United States General Accounting Office

GAO

Report to the Congress

July 1997

FINANCIAL AUDIT

Panama Canal Commission's 1996 and 1995 Financial Statements

GAO

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

Comptroller General
of the United States

B-272998

July 10, 1997

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

This report presents the results of our audits of the Panama Canal Commission's financial statements for the fiscal years ended September 30, 1996 and 1995, its assertion on internal controls, and its compliance with laws and regulations. The report also presents the results of our examination of the Commission's September 30, 1996, financial forecast that it will be in a position to meet its financial liabilities on December 31, 1999.

On October 1, 1979, the Commission was established as an executive agency to carry out the responsibilities of the United States with respect to the Panama Canal Treaty of 1977. In February 1996, the Panama Canal Amendments Act of 1995 (the 1995 Act)[1] reconstituted the Commission as a wholly-owned government corporation. The Commission will operate the Canal until the Treaty terminates on December 31, 1999, when the Republic of Panama will assume full responsibility for the Canal.

For fiscal year 1995, we were required by the Panama Canal Act of 1979 to conduct an annual audit of the Commission's financial statements. For fiscal year 1996, the Board of Directors requested that GAO perform the audit.[2] Our opinion states that the Panama Canal Commission's financial statements present fairly, in all material respects, its financial position as of September 30, 1996 and 1995, and the results of its operations, changes in capital, and cash flows for the years then ended, in conformity with generally accepted accounting principles.

In addition to auditing the financial statements of the Commission, we examined the Statement of Financial Viability as of September 30, 1996, in accordance with standards for an examination of a financial forecast established by the American Institute of Certified Public Accountants. Our opinion states that the underlying assumptions provide a reasonable basis for management's assertion that the Commission will be in a position to meet its financial liabilities on December 31, 1999. However, there is no

[1]Public Law 104-106, sec. 3522, 110 stat. 638 (1996).

[2]Section 3526 of the 1995 Act amended section 1313 of the Panama Canal Act of 1979 to authorize the Board of Directors, at its discretion, to direct the Commission to hire independent auditors to conduct the audit in lieu of the Comptroller General. In addition to conducting the audit of the Commission's financial statements, the auditor is to examine the Commission's forecast that it will be in a position to meet its financial liabilities on December 31, 1999.

assurance that the actual results will occur as forecasted. The ability to cover all liabilities existing now and at December 31, 1999, depends on (1) obtaining the budgeted levels of Canal operations and (2) future economic events.

Also, our opinion states that management's assertion is fairly stated that internal controls in effect on September 30, 1996, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected. Our 1996 tests for compliance with selected provisions of certain laws and regulations disclosed no reportable instances of noncompliance with laws and regulations for the provisions tested. Our audit was conducted in accordance with generally accepted government auditing standards.

The Commission operates as a rate-regulated utility. In fiscal year 1996, approximately 75 percent of its operating revenues were obtained from tolls and the remaining 25 percent, from nontoll revenues, such as navigation services and electric power sales. Early retirement, compensation benefits for work injuries, post-retirement medical care costs, and Office of Transition Administration costs are being funded from Canal revenues on an accelerated basis in order to be fully funded by 1999. During the period of these statements, the Commission was given the authority to prescribe the rules for measuring vessels and levying toll rates for the Panama Canal.[3] These rules and rates must establish the tolls at a level calculated to recover the costs of operating and maintaining the Canal. In order to continue to recover all costs and fund a number of modernization and improvement projects, the Commission's Board of Directors approved a toll rate increase in November 1996. This increase is in two phases—8.2 percent on January 1, 1997, with an additional increase of 7.5 percent on January 1, 1998. A tonnage measurement rate change to cover on-deck container capacity will also be implemented on July 1, 1997.

Regarding another transition related matter, the Commission recognized a $10 million liability for severance pay in fiscal year 1995. This liability was estimated based on a proposed rule by the Office of Personnel Management (OPM) that would amend the severance pay regulations applicable to the Commission. As discussed in note 10 to the financial statements, management believes the proposed rule will be issued in final in the near future. If the regulation is not issued as drafted, the total severance pay liability could be as much as $68 million.

[3]Sections 3527 and 3528 of the 1995 Act amended sections 1601 and 1604 of the Panama Canal Act of 1979, respectively, to authorize the Commission to prescribe the rules for measuring vessels and levying tolls for the Panama Canal.

Scheduled Termination of the Commission

As provided by the Panama Canal Treaty of 1977, the Panama Canal Commission will transfer the Panama Canal to the Republic of Panama on December 31, 1999. At that time, the Republic of Panama will assume full responsibility for the management, operation, and maintenance of the Canal.

As discussed in note 14, the Republic of Panama is in the process of establishing the entity that will assume control of the Canal on December 31, 1999. The entity will be known as the Panama Canal Authority.

The Treaty provides that the Canal be turned over in operating condition and free of liens and debts, except as the two parties may otherwise agree. As disclosed in the Statements of Financial Viability and in note 12 of the financial statements, as of September 30, 1996, the Commission forecasts that the present $71.5 million in unfunded liabilities should be recovered by tolls over the remaining life of the Treaty. The Commission assumes that all additional liabilities incurred between September 30, 1996, and December 31, 1999, will be funded from revenues earned during that time.

Analysis of the Commission's Financial Statements

The following is taken from management's analysis of the Commission's financial statements. The analysis generally explains the changes in major financial statement line items from fiscal years 1995 through 1996. Our opinions on these financial statements do not extend to the analysis presented below, and, accordingly, we express no opinion on this analysis. While we do not express an opinion on the analysis, we found no material inconsistencies with the financial statements taken as a whole.

Results of Operations

The Commission ended fiscal year 1996 with a net operating loss of $1.9 million, compared to a breakeven operation for fiscal year 1995. The net operating loss for 1996 was deferred as unearned costs to be recovered from subsequent revenues.

