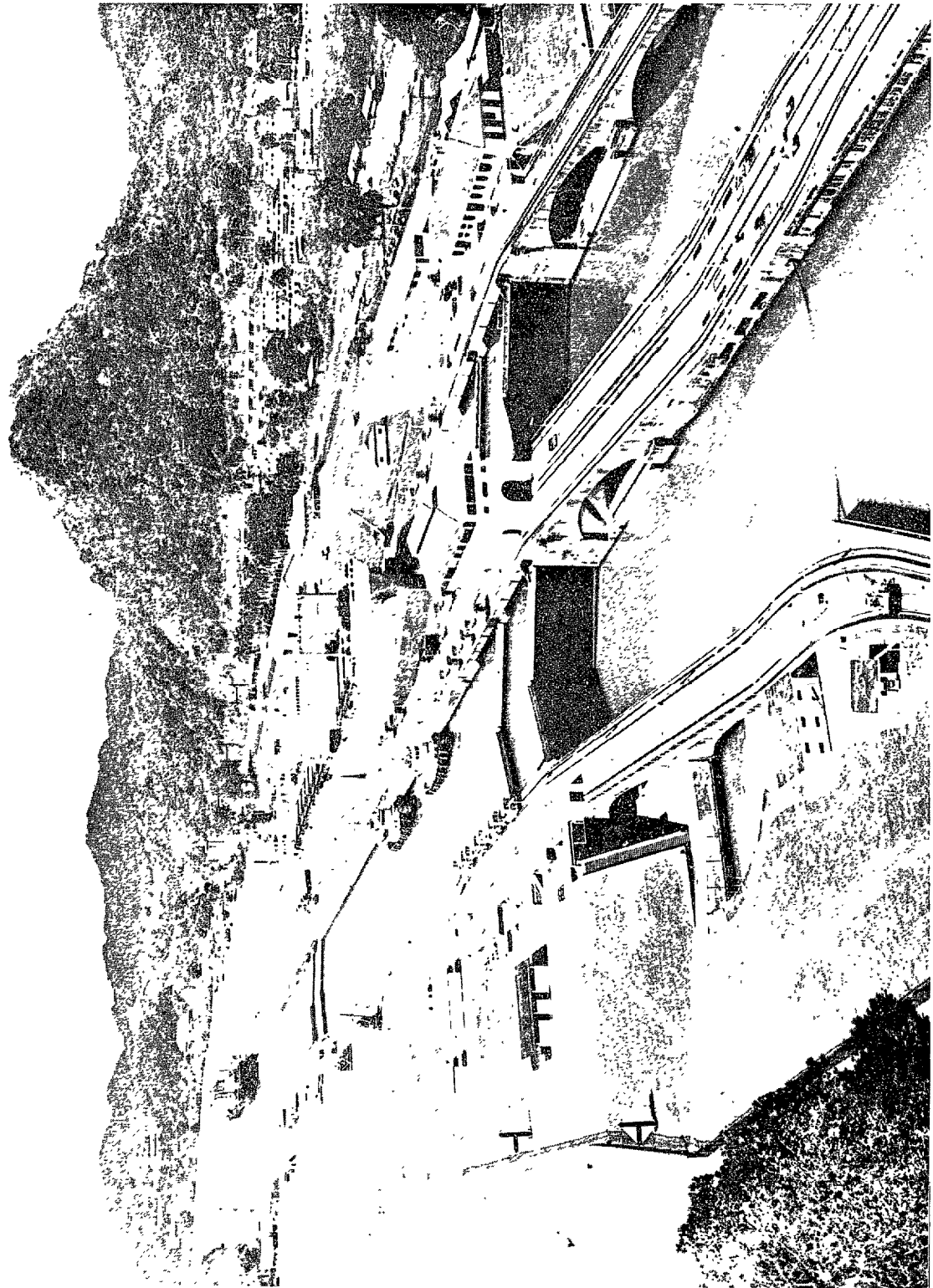
THE FLAGS OF THE UNITED STATES AND THE REPUBLIC OF PANAMA FLY SIDE BY SIDE AT THE PANAMA CANAL ADMINISTRATION BUILDING AT BALBOA HEIGHTS IN THE CANAL ZONE. THIS BUILDING WAS CONSTRUCTED DURING THE CONSTRUCTION OF THE CANAL. IN THE BACKGROUND IS ALBROOK AIR FORCE BASE, HOME OF THE FAMOUS AIR FORCE SCHOOL FOR LATIN AMERICA.



BALBOA HARBOR AT THE PACIFIC TERMINAL OF THE PANAMA CANAL OFFERS EXCELLENT PIER FACILITIES AND BUNKERING SERVICE TO SHIPS TRANSITING THE CANAL. BUILT DURING THE CONSTRUCTION OF THE CANAL THESE PIERS AND AN ADJACENT REPAIR FACILITY HAVE BEEN OF GREAT USE TO SHIPPERS DURING THE PAST 50 YEARS. ACROSS THE HARBOR IN THE BACKGROUND ARE THE PIERS AT ROOMAN NAVAL STATION.



THE BALBOA COMMUNITY COMPLEX IS THE LARGEST ON THE PACIFIC SIDE. PICTURED IN THE FOREGROUND IS THE BALBOA HIGH SCHOOL WITH HOUSING AND THE BALBOA SERVICE CENTER IN THE BACKGROUND.



PRESENTING A TIGHT FIT IN THE SOUTHBOUND LANE OF PEDRO MIGUEL LOCKS (PACIFIC SIDE) IS THE "SAN JUAN PROSPECTOR". THE PROSPECTOR'S 106.4-FOOT BEAM MAKES IT ONE OF THE LARGEST SHIPS EVER TO TRANSIT THE CANAL, WHICH HAS 110-FOOT-WIDE LOCK CHAMBERS.

CHAPTER 2

COMMENTS ON FINANCIAL STATEMENTS

DEPRECIATION NOT RECORDED
ON CERTAIN FIXED ASSETS

As stated in note 2 (see p. 25) to the Company's financial statements, the Company interprets the Canal Zone Code as not requiring the depreciation or amortization of certain canal construction costs relating to titles; treaty rights; excavations of channels, harbors, and basins; and other works totaling \$331 million at June 30, 1971 and 1970. The note further states that, if these assets were depreciated at 1 percent a year, there would be an annual charge of about \$3.3 million against operations. The Company believes that it legally cannot amortize or depreciate the cost of these assets without legislation authorizing it to do so and that the accounting treatment necessarily is founded on this construction of the law.

At the continued suggestion of the Senate Appropriations Committee, the Company proposed legislation for the consideration of the Eighty-third, Eighty-fourth, and Eighty-eighth through the Ninety-second Congresses, which would have amended the Canal Zone Code to authorize the depreciation of these assets. The legislation had not been acted upon by the Eighty-third, Eighty-fourth, and Eighty-eighth Congresses and was not introduced to the recent Congresses. We were advised by Company officials that the Office of Management and Budget had not recommended the introduction of the legislation to the recent Congresses because of the Department of State's views that the introduction of such legislation should be deferred pending the outcome of treaty negotiations with the Republic of Panama. Negotiations with the Republic of Panama regarding the replacement of the existing 1903 treaty, which gives the United States control of the Canal Zone in perpetuity, were resumed in June 1971.

It is our view (1) that the assets in question--excavations, embankments, fills, and related facilities--are limited-purpose land assets whose utility diminishes or terminates as the utility of the canal diminishes and that their cost should be depreciated or amortized and (2) that a

change in legislation is not necessary to permit the Company to determine the effective date of depreciation or amortization of these assets for the purpose of including costs relative thereto in its financial statements. These assets were constructed for the special purpose of enabling the passage of ships through the canal. When this purpose ceases the utility of the assets presumably will cease also. The assets involved therefore do not add permanent value to the land but, rather, have value of a terminable nature.

We discussed the propriety of the accounting treatment afforded these assets with the Company, and the Company has agreed to reevaluate its position relative to the basis for this accounting policy.

ACCOUNTS RECEIVABLE FROM THE
REPUBLIC OF PANAMA

As shown in its comparative statement of financial condition, the Company has classified as current assets, without an allowance for possible loss, accounts receivable due from the Republic of Panama in the amounts of \$2,762,000 and \$2,677,000 as of June 30, 1971 and 1970, respectively. These amounts include about \$1,864,000--which has been outstanding since January 1, 1961--of which approximately \$1,686,000 is for the potable water service provided in calendar years 1959 and 1960. The remaining accounts receivable of \$898,000 (\$2,762,000 minus \$1,864,000) at June 30, 1971, include about \$250,000 for garbage disposal and certain other services that the Company had provided the Republic of Panama during calendar years 1962 through 1970.

In addition, the statement of financial condition for the Canal Zone Government shows accounts receivable, due from the Republic of Panama, in the amounts of \$2,479,000 and \$2,196,000 as of June 30, 1971 and 1970, respectively, which also are classified as current assets. These amounts are payable to the U.S. Treasury, when collected, and therefore are included in the current liabilities of the Canal Zone Government at those dates. Since the net cost of operating the Canal Zone Government is borne by the Company, any subsequent loss resulting from these accounts receivable will be absorbed by the Company.

The amounts due the Canal Zone Government include \$2,415,000 and \$2,133,000 at June 30, 1971 and 1970, respectively, for the care of Panamanian nationals at a Canal Zone hospital (Palo Seco Hospital) for the treatment of Hansen's disease. Of these amounts, \$317,879 has been outstanding since January 1, 1961. Payments were made by the Republic of Panama for bills rendered for the 18-month period ended June 30, 1962. No payments were made, however, for the charges for services provided for fiscal years 1963 through 1971. These charges averaged about \$233,000 a year.

The action by the Company in attempting to collect the long-outstanding portion of the debt and the arrangements made for the Republic of Panama to keep up to date in paying certain current billings are described in our audit report (B-114839, March 13, 1970) on the fiscal years 1969 and 1968 financial statements. The Company views these receivables as collectible because the Republic of Panama historically has liquidated all debts with the canal organization prior to the ratification of new treaties between the Republic and the United States that relate to the canal.

CERTAIN COSTS ARE EXCLUDED FROM
THE COMPANY'S FINANCIAL STATEMENTS
PURSUANT TO LAW

Certain costs relating to the operation of the canal are not borne by the Company, pursuant to law, and therefore are excluded from its financial statements. These costs which, as described below, currently average about \$2.3 million a year are paid by various agencies of the U.S. Government.

Increase in the annual annuity
to the Republic of Panama
pursuant to the 1955 treaty

Article I of the 1955 treaty between the United States and the Republic of Panama increased the annual annuity payable to the Republic from \$430,000 to \$1,930,000. The Canal Zone Code requires the Company to reimburse the U.S. Treasury for the \$430,000 portion of the annuity to the Republic; however, the Company is not required to reimburse the Treasury for the increase of \$1.5 million.

The increase of \$1.5 million is paid from appropriations to the Department of State, and the total payments through fiscal year 1971 amounted to \$24 million.

Recurring annuities and
injury and death payments
to certain former employees

Annuities and injury and death payments are made annually from funds provided by other U.S. agencies to certain employees of the predecessor agencies of the canal organization. During fiscal years 1970 and 1971, these payments averaged about \$790,000 a year.

The annuities payments are made by the U.S. Civil Service Commission to U.S. citizens (and their widows) who were engaged in the construction of the canal during the years 1904 to 1914. These annuities are paid pursuant to the act of May 29, 1944, as amended. The U.S. Bureau of Employees Compensation makes injury and death compensation payments to the employees (and their dependents) of the predecessor agencies of the canal organization under the act of September 7, 1916.

These payments totaled about \$55 million through fiscal year 1971, as shown below.

<u>Period</u>	<u>Construction annuity</u>	<u>Injury and death claims</u>	<u>Total</u>
Through fiscal year 1969	\$48,403,035	\$5,074,406	\$53,477,441
Fiscal year 1970	716,276	121,413	837,689
Fiscal year 1971	<u>626,282</u>	<u>120,699</u>	<u>746,981</u>
Total	<u>\$49,745,593</u>	<u>\$5,316,518</u>	<u>\$55,062,111</u>

After the present canal organization was formed in 1951, the Company has borne the cost of any annuities and injury payments to its employees.

CHAPTER 3

SCOPE OF EXAMINATION

Our audit was directed primarily to an examination of the Company's statements of financial condition as of June 30, 1971 and 1970, and the related comparative statements of revenue and expenses and the source and application of funds for the fiscal years then ended.

Because the Company is required to assume the net cost of the Canal Zone Government as an operating expense and because it acts as agent for the Canal Zone Government (1) in advancing funds for its monthly operations, construction, and other activities and (2) in collecting its revenue, we examined the Canal Zone Government's statements of financial condition as of June 30, 1971 and 1970, and the related statements of operation for fiscal years 1971 and 1970.

During our examination we gave consideration to the financial audit work performed by the Company's internal auditors. Because of the extent of coverage and adequacy of the internal auditors' work, we were able to limit the extent of our own tests of the canal organization's accounting records.