From fiscal years 1992 through 1996, toll and nontoll revenues increased an average of approximately 5.5 percent annually. Toll revenues increased to $486.7 million, up 5.2 percent from fiscal year 1995, due mainly to an increase in Canal traffic, principally larger vessels. Nontoll revenues, which consist primarily of navigation services and electric power sales, increased slightly to $165 million during fiscal year 1996, up less than 0.6 percent from fiscal year 1995.

During fiscal year 1996, no deductions from tolls revenue were made for working capital requirements because prior years deductions through fiscal year 1995 had substantially completed the financing of the Commission's storehouse and fuel inventories. The remaining balance to be funded is scheduled for collection before the termination of the Panama Canal Treaty of 1977.

The deduction from tolls revenue for contributions for capital expenditures decreased from $30.3 million in fiscal year 1995 to $24.0 million in fiscal year 1996. At fiscal year-end 1995, as directed by the Board of Directors, the Commission increased its capital contributions for capital expenditures by $8.3 million. The additional funding was necessary in order to provide for an increase in the Commission's 1995 capital program due to the acquisition of several unbudgeted major plant items. Fiscal year 1996 capital fund requirements did not require this level of funding.

A total of $2.0 million was deducted from tolls revenue in fiscal year 1996 to provide funding for the office that will close out the affairs of the Commission after the termination of the Panama Canal Treaty of 1977. No contributions were programmed in fiscal year 1995.

From fiscal years 1992 through 1996, total operating expenses increased an average of approximately 5.3 percent annually. Fiscal year 1996 total operating expenses increased to $627.2 million, up 7.0 percent over fiscal year 1995. The following were some of the highlights.

- Tonnage payments to the Republic of Panama increased $4.4 million or 5.5 percent in fiscal year 1996 due to an increase in the number of Panama Canal Universal Measurement System net tons passing through the Canal.
- Navigation service and control costs increased $8.0 million or 7.6 percent, due mainly to the cost of additional resources required to service the record traffic levels experienced in fiscal year 1996 as well as increased costs for contract tug assistance requirements.
- The increase in locks operation and maintenance costs of $19.4 million or 28.6 percent reflected the cost of additional crews required for the increased level of traffic, additional locks maintenance and repair projects, and increased costs for locks overhaul projects.
- Administrative and general costs increased 5.1 percent in fiscal year 1996. The increase was attributed principally to an increase in costs for advisory and assistance services related to treaty transition activities; employee incentive awards; and adjustments for minor items of property, originally

purchased with capital funds but later determined not to meet the Commission's capitalization criteria.

- Interest expense on the interest-bearing investment of the United States decreased $3.6 million or 83.6 percent in fiscal year 1996 primarily because the investment became fully amortized during the year. The larger average cash balances maintained by the Commission in its U. S. Treasury revolving fund account and lower interest rates also contributed to the decrease.

Assets, Liabilities, and Capital

By the end of fiscal year 1996, total assets of the Commission increased by 2.8 percent to $875 million, and total liabilities and reserves increased by 3.0 percent to $271 million. Capital increased by 2.7 percent to $604 million. The most significant changes in individual account balances by the end of fiscal year 1996 were the following.

- Property, plant, and equipment (excluding depreciation and valuation allowances) increased by a net $32.2 million to $1,174 million. This increase was due primarily to net capital expenditures of $50.2 million offset in part by certain retirements and the transfer of assets to the Republic of Panama and other U. S. Government agencies. Major capital additions to plant from capital expenditures included $14.1 million for the Gaillard Cut widening and straightening program; $13.1 million for the replacement and addition of floating equipment; $5.3 million for improvements to electric power, communication, and water systems; $4.6 million for the replacement and addition of miscellaneous equipment; $4.1 million for the replacement of motor vehicles; $3.6 million for the replacement and improvement of facilities and buildings; $3.0 million for the replacement and addition of tugboats; and $1.1 million for the replacement of launches and launch engines.
- Current assets increased by a net $35.4 million to $297 million due principally to an increase in cash. Cash increased by $36.9 million as a result of the net cash provided by operating activities exceeding the net cash used in investing activities.
- Deferred charges decreased by a net $21.2 million to $66 million. This was due principally to the amortization of deferred charges for early retirement, compensation benefits for work injuries, and post-retirement medical care costs. These decreases were offset in part by the recognition of the $5.0 million unfunded portion of the Office of Transition Administration costs and the $1.9 million of unrecovered costs from fiscal year 1996 operations.

- Liabilities and reserves increased by a net $8.0 million to $271 million primarily due to increases of $4.2 million in accounts payable, $4.2 million in the liability for employee's leave, $7.0 million for the recognition of the estimated cost for the Office of Transition Administration, $8.8 million in the reserve for lock overhauls, and $10.0 million for the establishment of a reserve for additional 1999 payroll costs. Offsetting these increases, in part, was the amortization of $28.1 million for various employee benefits.
- Capital increased by a net $15.7 million to $604 million, principally because of a $15.4 million net increase in capital contributions for capital expenditures being amortized.

Treaty Related Costs

The Panama Canal Act of 1979 requires that we include in our annual audit report to the Congress a statement listing (1) all direct and indirect costs incurred by the United States in implementing the 1977 Treaty, net of any savings, and (2) the cost of any property transferred to the Republic of Panama. The act also provides that direct appropriated costs of U.S. Government agencies should not exceed $666 million, adjusted for inflation over the life of the Treaty. As of September 30, 1996, the inflation-adjusted target was $1,408 million.

U.S. Government agencies that provided services to the former Panama Canal Company and Canal Zone Government provided the direct and indirect cost information including the cost of property transferred to the Republic of Panama as required under the 1977 Treaty. This information is presented in unaudited supplementary schedules to the Commission's financial statements, and, accordingly, we express no opinion on these schedules. From fiscal years 1980 through 1996, the net reported costs to the U.S. Government under the Treaty amounted to $865 million, which is less than the act's inflation-adjusted target.