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

CHAPTER 4

OPINIONS OF FINANCIAL STATEMENTS

PANAMA CANAL COMPANY

In our opinion, subject to the Company's policy of not depreciating certain assets and the collectibility of the accounts receivable due from the Republic of Panama as discussed on pages 10 through 12, the accompanying financial statements (schs. 1 through 5) present fairly the financial position of the Panama Canal Company at June 30, 1971 and 1970, and the results of its operations and the source and application of its funds for the fiscal years then ended, in conformity with the principles and standards of accounting prescribed for executive agencies by the Comptroller General of the United States.

CANAL ZONE GOVERNMENT

In our opinion, subject to the collectibility of the accounts receivable due from the Republic of Panama as discussed on pages 11 and 12, the accompanying financial statements (schs. 6 through 9) present fairly the financial position of the Canal Zone Government at June 30, 1971 and 1970, and the results of its operations for the fiscal years then ended, in conformity with the principles and standards of accounting prescribed for executive agencies by the Comptroller General of the United States.

FINANCIAL STATEMENTS

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

COMPARATIVE STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1971 AND 1970

A S S E T S	<u>1971</u> (000 Omitted)	<u>1970</u> (000 Omitted)
CURRENT ASSETS:		
Fund balances with U.S. Treasury and cash:		
Fund balance in U.S. Treasury checking account	\$ 35,413	\$ 34,741
Cash in commercial banks, on hand, and in transit	<u>1,841</u>	<u>1,574</u>
	<u>37,254</u>	<u>36,315</u>
Accounts receivable:		
Canal Zone Government and other U.S. Government agencies	1,749	2,011
Republic of Panama	2,762	2,677
Other	<u>4,210</u>	<u>3,793</u>
	<u>8,721</u>	<u>8,481</u>
Inventories (note 1):		
Materials and supplies	8,110	7,924
Merchandise held for sale	<u>6,034</u>	<u>6,005</u>
	<u>14,144</u>	<u>13,929</u>
Other current assets	<u>60</u>	<u>146</u>
Total current assets	<u>60,179</u>	<u>58,871</u>
FIXED ASSETS (note 2 and schedule 4):		
Cost	746,875	739,673
Less depreciation and valuation allowances	<u>235,163</u>	<u>230,919</u>
	<u>511,712</u>	<u>508,754</u>
DEFERRED CHARGES AND OTHER ASSETS:		
Relief payments to former employees and their widows (note 4)	13,746	7,760
Other	761	724
Material held for stand-by use (note 3)	<u>1,904</u>	<u>2,035</u>
	<u>16,411</u>	<u>10,519</u>
	<u>\$588,302</u>	<u>\$578,144</u>

The "Notes to Financial Statements" on pages 25 through 27 are an integral part of this statement.

LIABILITIES AND EQUITY

	<u>1971</u> (000 Omitted)	<u>1970</u> (000 Omitted)
CURRENT LIABILITIES (note 4):		
Accounts payable:		
U.S. Government agencies	\$ 988	\$ 1,641
Other	<u>2,711</u>	<u>3,170</u>
	<u>3,699</u>	<u>4,811</u>
Due U.S. Treasury	<u>1,336</u>	<u>-</u>
Accrued liabilities:		
Employees' leave	15,480	14,579
Salaries and wages	3,088	2,810
Relief payments to former employees and their widows	1,512	1,093
Claims for damages to vessels	3,190	2,824
Employees' repatriation	613	533
Provision for repayment to U.S. Treasury of future Canal Zone Government appropriations (note 5)	7,479	8,512
Other	<u>1,908</u>	<u>1,710</u>
	<u>33,270</u>	<u>32,061</u>
Other current liabilities	<u>506</u>	<u>751</u>
Total current liabilities	<u>38,811</u>	<u>37,623</u>
LONG-TERM LIABILITIES (note 4):		
Relief payments to former employees and their widows	12,234	6,667
Employees' repatriation	<u>4,824</u>	<u>4,913</u>
	<u>17,058</u>	<u>11,580</u>
ESTIMATED COST OF CANAL LOCKS OVERHAUL (note 6):	<u>2,319</u>	<u>3,414</u>
EQUITY OF U.S. GOVERNMENT (notes 1, 4, 6, & 7; and Schedules 3a, b):		
Net direct investment:		
Interest-bearing	317,169	317,198
Non-interest-bearing	18,052	18,052
Retained revenue, non-interest-bearing	<u>194,893</u>	<u>190,277</u>
	<u>530,114</u>	<u>525,527</u>
	<u>\$588,302</u>	<u>\$578,144</u>

SCHEDULE 2

PANAMA CANAL COMPANY

COMPARATIVE STATEMENT OF REVENUE AND EXPENSES
FISCAL YEARS ENDED JUNE 30, 1971 and 1970

	<u>1971</u>	<u>1970^a</u>
	(000 Omitted)	(000 Omitted)
REVENUE:		
Tolls	\$ 97,418	\$ 94,654
Credit for tolls on U.S. Government vessels	3,148	6,221
Commodities sold	31,147	29,355
Service sales and rentals	<u>48,132</u>	<u>44,866</u>
	<u>179,845</u>	<u>175,096</u>
OPERATING EXPENSES AND OTHER COSTS:		
Payroll and related costs	96,883	90,994
Material and operating expenses	16,163	13,155
Cost of commodities sold	21,691	20,308
Locks overhaul accrual	1,753	1,897
Damage to vessels	1,811	611
Depreciation	7,821	7,461
Net cost of Canal Zone Government	28,021	26,928
Interest on net direct investment of U.S. Government	<u>11,929</u>	<u>11,685</u>
	186,072	173,039
Less payroll and other costs transferred to Company capital projects and Canal Zone Government programs	<u>11,302</u>	<u>9,834</u>
Total operating expenses and other costs	<u>174,770</u>	<u>163,205</u>
Net revenue before recognition of extraordinary expenses	5,075	11,891
Less extraordinary charges:		
Pending full utilization of IRHE power plant capacity	-	209
Unallocated accident costs	67	210
Loss on disposition of fixed assets	<u>392</u>	<u>541</u>
NET REVENUE (schedules 3a and b)	<u>\$ 4,616</u>	<u>\$ 10,931</u>

^aRestated--Operating expenses increased and net revenue decreased by a net amount of \$49,000--See notes 4 and 6.

The "Notes to Financial Statements" on pages 25 through 27 are an integral part of this statement.

NO FURTHER INFORMATION AVAILABLE

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

STATEMENT OF CHANGES IN EQUITY OF THE U. S. GOVERNMENT
FISCAL YEAR ENDED JUNE 30, 1971

	<u>Net Direct Investment</u>		Retained
	Interest-	Non-interest-	revenue,
	bearing	bearing	non-interest-
	(000 Omitted)	(000 Omitted)	bearing
			(000 Omitted)
EQUITY AT JUNE 30, 1970, AS INITIALLY REPORTED.....	\$317,198	\$18,052	\$189,063
Prior years' adjustments:			
Additions:			
Locks overhaul accrual (note 6)....			606
Power Branch inventory (note 1)....			791
Deduction:			
Provision for potential liability in back pay litigation (note 4)...	—	—	(183)
EQUITY AT JUNE 30, 1970 - RESTATED.....	317,198	18,052	190,277
Addition:			
Net revenue (schedule 2).....			4,616
Deduction:			
Transfer of plant:			
Launch U.S. POMPANO to Smith- sonian Tropical Research Institute.....	(29)		
EQUITY AT JUNE 30, 1971 (schedule 1).....	<u>\$317,169</u>	<u>\$18,052</u>	<u>\$194,893</u>

The "Notes to Financial Statements" on pages 25 through 27 are an integral part of this statement.

SCHEDULE 3b

PANAMA CANAL COMPANY

STATEMENT OF CHANGES IN EQUITY OF THE U. S. GOVERNMENT
FISCAL YEAR ENDED JUNE 30, 1970

	<u>Net Direct Investment</u>		Retained
	<u>Interest-</u>	<u>Non-interest-</u>	revenue,
	<u>bearing</u>	<u>bearing</u>	non-interest-
	<u>(000 Omitted)</u>	<u>(000 Omitted)</u>	<u>bearing</u>
			<u>(000 Omitted)</u>
EQUITY AT JUNE 30, 1969, AS INITIALLY REPORTED.....	\$317,017	\$18,052	\$181,046
Prior year adjustments:			
Additions:			
Locks overhaul accrual (note 6)....			392
Power Branch inventory (note 1)....			791
Deduction:			
Provision for potential liability in back pay litigation (note 4)...	-	-	(2,883)
EQUITY AT JUNE 30, 1969 - RESTATED.....	317,017	18,052	179,346
Additions:			
Net revenue - Restated (schedule 2)			10,931
Reactivations:			
Dock 7, Balboa and related facilities.....	139		
Bldg. #31 - Balboa Industrial area	41		
Far Fan Beach pavilion.....	2		
Electrical facilities-Coco Solo..	1		
Total additions	<u>183</u>	-	<u>10,931</u>
Deductions:			
Transfer of plant:			
Asphalt paver to U.S. Air Force..	0		
Launch U.S. PIKE to U.S. Navy....	2		
Total deductions.....	<u>2</u>	-	-
EQUITY AT JUNE 30, 1970 - RESTATED.....	<u>\$317,198</u>	<u>\$18,052</u>	<u>\$190,277^a</u>

^aRestated during fiscal year 1971--see schedule 3a for balances reported.

Notes 1, 4, and 6 on pages 25 and 26 are an integral part of this statement.

BEST DOCUMENT AVAILABLE

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

COMPARATIVE STATEMENT OF FIXED ASSETS

JUNE 30, 1971 and 1970

	1971		1970	
	Cost (000 Omitted)	Depreciation and valuation allowances (000 Omitted)	Cost (000 Omitted)	Depreciation and valuation allowances (000 Omitted)
TITLES AND TREATY RIGHTS	\$ 14,729	\$ -	\$ 14,729	\$ -
INTEREST DURING ORIGINAL CONSTRUCTION	50,892	50,892	50,892	50,892
CANAL EXCAVATIONS, FILLS, AND EMBANKMENTS	315,587	-	315,601	-
CANAL STRUCTURES AND EQUIPMENT	171,273	86,116	171,272	84,628
OTHER MARITIME FACILITIES	23,279	17,223	23,068	16,961
SUPPORTING AND GENERAL FACILITIES	156,138	80,485	157,282	77,995
PLANT ADDITIONS IN PROGRESS	14,487	-	6,339	-
FACILITIES HELD FOR FUTURE USE	<u>490</u>	<u>447</u>	<u>490</u>	<u>443</u>
Total (schedule 1)	<u>\$746,875</u>	<u>\$235,163</u>	<u>\$739,673</u>	<u>\$230,919</u>

The "Notes to Financial Statements" on pages 25 through 27 are an integral part of this statement.

PANAMA CANAL COMPANY

COMPARATIVE STATEMENT OF SOURCE AND APPLICATION OF FUNDS
JUNE 30, 1971 and 1970

	1971 (000 Omitted)	1970 ^a (000 Omitted)
SOURCE OF FUNDS		
From Operations:		
Revenue	\$179,845	\$175,096
Less operating expenses and extraordinary charges	<u>175,229</u>	<u>164,165</u>
Net revenue (Schedule 2)	4,616	10,931
Add transactions not requiring expenditure of funds:		
Provision for depreciation	7,821	7,461
Provision for canal locks overhaul	1,753	1,897
Other	<u>414</u>	<u>809</u>
Total funds from operations	14,604	21,098
Proceeds from disposition of fixed assets	170	123
Adjustment to relief payments liability	-	107
Net change in material held for standby	131	-
Net change in working capital other than cash	<u>820</u>	<u>2,495</u>
Total	<u>\$ 15,725</u>	<u>\$ 23,823</u>
APPLICATION OF FUNDS		
Capital expenditures	\$ 11,518	\$ 17,396
Canal locks overhaul expenditures	2,849	-
Adjustment to relief payments liability	419	-
Net change in material held for standby	-	327
Increase in cash	<u>939</u>	<u>6,100</u>
Total	<u>\$ 15,725</u>	<u>\$ 23,823</u>

^aRestated for comparative purposes due to a restatement of operating expenses and net revenues - see schedule 2.

The "Notes to Financial Statements" on pages 25 through 27 are an integral part of this statement.

BEST DOCUMENT AVAILABLE

NOTES TO FINANCIAL STATEMENTS

1. Inventories. Inventories of operating materials and supplies are stated principally at last receipt cost as of March 31 for each fiscal year. Inventories of merchandise for sale in warehouses are stated at average cost on a line-item basis; and inventories of merchandise for sale in retail outlets are stated at average cost using the retail method for valuation. Materials and supplies valued at \$791 thousand which were expensed prior to fiscal year 1970, were added to the inventory as of June 30, 1970, with a corresponding increase to retained revenue.