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

Robert W. Gramling for

James F. Hinchman
Acting Comptroller General
of the United States

Contents

Abbreviations

FECA	Federal Employees' Compensation Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
GAAP	generally accepted accounting principles
OPM	Office of Personnel Management
PCA	Panama Canal Authority

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Accounting and Information
Management Division

B-272998

To the Board of Directors
Panama Canal Commission

In our audits of the Panama Canal Commission, we found

- the fiscal years 1996 and 1995 financial statements were reliable in all material respects;
- the underlying assumptions used to prepare the Statement of Financial Viability as of September 30, 1996, provide a reasonable basis for management's assertion that the Commission will be in a position to meet its financial liabilities on December 31, 1999;
- management fairly stated that internal controls in place on September 30, 1996, were effective in safeguarding assets from material loss, assuring material compliance with laws governing the use of budget authority and with selected provisions of other relevant laws and regulations, and assuring that there were no material misstatements in the financial statements; and
- there was no reportable noncompliance with the selected provisions of laws and regulations we tested for the fiscal year ended September 30, 1996.

Described below are significant matters considered in performing our audit and forming our conclusions.

Significant Matters

Estimated Severance Pay Liability

The Commission recognized a $10 million liability for estimated severance pay in fiscal year 1995. This liability was calculated based on a proposed amendment to the severance pay regulation issued by OPM and was unchanged as of September 30, 1996. As described in note 10 to the financial statements, OPM has not yet issued the amendment as a final regulation. Management believes the amendment will be issued in the near future. The total liability could be as much as $68 million if the severance pay regulation applicable to the Commission is not amended. This additional liability would require the Commission to reprogram its budgetary resources.

Liquidation of Liabilities

The Panama Canal Treaty requires that the Commission transfer the Canal to the Republic of Panama on December 31, 1999, free of liens and debts, except as the two parties may otherwise agree. To comply with this provision, the Commission is required to identify and fully fund its liabilities by that date. The Statement of Financial Viability and accompanying note 12 are presented in accordance with the American Institute of Certified Public Accountants standards for a partial presentation of a financial forecast, and are intended to demonstrate the Commission's status in funding its liabilities. As of September 30, 1996, the Commission had total liabilities and reserves of $271 million and total resources of $199 million. The Commission forecasted that the net difference of $72 million will be collected from future toll revenues over the remaining life of the Treaty. The Commission assumes that any additional liabilities incurred between September 30, 1996, and December 31, 1999, will be funded from revenues earned during that time.

Dissolution Costs of the Commission

During fiscal year 1996, the Commission completed a study to determine the costs associated with the dissolution of the Commission and, as a result, established the Panama Canal Commission Dissolution Fund as required by the Act. The Commission will establish the Office of Transition Administration, which will be responsible for managing the dissolution costs and liabilities. As discussed in note 8, the Commission estimated the liability for the costs of dissolution at $7 million and has deposited $2 million into the fund as of September 30, 1996. The Commission programmed the remaining $5 million to be collected from toll revenues before 1999. The Commission's estimate for the dissolution fund is based on the accomplishment of certain critical actions. These actions include (1) statutory and regulatory changes to limit the time frames for some activities that are necessary to close out the affairs of the Commission, (2) the use of successor agency personnel, and (3) outsourcing to other U.S. Government agencies. Management believes these actions will be accomplished. However, if these planned actions do not occur, management does not believe any additional costs will be significant. In addition to the Dissolution Fund, the Commission has begun funding both current and future liabilities as allowed by accounting principles for regulated industries.

In addition to the severance pay liability discussed above, in fiscal year 1996, the Commission funded the first $10 million of a total expected $30 million reserve for additional payroll costs anticipated in 1999. As discussed in note 11, Commission management believes that many employees will not take their normal leave during 1999 due to the anticipated lump sum payout of annual leave balances early in the year

2000. If employees do not use their accrued leave, additional payroll expense will be incurred. In order to normalize expenses, the Commission will fund the remaining $20 million reserve for this 1999 expense over a 2-year period and has programmed this reserve into its budgets.

The following sections provide our opinions on the Commission's financial statements, Statement of Financial Viability, assertion on internal controls, and our report on the Commission's compliance with laws and regulations we tested. This section also discusses the information presented in the Commission's unaudited supplemental schedules and the scope of our audit.

Opinion on Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Commission's

- assets, liabilities, and capital;
- operating revenue and expenses;
- changes in capital; and
- cash flows.

Opinion on Statement of Financial Viability

We have examined the accompanying Statement of Financial Viability as of September 30, 1996 (the forecasted statement). Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecasted statement.

To the best of management's knowledge and belief, resources from future operations will permit the funding of current and future liabilities by December 31, 1999, as shown on the forecasted statement. The forecasted statement is not intended to be a forecast of financial position, results of operations, or cash flows. The accompanying forecasted statement and this report are required by the Panama Canal Amendments Act of 1995 (Public Law 104-106) for the purpose of demonstrating that the Commission will be in a position to meet its financial liabilities on December 31, 1999, and should not be used for any other purpose.

In our opinion, the Statement of Financial Viability as of September 30, 1996, is presented in conformity with the guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecasted statement. However, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The Statement of Financial Viability as of September 30, 1995, is presented for comparative purposes. We did not examine this forecasted statement and, accordingly, express no opinion on the statement.

Opinion on Management's Assertion About the Effectiveness of Internal Controls

We evaluated management's assertion about the effectiveness of its internal controls designed to

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with laws governing the use of budget authority and with other selected provisions of laws and regulations that have a direct and material effect on the financial statements or that are listed in the Office of Management and Budget audit guidance and could have a material effect on the financial statements; and
- properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

Management of the Commission fairly stated that those controls in place on September 30, 1996, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected on a timely basis. Management made this assertion based on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Office of Management and Budget Circular A-123, Revised, June 21, 1995, Management Accountability and Control.

Compliance With Laws and Regulations

Our tests for compliance with selected provisions of certain laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards.