2. Fixed assets. Fixed assets generally are stated at cost or, if acquired from another Government agency, at original cost to such agency. Valuation allowances have been established in accordance with sections 62 and 412 of title 2 of the Canal Zone Code. These allowances consist of: (a) \$50.9 million for interest during original construction; (b) \$13.7 million and \$13.9 million as of June 30, 1971 and 1970, respectively, to reduce to usable value the cost of fixed assets transferred to the Company from the Panama Canal (agency) at July 1, 1951; and (c) \$69.8 million and \$70.0 million as of June 30, 1971 and June 30, 1970, respectively, of defense facilities and suspended construction projects, the latter being principally the partial construction of a third set of locks abandoned in the early part of World War II. While all valuation allowances established under authority of the Canal Zone Code are carried in the books of account, both the cost and corresponding valuation allowances of defense facilities and suspended construction projects 2 (c) above have been excluded from the statement of financial condition.

Because of historical practice and interpretation of the Canal Zone Code, depreciation or amortization allowances have not been provided on titles, treaty rights, and excavation of channels, harbors, basins, and other works costing \$331 million at June 30, 1971 and June 30, 1970. If these assets were depreciated at the rate of 1% per annum, there would have been an annual charge against operations of \$3.31 million during fiscal years 1971 and 1970. Depreciation allowances on all other fixed assets are accumulated on a straight-line basis.

3. Material held for standby use. Material and supplies having no movement for at least two years have been reclassified from current assets to other assets in the amount of \$1,904,000 and \$2,035,000 for fiscal years 1971 and 1970, respectively.

4. Liabilities. The estimated liability arising from back pay litigation in the U. S. Court of Claims and the U. S. District Court for tropical differential due married women employees of both the Panama Canal Company and the Canal Zone Government (whose costs are borne by the Company) was recorded in fiscal year 1970. As a result of recognizing more recent estimates, the balance of retained revenues at June 30, 1970

has been restated from amounts previously reported to reflect a retro-active net reduction of \$182,532 and a corresponding increase in the liability. This net reduction in retained revenue is reflected as an increase of \$262,210 in fiscal year 1970 operating expenses and a decrease of \$79,678 in the prior year adjustment, "Provision for potential liability for back pay litigation," to retained revenue at June 30, 1969.

Additional accrued and long-term liability in the amounts of \$468,000 and \$5,897,000, respectively, were recognized in fiscal year 1971 to reflect the estimated cost of future payments of cash relief to widows as provided by Public Law 91-355 enacted on July 24, 1970. No provision has been made for future cost-of-living increases to Cash Relief Annuitants or their widows.

5. Provisions for repayment to U. S. Treasury of future Canal Zone Government appropriations. This liability provides for reimbursement to the U. S. Treasury, in accordance with section 62 of title 2 of the Canal Zone Code, of costs accrued by the Canal Zone Government which will be financed by future appropriations.

6. Canal locks overhaul. As a result of deferring planned overhaul work, the Gatun Locks overhaul project was overaccrued during fiscal years prior to 1971 by \$605,896. This overaccrual was recognized in fiscal year 1971 by an increase to retained revenue. Of this amount, \$213,389 applied to fiscal year 1970 and has been reflected as a decrease in operating expenses for that year. The balance applicable to years prior to 1970 was added to retained revenue at June 30, 1969.

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

The rates for fiscal years 1971 and 1970 were 3.761 and 3.683 percent, respectively. The net direct non-interest-bearing investment consists of the cost of the Thatcher Ferry Bridge constructed in accordance with the Act of July 23, 1956 (70 Stat. 596). The Act of August 25, 1959 (73 Stat. 428) amended section 71 of title 2 of the Canal Zone Code to provide the Company with authority to borrow funds from the United States Treasury not to exceed \$10 million outstanding at any time at interest rates to be determined by the Secretary of the Treasury.

8. Contingent and other liabilities. The Company is contingently liable with respect to certain pending suits and claims. In addition, the Company has outstanding at all times certain liabilities of indeterminate amounts. These liabilities include, principally, commitments for construction work, supplies and services, and death and disability benefits payable under provisions of the Federal Employees' Compensation Act.

The maximum liability which could result from outstanding claims and lawsuits is estimated to be \$35.4 million at June 30, 1971. Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$9.8 million at June 30, 1971, and \$10.0 million at June 30, 1970.

The Company held negotiable United States Government securities and Republic of Panama securities in the face amount of \$2,535,000 at June 30, 1971 and 1970, which were deposited by customers and Panamanian insurance firms to guarantee contract performance and payment of tolls and other charges. In addition, the Company held on behalf of the Canal Zone Government, negotiable securities in the face amount of \$697,500 and \$687,500 as of June 30, 1971 and 1970, respectively, to guarantee payment of possible judgments against insurance companies operating in the Canal Zone.

Effective May 9, 1969, the Company entered into a 25-year contract with Instituto de Recursos Hidraulicos y Electrificacion, an autonomous agency of the Republic of Panama, for the purchase of electric power to be produced by the Agency. As of June 30, 1971, the Company's total minimum liability over the remaining period of the contract amounted to about \$35.4 million.

Under provisions of a lease agreement with United States Army Forces Southern Command, the Company is also liable for an indefinite period in the amount of \$1,042,800 a year for minimum annual usage of electrical energy produced by the power barges "STURGIS" and "WEBER".

9. Other. Effective with fiscal year 1968, an arbitrarily determined annual assessment to the Canal Zone Government of \$750,000 for general and administrative support provided by the Company was discontinued. Since the actual cost of providing this service cannot be readily determined and the classification of this expense does not affect the net results of the Company's operations, the Company does not believe an annual assessment to the Canal Zone Government is warranted.

CANAL ZONE GOVERNMENT
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION
 JUNE 30, 1971 and 1970

A S S E T S

	1971 (000 Omitted)	1970 (000 Omitted)
CURRENT ASSETS:		
Fund balances with U.S. Treasury and cash:		
Fund balances in U.S. Treasury checking account.....	\$ 4,963	\$ 5,160
Cash on hand and in transit.....	<u>243</u>	<u>240</u>
	<u>5,206</u>	<u>5,400</u>
Investments (Par value):		
U.S. Treasury note (Market value \$1,018,125).....	1,000	1,000
U.S. Treasury bonds.....	<u>-</u>	<u>400</u>
	<u>1,000</u>	<u>1,400</u>
Accounts receivable:		
U.S. Government agencies.....	832	1,513
Republic of Panama.....	2,479	2,196
Accrued interest receivable on postal fund investments.....	29	27
Other.....	<u>748</u>	<u>626</u>
	4,088	4,362
Inventory of hospital supplies.....	<u>356</u>	<u>400</u>
Other current assets.....	<u>7</u>	<u>2</u>
Total current assets.....	<u>10,657</u>	<u>11,564</u>
SUMS DUE FROM FUTURE APPROPRIATIONS.....	<u>11,958</u>	<u>12,601</u>
FIXED ASSETS (Schedule 9)		
Cost.....	90,113	88,006
Less depreciation and valuation allowances.....	<u>33,054</u>	<u>31,003</u>
	<u>57,059</u>	<u>57,003</u>
	<u>\$79,674</u>	<u>\$81,168</u>

The "Notes to Financial Statements" on page 35 are an integral part of this statement.