However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Unaudited Supplementary Information

The Treaty related cost schedules are presented as required by the Panama Canal Act of 1979, and the schedule of property, plant, and equipment is presented for purposes of additional analysis. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on these schedules. While we do not express an opinion on the detailed schedule of property, plant, and equipment, we found no material inconsistencies with the financial statements taken as a whole.

Objectives, Scope, and Methodology

Management is responsible for

- preparing the annual financial statements in conformity with generally accepted accounting principles;
- preparing the Statement of Financial Viability in accordance with the American Institute of Certified Public Accountants standards for a partial presentation of prospective financial information;
- establishing, maintaining, and assessing the internal control structure to provide reasonable assurance that the broad control objectives of FMFIA are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are reliable (free of material misstatement and presented fairly, in all material respects, in conformity with generally accepted accounting principles), (2) management's assertion that the assumptions underlying the Statement of Financial Viability provide a reasonable basis for the forecasted statement, and (3) management's assertion about the effectiveness of internal controls is fairly stated, in all material respects, based on criteria established under FMFIA and the Office of Management and Budget Circular A-123, Revised, June 21, 1995, Management Accountability and Control. We are also responsible for testing compliance with selected provisions of certain laws and regulations and for performing limited procedures with respect to unaudited supplementary information appearing in this report.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the Statement of Financial Viability;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements and the Statement of Financial Viability;
- examined, on a test basis, evidence supporting the assumptions used in the preparation of the Statement of Financial Viability;
- obtained an understanding of the internal control structure related to safeguarding of assets, compliance with laws and regulations, and financial reporting;
- tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls;
- tested compliance with selected provisions of the following laws and regulations:
  - Panama Canal Act of 1979,
  - Panama Canal Commission Authorization Act for Fiscal Year 1996,
  - Panama Canal Amendments Act of 1995,
  - Antideficiency Act,
  - Prompt Payment Act,
  - Civil Service Reform Act of 1978, as amended,
  - Fair Labor Standards Act, and
  - Law relating to severance pay and implementing regulations;
- considered compliance with the process required by FMFIA for evaluating and reporting on internal control and accounting systems;
- prepared treaty related costs schedules using unaudited information obtained from other federal agencies; and
- compared the unaudited detailed schedule of property, plant, and equipment for consistency with the information presented in the financial statements.

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

We did our work in accordance with generally accepted government auditing standards.

Commission Comments

In commenting on a draft of this report, Commission management concurred with the facts and conclusions in our report.

Robert W. Gramling
Director, Corporate Audits
and Standards

January 24, 1997, except for
note 14, as to which the date
is June 11, 1997

Financial Statements

Statements of Financial Position

September 30, 1996 and 1995
(Dollars in thousands)

ASSETS	1996	1995
PROPERTY, PLANT, AND EQUIPMENT:		
At cost	$1,173,620	$1,141,403
Less accumulated depreciation and valuation allowances	662,021	639,349
	511,599	502,054
CURRENT ASSETS:		
Cash	254,414	217,479
Accounts receivable	10,180	13,726
Inventories:		
Storehouse, less allowances for obsolete and excess inventories of $5,200 each year	30,335	28,765
Fuel	2,208	1,778
	297,137	261,748
DEFERRED CHARGES:		
Early retirement benefits	45,432	60,576
Compensation benefits for work injuries	7,700	18,087
Post-retirement medical care costs	6,000	8,600
Office of Transition Administration costs	5,000	-
Costs to be recovered due from subsequent revenues	1,911	-
	66,043	87,263
	363,180	349,011
TOTAL ASSETS	$ 874,779	$ 851,065

The accompanying notes are an integral part of these statements.

September 30, 1996 and 1995
(Dollars in thousands)

CAPITAL AND LIABILITIES	1996	1995
CAPITAL:		
Investment of the United States Government:		
Paid-in capital	$244,512	$244,204
Other capital	226,769	226,771
	471,281	470,975
Capital Contributions:		
Working capital	19,000	19,000
Capital expenditures, being amortized	113,815	98,412
	132,815	117,412
	604,096	588,387
LIABILITIES AND RESERVES:		
Accounts Payable:		
Commercial vendors and other	21,861	19,408
U.S. Government agencies	4,110	2,843
Republic of Panama	14,089	13,634
	40,060	35,885
Accrued Liabilities:		
Employees' leave	70,147	65,905
Salaries and wages	7,597	6,252
Employees' repatriation	6,609	7,111
Marine accident claims	19,604	17,304
Other	1,231	3,062
	105,188	99,634
Estimated Liabilities:		
Early retirement benefits	45,432	60,576
Compensation benefits for work injuries	7,700	18,087
Post-retirement medical care costs	18,650	21,000
Retirement benefits to certain former employees	3,700	3,897
Severance pay	10,000	10,000
Office of Transition Administration costs	7,000	-
	92,482	113,560
Reserves:		
Lock overhauls	12,976	4,127
Additional 1999 payroll costs	10,000	-
Marine accidents and casualty losses	8,000	8,000
Floating equipment overhauls	1,977	1,472
	32,953	13,599
	270,683	262,678
TOTAL CAPITAL AND LIABILITIES	$874,779	$851,065

The accompanying notes are an integral part of these statements.

Statements of Operations

Fiscal Years Ended September 30, 1996 and 1995
(Dollars in thousands)

	1996	1995
OPERATING REVENUES:		
Tolls revenue	$486,688	$462,754
Less contributions for:		
- Working capital	-	(10,000)
- Capital expenditures	(24,000)	(30,280)
- Dissolution fund	(2,000)	-
Net tolls revenue	460,688	422,474
Other revenues	164,617	163,681
Total operating revenues	625,305	586,155
OPERATING EXPENSES:		
Payments to Republic of Panama:		
Public services	10,000	10,000
Fixed annuity	10,000	10,000
Tonnage	84,594	80,189
	104,594	100,189
Maintenance of channels, dams, and spillways	46,047	41,915
Navigation service and control	113,420	105,388
Locks operation and maintenance	87,044	67,667
General repair, engineering, and maintenance services	33,026	29,483
Supply and transportation services	21,665	19,393
Utilities	34,586	37,117
Administrative and general	101,842	96,868
Depreciation	31,551	31,455
Fire and facility protection	16,144	15,555
Interest on interest-bearing investment, net	712	4,347
Other	36,585	36,778
Total operating expenses	627,216	586,155
Net Operating Revenue (loss)	(1,911)	-
NET UNEARNED COSTS TO BE RECOVERED FROM SUBSEQUENT REVENUES	$ (1,911)	$ -

The accompanying notes are an integral part of these statements.

Statements of Changes in Capital

Fiscal Years Ended September 30, 1995 and 1996
(Dollars in thousands)

1995	Investment of U.S. Government: Paid-in Capital	Investment of U.S. Government: Other Capital	Capital Contributions	Total
CAPITAL AT OCTOBER 1, 1994	$244,480	$226,771	$85,981	$557,232
CHANGES IN CAPITAL:				
Property transferred to Republic of Panama	(273)	-	-	(273)
Property transferred to other U.S. Government agencies	(112)	-	-	(112)
Property transferred from other U.S. Government agencies	109	-	-	109
Working capital contributions	-	-	10,000	10,000
Capital expenditure contributions, being amortized	-	-	21,431	21,431
	(276)	-	31,431	31,155
CAPITAL AT SEPTEMBER 30, 1995	$244,204	$226,771	$117,412	$588,387

1996	Investment of U.S. Government: Paid-in Capital	Investment of U.S. Government: Other Capital	Capital Contributions	Total
CAPITAL AT OCTOBER 1, 1995	$244,204	$226,771	$117,412	$588,387
CHANGES IN CAPITAL:				
Net change in undeposited receipts	-	(2)	-	(2)
Property transferred to Republic of Panama	(556)	-	-	(556)
Property transferred to other U.S. Government agencies	(61)	-	-	(61)
Property transferred from other U.S. Government agencies	925	-	-	925
Capital expenditure contributions, being amortized	-	-	15,403	15,403
	308	(2)	15,403	15,709
CAPITAL AT SEPTEMBER 30, 1996	$244,512	$226,769	$132,815	$604,096

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

Fiscal Years Ended September 30, 1996 and 1995
(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	1996	1995
Net operating revenue (loss)	$ (1,911)	$ -
Working capital contributions	-	10,000
Adjustments to reconcile net revenue to net cash provided by operating activities:		
Depreciation	31,551	31,455
Net change in reserves and other	20,401	715
Changes in operating assets:		
Decrease/(Increase) in accounts receivable	3,546	(4,632)
Increase in inventories	(2,000)	(2,677)
Decrease in deferred charges	23,130	25,837
	24,676	18,528
Changes in operating liabilities:		
Increase in employees' leave	4,242	3,287
Decrease in estimated liabilities	(21,078)	(16,366)
Increase in all other liabilities	5,274	7,582
	(11,562)	(5,497)
Net change in operating assets and liabilities	13,114	13,031
Net cash provided by operating activities	63,155	55,201
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital contributions	24,000	30,280
Capital expenditures	(50,220)	(38,675)
Net cash used in investing activities	(26,220)	(8,395)
Net increase in cash	36,935	46,806
Cash, beginning of year	217,479	170,673
CASH, END OF YEAR	$254,414	$217,479
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during year for interest	$ 524	$ 4,372

The accompanying notes are an integral part of these statements.

Statements of Financial Viability

September 30, 1996 and 1995
(Dollars in thousands)

LIABILITIES AND RESERVES:	1996	(Unaudited) 1995
Accounts payable	$ 40,060	$ 35,885
Accrued liabilities	105,188	99,634
Estimated liabilities	92,482	113,560
Reserves	32,953	13,599
Total Liabilities and Reserves	270,683	262,678
RESOURCES:		
Cash	254,414	217,479
Accounts receivables	10,180	13,726
Less: Cash collected for capital commitments but not yet expended	(65,366)	(59,199)
Total Resources	199,228	172,006
LIABILITIES TO BE FUNDED FROM FUTURE RESOURCES	71,455	90,672
PROGRAMMED RESOURCES FROM FUTURE OPERATIONS:		
Cash to be collected for deferred charges	64,132	87,263
Cash due from subsequent revenues	1,911	-
Total programmed resources from future operations	66,043	87,263
WORKING CAPITAL DEFICIENCY	5,412	3,409
PROGRAMMED RESOURCES FROM FUTURE OPERATIONS FOR WORKING CAPITAL DEFICIENCY	5,412	3,409
	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

A summary of significant accounting policies follows:

a. ACCOUNTING AND REPORTING. The accounts of the Commission are maintained in accordance with generally accepted accounting principles (GAAP) and follow STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 71, "Accounting for the Effects of Certain Types of Regulation."

In fiscal year 1996, the Commission adopted the provisions of Statement of Position 94-6, "Disclosure of Certain Significant Risks and Uncertainties." This accounting standard increases the financial statement disclosure requirements of entities such as the Commission. Preparing the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates.

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

> "Tolls shall be prescribed at rates calculated to produce revenues to cover as nearly as practicable all costs of maintaining and operating the Panama Canal (including costs authorized to be paid from the Panama Canal Dissolution Fund under section 1305(c)), together with the facilities and appurtenances related thereto, including unrecovered costs incurred on or after the effective date of this Act [October 1, 1979], interest, depreciation, working capital, payments to the Republic of Panama pursuant to paragraph 5 of Article III and paragraph 4(a) and (b) of Article XIII of the Panama Canal Treaty of 1977, and capital for plant replacement, expansion, and improvements. Tolls shall not be prescribed at rates calculated to produce revenues sufficient to cover payments to the Republic of Panama pursuant to paragraph 4(c) of Article XIII of the Panama Canal Treaty of 1977."