RECEIVED
 DEPARTMENT OF THE TREASURY
 JUN 30 1971

BEST EQUIPMENT AVAILABLE

LIABILITIES AND EQUITY

	1971 (000 Omitted)	1970 (000 Omitted)
CURRENT LIABILITIES (note 1):		
Accounts payable:		
Due U.S. Treasury.....	\$ 4,268	\$ 4,777
Panama Canal Company and other U. S. Government agencies.....	<u>522</u>	<u>541</u>
	<u>4,790</u>	<u>5,318</u>
Postal money orders payable.....	777	890
Less advance deposits with U.S. Post Office Department.....	<u>112</u>	<u>563</u>
	<u>665</u>	<u>327</u>
Postal savings certificates	<u>637</u>	<u>812</u>
Accrued liabilities:		
Salaries and wages.....	897	757
Employees' leave.....	4,235	3,992
Employees' repatriation.....	455	441
Relief payment to former employees and their widows.....	121	95
Retroactive pay increase teachers, policemen & firemen.....	-	1,753
Provision for potential liability in back pay litigation.....	3,776	3,316
Other.....	<u>13</u>	<u>20</u>
	<u>9,497</u>	<u>10,374</u>
Other current liabilities.....	<u>81</u>	<u>81</u>
Total current liabilities.....	<u>15,670</u>	<u>16,912</u>
LONG-TERM LIABILITIES (note 1):		
Employees' repatriation.....	2,455	2,452
Relief payments to former employees and their widows.....	<u>916</u>	<u>552</u>
	<u>3,371</u>	<u>3,004</u>
EQUITY OF U. S. GOVERNMENT (Schedules 7)		
Operating funds.....	444	297
Capital funds.....	2,774	3,552
Invested capital.....	<u>57,415</u>	<u>57,403</u>
	<u>60,633</u>	<u>61,252</u>
	<u>\$79,674</u>	<u>\$81,168</u>

SCHEDULE 7a

CANAL ZONE GOVERNMENT

STATEMENT OF CHANGES IN EQUITY OF THE U. S. GOVERNMENT
JUNE 30, 1971

	Total (000 Omitted)	Operating funds (000 Omitted)	Capital funds (000 Omitted)	Invested capital (000 Omitted)
EQUITY AT JUNE 30, 1970:				
Unobligated funds.....	\$ 2,579	\$ -	\$2,579	\$ -
Obligated funds.....	1,270	297	973	-
Invested capital:				
Fixed assets, net.....	57,003	-	-	57,003
Inventories.....	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
	<u>61,252</u>	<u>297</u>	<u>3,552</u>	<u>57,403</u>
INCREASES IN EQUITY:				
Appropriations by the Congress.....	<u>51,110</u>	<u>49,610</u>	<u>1,500</u>	<u>-</u>
DECREASES IN EQUITY:				
Net cost of Canal Zone Government (schedule 8a)				
Accrued operating expenses.....	47,212	47,212	-	-
Depreciation.....	2,142	-	-	2,142
Plant adjustments, net.....	77	-	-	77
Increase in liabilities for:				
Employees' accrued leave.....	243	-	-	243
Employees' repatriation.....	17	-	-	17
Adjustment for potential liability in back pay litigation.....	<u>459</u>	<u>-</u>	<u>-</u>	<u>459</u>
	50,150	47,212	-	2,938
Less recovery of costs.....	<u>22,129</u>	<u>22,129</u>	<u>-</u>	<u>-</u>
	28,021	25,083	-	2,938
Other decreases:				
Recovery of costs coverable into U. S. Treasury:				
From regular operations.....	22,129	22,129	-	-
From disposition of fixed assets.....	4	-	-	4
Unobligated operating funds withdrawn by U. S. Treasury, net of restorations amounting to \$1,589.93.....	543	543	-	-
Payment of retroactive pay increase for teachers, firemen, and policemen out of F. Y. 1971 funds.	<u>1,752</u>	<u>1,752</u>	<u>-</u>	<u>-</u>
	24,428	24,424	-	4
Less net increase in liabilities for employees accrued leave and repatriation, and adjustment of back pay litigation into U. S. Treasury until funds have been appropriated therefor.....	<u>720</u>	<u>-</u>	<u>-</u>	<u>720</u>
	<u>23,708</u>	<u>24,424</u>	<u>-</u>	<u>(716)</u>
	<u>51,729</u>	<u>49,507</u>	<u>-</u>	<u>2,222</u>
TRANSFERS BETWEEN FUNDS:				
Capital expenditures.....	-	-	(2,261)	2,261
Removal costs of plant retirements.....	-	-	(17)	17
Decrease in inventories.....	<u>-</u>	<u>44</u>	<u>-</u>	<u>(44)</u>
	<u>-</u>	<u>44</u>	<u>(2,278)</u>	<u>2,234</u>
Total increase or (decrease).....	<u>(619)</u>	<u>147</u>	<u>(778)</u>	<u>12</u>
EQUITY AT JUNE 30, 1971:				
Unobligated funds.....	2,160	-	2,160	-
Obligated funds.....	1,058	444	614	-
Invested capital:				
Fixed assets, net.....	57,059	-	-	57,059
Inventories.....	<u>356</u>	<u>-</u>	<u>-</u>	<u>356</u>
TOTAL (schedule 6).....	<u>\$60,633</u>	<u>\$ 444</u>	<u>\$2,774</u>	<u>\$57,415</u>

The "Notes to Financial Statements" on page 35 are an integral part of this statement.

CANAL ZONE GOVERNMENT
STATEMENT OF CHANGES IN EQUITY OF THE U. S. GOVERNMENT
FISCAL YEAR ENDED JUNE 30, 1970

	Total (000 Omitted)	Operating funds (000 Omitted)	Capital funds (000 Omitted)	Invested capital (000 Omitted)
EQUITY AT JUNE 30, 1969:				
Unobligated funds.....	\$ 2,658	\$	\$2,658	\$
Obligated funds.....	1,973	399	1,574	
Invested capital:				
Fixed assets, net.....	56,783			56,783
Inventories.....	<u>361</u>			<u>361</u>
	<u>61,775</u>	<u>399</u>	<u>4,232</u>	<u>57,144</u>
INCREASES IN EQUITY:				
Appropriations by the Congress.....	43,695	41,695	2,000	
Obligated operating funds restored by U. S. Treasury amounted to \$6,981.97.....	<u>7</u>	<u>7</u>		
	<u>43,702</u>	<u>41,702</u>	<u>2,000</u>	
DECREASES IN EQUITY:				
Net cost of Canal Zone Government (schedule 8b):				
Accrued operating expenses.....	41,764	41,764		
Depreciation.....	2,088			2,088
Plant adjustments, net.....	269			269
Increase in liabilities for:				
Employees' accrued leave.....	308			308
Employees' repatriation.....	77			77
Provision for potential liability in back pay litigation.....	873			873
Teachers, firemen and policemen retroactive pay.....	<u>1,753</u>			<u>1,753</u>
	<u>47,132</u>	<u>41,764</u>		<u>5,368</u>
Less recovery of costs.....	<u>20,204</u>	<u>20,204</u>		
	26,928	21,560		5,368
Other decreases:				
Recovery of costs coverable into U. S. Treasury:				
From regular operations.....	20,204	20,204		
From disposition of fixed assets.....	<u>102</u>			<u>102</u>
	<u>20,306</u>	<u>20,204</u>		<u>102</u>
Less increase in liabilities for employees' accrued leave and repatriation, back pay litigation and teachers, firemen and policemen retroactive pay, not coverable into U. S. Treasury until funds have been appropriated therefor.....	<u>3,010</u>			<u>3,010</u>
	<u>17,296</u>	<u>20,204</u>		<u>(2,908)</u>
	<u>44,224</u>	<u>41,764</u>		<u>2,460</u>
TRANSFERS BETWEEN FUNDS:				
Capital expenditures.....			(2,658)	2,658
Removal costs of plant retirements.....			(22)	22
Increase in inventories.....		(39)		39
		(39)	(2,680)	2,719
Total increase or (decrease).....	<u>(522)</u>	<u>(101)</u>	<u>(680)</u>	<u>259</u>
EQUITY AT JUNE 30, 1970:				
Unobligated funds.....	2,580		2,580	
Obligated funds.....	1,270	298	972	
Invested capital:				
Fixed assets, net.....	57,003			57,003
Inventories.....	<u>400</u>			<u>400</u>
TOTAL (schedule 6).....	<u>\$61,253</u>	<u>\$ 298</u>	<u>\$3,552</u>	<u>\$57,403</u>

The "Notes to Financial Statements" on page 35 are an integral part of this statement.

CANAL ZONE GOVERNMENT

STATEMENT OF OPERATIONS
FISCAL YEAR ENDED JUNE 30, 1971

SCHEDULE 8a

	Operating Expenses (000 Omitted)				Recoveries (000 Omitted)	Net Cost of Operations Borne by Panama Canal Company (000 Omitted)
	Funded Costs	Accrued Depreciation	Other non- Fund Charges and Credits	Total		
CIVIL FUNCTIONS:						
Office of director.....	\$ 1,073	\$ 38	\$ (2)	\$ 1,109	\$ -	\$ 1,109
Customs and immigration.....	850	3	(8)	845	32	813
Postal service.....	1,635	15	21	1,671	1,575	96
Police protection.....	4,832	50	17	4,899	31	4,868
Fire protection.....	1,979	47	14	2,040	1,138	902
Judicial system.....	148	2	4	154	149	5
Education.....	14,674	740	22	15,436	10,340	5,096
Public areas and facilities.....	1,989	660	-	2,649	-	2,649
Library.....	324	1	3	328	7	321
Internal security.....	246	-	2	248	-	248
Civil defense.....	61	6	-	67	-	67
Licenses and other fees.....	90	-	4	94	240	(146)
	<u>27,901</u>	<u>1,562</u>	<u>77</u>	<u>29,540</u>	<u>13,512</u>	<u>16,028</u>
HEALTH AND SANITATION:						
Office of director.....	266	-	(3)	263	2	261
Hospitals and medical services:						
Gorgas hospital and clinics.....	9,305	347	134	9,786	5,892	3,894
Coco Solo hospital and clinics.....	2,962	88	1	3,051	1,493	1,558
Canal Zone mental health center.....	1,572	29	14	1,615	354	1,261
Palo Seco hospital.....	285	7	-	292	283	9
Other public health services:						
Sanitation.....	679	4	10	693	8	685
Garbage collection.....	276	-	-	276	-	276
Preventive medicine and quarantine.....	538	4	12	554	24	530
School Health Unit.....	117	-	-	117	-	117
Veterinarian services.....	338	4	4	346	124	222
Cemeteries, operation and maintenance.....	132	2	-	134	35	99
Dental clinics.....	330	5	(10)	325	164	161
Care of dead.....	77	4	(2)	79	27	52
	<u>16,877</u>	<u>494</u>	<u>160</u>	<u>17,531</u>	<u>8,406</u>	<u>9,125</u>
GENERAL EXPENSES:						
Office of the Governor.....	252	-	6	258	6	252
Special adjustment in employees' accrued leave.....	-	-	-	-	-	-
Recruitment and repatriation.....	453	-	-	453	-	453
Employees' home leave travel.....	419	-	-	419	-	419
Transportation of employees' vehicles.....	69	-	-	69	-	69
Government buildings and sites.....	468	55	-	523	204	319
Relief payment to former employees and their widows.....	127	-	-	127	-	127
Net loss or (gain) on plant retirements.....	-	-	70	70	-	70
Net increase in accrued liability for employees' repatriation.....	-	-	17	17	-	17
Provision for potential liability in back pay litigation.....	-	-	459	459	-	459
Miscellaneous charges and credits.....	646	31	7	684	1	683
	<u>2,434</u>	<u>86</u>	<u>559</u>	<u>3,079</u>	<u>211</u>	<u>2,868</u>
Net Cost of Canal Zone Government.....	<u>\$47,212</u>	<u>\$2,142</u>	<u>\$796</u>	<u>\$50,150</u>	<u>\$22,129</u>	<u>\$28,021</u>

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The "Notes to Financial Statements" on page 35 are an integral part of this statement.