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

c. PROPERTY, PLANT, AND EQUIPMENT. Property, plant, and equipment are recorded at cost. The cost of minor items of property, plant, and equipment is charged to expense as incurred. Administrative and other related general expenses are recovered currently and not capitalized.

In fiscal year 1995, the Commission increased its capitalization limit from $1,500 to $5,000. This change in the capitalization limit increased the charge to expense for minor items acquired in fiscal year 1995 by approximately $1.7 million.

Depreciation of Commission property, plant, and equipment is provided using the straight-line method over the estimated service lives of the depreciable assets. Composite depreciation is provided for premature plant retirements and adjustments to service lives of certain assets. In fiscal years 1996 and 1995, the Commission revised the estimate of useful service lives for certain assets based on studies performed during each year. These adjustments to estimated service lives increased depreciation expense in fiscal year 1996 by $3.4 million and in fiscal year 1995 by $6.0 million.

Recurring costs of dredging the waterway are charged to expense. Nonrecurring dredging costs for substantial improvements and betterments to the waterway are capitalized and depreciated over their estimated service lives.

d. CONTRIBUTIONS FOR CAPITAL EXPENDITURES. The Board of Directors may program a portion of tolls revenue to provide financing for plant replacement, expansion, or improvements. Such funds from Canal users are accounted for as contributions for capital expenditures. Upon utilization, these contributions are amortized by an offset to depreciation expense in an amount calculated to approximate the depreciation on assets acquired with such contributions. Contributions for capital expenditures were $24 million in fiscal year 1996 and $30.3 million in fiscal year 1995.

In fiscal year 1992, the Commission revised prospectively the estimated service lives used for the amortization of capital contributions to 20 years. In fiscal year 1995, the Commission adjusted the amortization period of capital contributions used for the acquisition of assets prior to fiscal year 1992 to the 20-year life adopted in 1992. This adjustment reduced depreciation expense in fiscal year 1995 by $2.8 million.

e. CONTRIBUTIONS FOR WORKING CAPITAL. The Board of Directors may program a portion of tolls revenue as contributions for working capital. Such funds are used primarily to finance materials and supplies and fuel inventories. Contributions for working capital were $10.0 million in fiscal year 1995. No amount was programmed for fiscal year 1996.

f. CONTRIBUTIONS FOR DISSOLUTION FUND. Section 1305 of the Act authorizes the Commission to program a portion of tolls revenue to provide financing for an office (Office of Transition Administration) to close out the affairs of the Commission that are pending at the termination of the Panama Canal Treaty of 1977. In fiscal year 1996, $2.0 million was set aside for this purpose. No funds were programmed in fiscal year 1995.

g. ACCOUNTS RECEIVABLE. Uncollectible accounts are recognized as a reduction in revenue when written off.

h. INVENTORIES. Operating materials and supplies are stated at average cost, plus cost of transportation. Allowances are provided for the estimated cost of obsolete and excess stock.

i. RETIREMENT BENEFITS. Employer contributions to the United States Civil Service Retirement System, the Federal Employee Retirement System, and the Republic of Panama Social Security System are charged to expense when paid. The Commission has no liability for future payments to employees under these systems.

As required by the Act, the Commission is liable for the increase in the unfunded liability of the United States Civil Service Retirement Fund for benefits payable to employees and their survivors under the early retirement provisions of the Act. The deferred charge and liability recorded in these statements reflect the payments due to the Office of Personnel Management over the life of the Treaty. The annual installment of $15.1 million to liquidate the increased liability is determined by the Office of Personnel Management. The gross amount to be recovered from tolls over the remaining life of the Treaty was $60.6 million and $45.4 million as of September 30, 1995 and 1996, respectively.

Non-United States citizen employees, who retired from predecessor agencies prior to October 5, 1958, receive benefits under a separate annuity plan. The liability for future annuity payments is reflected in the Statement of Financial Position as "Retirement benefits to certain former employees."

j. POST-RETIREMENT MEDICAL CARE COSTS. The liability for future post-retirement medical care costs is reflected in the Statement of Financial Position as "Post-retirement medical care costs" and the amount to be recovered over the remaining life of the Treaty is reported as a deferred charge. The costs of benefits for the post 1999 period were recognized in fiscal years 1993 and 1994. The costs for benefits prior to the year 2000 are recognized as payments are made. The charge to operating expenses for these benefits was $2.4 million in fiscal year 1996 and $2.3 million in fiscal year 1995.

k. RESERVES. Reserves required to normalize expenses for incorporation in the tolls process are provided for through annual charges to operations. These reserves cover such irregular costs as lock overhauls; floating equipment overhauls; probable losses from marine accidents, fire, damages other than fire, public liability, and other casualties; and additional payroll costs expected to be incurred in 1999.

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 Treaty. The cost to manage, maintain, and provide livability improvements to these quarters is charged to expense. Rental income is included in other revenues.

2. SUBSEQUENT EVENT: TOLL RATE INCREASE

On November 22, 1996, the Commission's Board of Directors approved a two-phase toll rate increase--8.2 percent on January 1, 1997, with an additional increase of 7.5 percent effective January 1, 1998. A tonnage measurement rate change to cover on-deck container capacity will also be implemented effective July 1, 1997. Record breaking traffic levels are rapidly approaching the Canal's existing operating capacity and major capital improvements are required to meet the Commission's commitment to quality service. The toll rate increase is required to fund a number of modernization and improvement programs, including the acceleration of the Gaillard Cut widening project, additions to the tugboat fleet, procurement of additional locomotives, modernization of the traffic control system, hydraulic conversion of miter gates and rising stem valve machinery, and automation of locks machinery controls.

3. BUDGETARY RESOURCES.

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

b. The Commission has authority to borrow funds from the U.S. Treasury up to $100.0 million. No funds were borrowed during fiscal years 1996 and 1995, and no balance was outstanding from prior years.