CANAL ZONE GOVERNMENT

STATEMENT OF OPERATIONS
FISCAL YEAR ENDED JUNE 30, 1970

	Operating Expenses				Recoveries (000 Omitted)	Net Cost of Operations Borne by Panama Canal Company (000 Omitted)
	Funded Costs	Accrued Depreciation	Other non- Fund Charges and Credits	Total		
CIVIL FUNCTIONS:						
Office of director.....	\$ 934	\$ 37	\$ 6	\$ 977	\$ -	\$ 977
Customs and immigration.....	789	2	2	793	41	752
Postal service.....	1,489	15	(1)	1,503	1,574	(71)
Police protection.....	4,210	63	546	4,819	26	4,793
Fire protection.....	1,704	44	232	1,981	1,106	875
Judicial systems.....	148	2	(6)	144	85	59
Education.....	12,722	700	1,124	14,546	9,742	4,804
Public areas and facilities.....	1,616	659	-	2,275	-	2,275
Library.....	289	1	-	290	7	283
Internal security.....	242	-	1	243	-	243
Civil defense.....	46	6	-	52	-	52
Licenses and other fees.....	81	-	2	83	221	(138)
	<u>24,270</u>	<u>1,539</u>	<u>1,906</u>	<u>27,706</u>	<u>12,802</u>	<u>14,904</u>
HEALTH AND SANITATION:						
Office of director.....	240	-	4	244	2	242
Hospitals and medical services:						
Gorgas hospital and clinics.....	8,473	346	72	8,891	4,898	3,993
Coco Solo hospital and clinics.....	2,860	85	44	2,989	1,401	1,588
Canal Zone mental health center.....	1,448	27	9	1,484	283	1,201
Palo Seco hospital.....	268	8	1	277	266	11
Other public health services:						
Sanitation.....	629	4	10	643	7	636
Garbage collection.....	237	-	-	237	-	237
Preventive medicine and quarantine.....	481	3	11	495	23	472
School health unit.....	114	-	-	114	-	114
Veterinarian services.....	304	3	5	312	119	193
Cemeteries, operation and maintenance.....	112	1	-	113	21	92
Dental clinics.....	321	6	(4)	323	165	158
Care of the dead.....	86	4	(1)	89	18	71
	<u>15,573</u>	<u>487</u>	<u>151</u>	<u>16,211</u>	<u>7,203</u>	<u>9,008</u>
GENERAL EXPENSES:						
Office of the Governor.....	235	-	2	237	6	231
Special adjustment in employees' accrued leave.....	-	-	-	-	-	-
Recruitment and repatriation.....	394	-	-	394	-	394
Employees' home leave travel.....	381	-	-	381	-	381
Transportation of employees' vehicles.....	86	-	-	86	-	86
Government buildings and sites.....	374	53	-	427	192	235
Relief payment to former employees.....	99	-	-	99	-	99
Net loss or (gain) on plant retirements.....	-	-	269	269	-	269
Net increase in accrued liability for employees' repatriation.....	-	-	77	77	-	77
Provision for potential liability in back pay litigation.....	-	-	873	873	-	873
Miscellaneous charges and credits.....	352	19	1	372	1	371
	<u>1,921</u>	<u>72</u>	<u>1,232</u>	<u>3,215</u>	<u>199</u>	<u>3,016</u>
Net Cost of Canal Zone Government payable by the Panama Canal Company for F.Y. 1970 (Schedule 7b)	<u>\$41,764</u>	<u>\$2,089</u>	<u>\$3,279</u>	<u>\$47,132</u>	<u>\$20,204</u>	<u>\$26,928</u>

The "Notes to Financial Statements" on page 35 are an integral part of this statement.

C A N A L Z O N E G O V E R N M E N T

COMPARATIVE STATEMENT OF FIXED ASSETS
JUNE 30, 1971 and 1970

	<u>Cost</u>	<u>1971 (000 Omitted)</u> Depreciation and valuation allowances	
PERMANENT TOWNSITES.....	\$ 7,630	\$ 4,049	\$
ROADS, STREETS, SIDEWALKS, STREET LIGHTING, SEWER SYSTEM AND PUBLIC AREAS AND FACILITIES:			
Roads, streets and sidewalks.....	14,853	9,029	1
Sewer system.....	6,826	2,938	1
Public areas and facilities.....	709	141	
Street lighting system.....	1,492	725	
Fire hydrant system.....	236	145	-
	<u>24,116</u>	<u>12,978</u>	<u>2</u>
SUPPORTING AND GENERAL FACILITIES:			
Health bureau.....	16,499	5,011	1
Schools division.....	30,406	7,013	3
General offices and other buildings.....	3,220	1,805	
Police division.....	806	407	
Postal service.....	473	115	
Customs and immigration.....	215	182	
Fire division.....	1,035	475	
Magistrates courts.....	-	-	
Miscellaneous equipment.....	2	-	
Experimental gardens.....	38	17	
License section.....	6	2	
Civil affairs director.....	-	-	
Civil defense - Youth activities.....	238	76	
Library section.....	24	8	
Internal security office.....	-	-	-
	<u>52,962</u>	<u>15,111</u>	<u>5</u>
PLANT ADDITIONS IN PROGRESS.....	<u>3,255</u>	-	-
FACILITIES HELD FOR FUTURE USE.....	<u>2,150</u>	<u>916</u>	-
TOTAL (Schedule 6).....	<u>\$90,113</u>	<u>\$33,054</u>	<u>\$8</u>

NOTES TO FINANCIAL STATEMENTS

1. Liabilities. The estimated potential liability arising from back pay litigation in the U. S. Court of Claims, in connection with tropical differential due married women, was understated by \$316,265 in fiscal year 1970. The liability was adjusted to reflect the most current estimate.

Additional accrued and long-term liabilities in the amounts of \$25,000 and \$402,000, respectively, were recognized in fiscal year 1971 to reflect the estimated cost of future payments of cash relief to widows as provided by Public Law 91-355 enacted on July 24, 1970. No provision has been made for future cost-of-living increases to Cash Relief Annuitants and widows.

2. Contingent and Other Liabilities. Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$1.1 million and \$1.3 million at June 30, 1971 and 1970, respectively. In addition, the Canal Zone Government is liable for an indeterminable amount with respect to death and disability payments under the Federal Employees' Compensation Act. The maximum liability which could result from outstanding claims and lawsuits is estimated at \$.8 million.

3. Net costs of Canal Zone Government. Under the terms of an inter-agency agreement, the Panama Canal Company provides certain general and administrative support to the Canal Zone Government. The cost of providing this support cannot be readily determined and is not reflected in the net cost of the Canal Zone Government. Prior to fiscal year 1968, the Company assessed the Canal Zone Government an arbitrarily determined amount of \$750,000 annually for this service.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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