4. CASH.

The components of the cash balance at September 30, 1996 and 1995 were: (dollars in thousands)

	1996	1995
Cash:		
Panama Canal Revolving Fund	$251,847	$216,596
Panama Canal Dissolution Fund	2,000	-
Trust account	567	883
Total cash balance	$254,414	$217,479

5. UNRECOVERED COSTS DUE FROM SUBSEQUENT REVENUES.

The $1.9 million net loss from fiscal year 1996 operations was deferred as unearned costs to be recovered from revenues of subsequent years.

6. ALLOWANCES FOR OBSOLETE AND EXCESS STOCK.

The allowances for obsolete and excess stock provide for (1) the specific disposal of individual inventory items likely to occur and (2) the systematic cost recognition for spare parts retained for possible use, but whose actual use most often does not occur. These allowances are evaluated on an annual basis. Based on the evaluations for fiscal years 1996 and 1995, the allowance for excess stock was adjusted to $4.2 million and the allowance for obsolete stock remained at $1.0 million each fiscal year.

7. COMPENSATION BENEFITS FOR WORK INJURIES.

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

The liability and deferred charge recorded in these statements reflect the payments due to a Department of Labor fund established pursuant to Public Law 100-705. The Department of Labor will be reimbursed from this fund for all expected future payments for accidents. The fund is adjusted for inflation and interest earned. The gross amount to be recovered from tolls over the remaining life of the Treaty to fund this liability was $7.7 million in fiscal year 1996 and $18.1 million in fiscal year 1995. The reduction in the liability from fiscal year 1995 to fiscal year 1996 was attributable to $7.7 million in payments in 1996 and a $2.7 million adjustment in the current estimate for this liability.

8. OFFICE OF TRANSITION ADMINISTRATION.

Section 1305 of the Act directs the Commission to establish an office to close out the affairs of the Panama Canal Commission that are still pending at the termination of the Panama Canal Treaty of 1977. This office is to be known as the Office of Transition Administration.

Section 1305 further directs that the Commission conducts, for submission to the Congress, a study to determine the costs associated with this office, including its composition, location, and time needed to complete its responsibilities. The study has been completed and presentation has been made to the Congress.

Estimates, which are subject to ongoing review, set the costs of the Office of Transition Administration at $7.0 million. In fiscal year 1996, $2.0 million of these costs were recovered from tolls and set aside in the Dissolution Fund with the balance to be recovered over the remaining life of the Treaty. To recognize the $5.0 million yet to be recovered, a deferred charge and estimated liability have been set up in the Statements of Financial Position as "Office of Transition Administration Costs." Also, these costs have been included in the Statements of Financial Viability.

The assumptions underlying the estimate are dependent on the accomplishment of certain critical actions, such as statutory and regulatory changes, use of the successor agency personnel, and outsourcing to other United States Government agencies. Management believes that these actions will be accomplished. However, if these planned actions do not occur, management does not believe any additional costs would have a material adverse effect on the financial position of the Commission.

9. INTEREST EXPENSE.

Pursuant to section 1603(d) of the Act, the Commission is required to pay interest on the investment of the United States in the Panama Canal. Interest is computed at a rate determined by the Secretary of the Treasury and is payable to the U.S. Treasury. The interest rates for fiscal years 1996 and 1995 were 9.182 percent and 9.266 percent, respectively.

The investment base for calculation of interest is defined in sections 1603(a) of the Act. The amortization of the investment base is defined in sections 1603(b) and (c) of the Act. The investment base has been reduced by the net positive cash flow of the Canal, the value of property transferred to the Republic of Panama, and net transfers to other United States government agencies. Since the investment became fully amortized during fiscal year 1996, the Commission will no longer accrue an interest payable to the United States Government.

Interest expense reported in the Statements of Operations was $0.7 million and $4.3 million for fiscal years 1996 and 1995, respectively.

10. SEVERANCE PAY.

In fiscal year 1995, the Commission recognized a $10.0 million liability for severance pay based upon an Office of Personnel Management (OPM) proposed rule that would amend its severance pay regulations, 5 C.F.R. 550.701 through 550.713 (1996). OPM's proposed rule establishes eligibility criteria for Commission employees' entitlement to severance pay when operation and maintenance of the Canal is transferred from the Commission to the Republic of Panama. 60 Fed. Reg. 35342 (July 7, 1995). In fiscal year 1996, the Commission's estimated severance pay liability remained at $10 million. However, since the number or the mix of affected employees might change, the Commission will continue to reevaluate the estimate.

As of September 30, 1996, OPM had not issued a final rule to amend its severance pay regulations as proposed in 1995. Management believes that the proposed regulation will be issued in final in the near future. If the amended regulation is not issued, the estimated liability could be as much as $68 million.

11. RESERVE FOR ADDITIONAL 1999 PAYROLL COSTS.

Commission management anticipates that many employees will not take their normal leave during 1999 but will take a lump sum cash payout of their accumulated leave balances early in the year 2000. When employees take leave, this decreases the annual payroll expense since leave is accrued when earned. However, if employees do not take leave, both payroll and leave expenses will be incurred. To account for this situation, the Commission established a reserve of $10 million in 1996. In order to normalize expenses, the Commission expects to increase the reserve over the next 2 years to $30 million. Management believes that this reserve will be adequate to cover the additional payroll expense in the year 1999.

12. LIQUIDATION OF LIABILITIES.

As part of the Treaty, the Commission will transfer the Panama Canal property, plant, equipment, and inventory to the Republic of Panama on December 31, 1999. The Treaty requires that the Canal be in operating condition and free of liens and debts, except as the two Parties may otherwise agree. As a result, the Commission is required to identify and fully fund all liabilities by that date.

The Statements of Financial Viability, as of September 30, 1996 and 1995, forecast the Commission's ability to liquidate all currently identified liabilities by December 31, 1999. The liabilities, reserves, and resources shown on the statements are those existing at fiscal year-end.

Management uses several key assumptions in the preparation of the forecasted statements. Management assumes that all costs of operations and maintenance and all changes to existing liabilities incurred between now and December 31, 1999, will be covered by revenues earned during that period. Management also assumes that the toll revenues forecasted through the use of the Commission's computer forecasting model will be attainable. The forecasting model is based on information gathered from an econometric model of ocean trade forecasting, the Commission's ship data bank, contracted forecasting services, and regular interviews with shipping representatives. Management's considerations regarding toll revenues included world economic performance, seaborne trade, and past historical data.

In fiscal year 1996, the $66.0 million programmed resources from future operations and the $5.4 million working capital deficiency are forecasted to be recovered from tolls over the remaining life of the Treaty. The working capital deficiency relates to the financing of the storehouse and fuel inventories. The collection of these programmed resources has been included in the Commission's budget forecasts.

Based upon the past operating results of the Commission and the assumptions underlying the budget forecasts, management believes that the collection of these programmed resources and working capital deficiency is reasonably attainable. However, management recognizes that there can be differences between forecasted and actual results because events and circumstances frequently do not occur as expected. Even so, it is the opinion of management that the funding of these expenditures will be accomplished as directed by the Treaty.

13. CONTINGENT LIABILITIES AND COMMITMENTS.

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

b. Commitments under uncompleted construction contracts and unfilled purchase orders amounted to $77.9 million at September 30, 1996, and $34.8 million at September 30, 1995.

c. Cash equivalents and negotiable securities held by U.S. depositories for the Commission to guarantee payment by third parties of their obligations were $19.4 million at September 30, 1996, and $18.0 million at September 30, 1995.

d. The Treaty provides that an annual amount of up to $10.0 million per year be paid to the Republic of Panama out of operating revenues to the extent that such revenues exceed operating expenses. If the operating revenues in any year do not produce a surplus sufficient to cover this payment, the unpaid balance shall be paid from operating surpluses in future years. The balance contingently payable to the Republic of Panama amounted to $159.1 million at September 30, 1996, and $149.1 million at September 30, 1995. However, as set forth in the Treaty and in the Act, nothing shall be construed as obligating the United States Government to pay, after the date of termination of the Treaty, any unpaid balance accumulated before such date.

14. SUBSEQUENT EVENT: PASSAGE OF REPUBLIC OF PANAMA ORGANIC LEGISLATION

On May 14, 1997, the Republic of Panama Legislative Assembly passed a bill to create the Panama Canal Authority (PCA). The bill was signed into law by the President of the Republic of Panama on June 11, 1997. PCA will operate the Canal after December 31, 1999. This organic law creates the basic legal framework under which PCA will operate and envisions the adoption of a comprehensive set of additional regulations to cover operational and administrative matters in greater detail.

Supplementary Information (Unaudited)

Schedules of Treaty Related Costs

Department of Defense (DOD) Costs (Savings) Through Fiscal Year 1996

Agency	Cumulative Costs 9/30/95[1]	FY 96 Activity	Cumulative Costs 9/30/96
U.S. Army			
Base Operations	$249,166,401	$16,637,552	$265,803,953
Communications	50,351,884	5,290,266	55,642,150
Commissary	10,067,362	136,500	10,203,862
Transportation	2,926,158	6,288	2,932,446
Technical Assistance	360,240	0	360,240
Health Services	238,502,576	18,039,623	256,542,199
Disposition of Remains	6,273,681	311,040	6,584,721
Criminal Investigations	1,559,711	170,554	1,730,265
Tropical Test Center	35,408	0	35,408
Procurement of Equipment	3,046,789	0	3,046,789
Military Construction*	65,700,661	5,750,000	71,450,661
Military Pay	126,253,620	488,715	126,742,335
Ports	165,868	0	165,868
Family Housing Operation	19,007,681	274,039	19,281,720
Executive Agent Costs	27,029,152	0	27,029,152
Total U.S. Army	800,447,192	47,104,577	847,551,769
U.S. Air Force	51,782,503	5,886,200	57,668,703
U.S. Navy	4,110,137	866,300	4,976,437
DOD Dependent Schools*	38,123,000	0	38,123,000
Defense Mapping Agency	1,158,764	0	1,158,764
Total DOD	$895,621,596	$53,857,077	$949,478,673

*Obligations incurred rather than actual expenditures.

[1]Includes prior year adjustments

Non-DOD Costs (Savings) Through Fiscal Year 1996

Agency	Cumulative Costs 9/30/95[2]	FY 96 Activity	Cumulative Costs 9/30/96
State Department	($ 26,529,103)	($ 1,785,578)	$ 28,314,681)
Federal Aviation Administration	(61,972,883)	(4,251,300)	(66,224,183)
American Battle Monuments Commission	4,931,234	266,000	5,197,234
Panama Canal Commission	300,000	0	300,000
General Accounting Office	3,290,058	307,323	3,597,381
Smithsonian Tropical Research Institute	7,405,130	736,960	8,142,090
Gorgas Memorial Laboratory	(257,351)	0	(257,351)
Canal Area Court System			
U.S. Attorney	(1,830,731)	(170,528)	(2,001,259)
U.S. Marshal	(851,073)	(70,254)	(921,327)
Clerk of Court	(7,980,945)	627,755)	(8,608,700)
Bureau of Prisons	2,846,314	54,295	2,900,609
Foreign Broadcast Information System	1,042,090	178,715	1,220,805
National Oceanic & Atmospheric Administration	78,679	0	78,679
Total Non-DOD	($ 79,528,581)	($ 5,362,122)	($ 84,890,703)
Total DOD	895,621,596	53,857,077	949,478,673
Total DOD and Non-DOD	$816,093,015	$48,494,955	$864,587,970

[2]Includes prior year adjustments.

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

Agency	Cumulative Transfers 9/30/95	FY 96 Transfers	Cumulative Transfers 9/30/96
Department of Defense			
U.S. Army	$111,299,088	$50,900,000	$162,199,088
U.S. Navy	12,530,769	11,900,000	24,430,769
U.S. Air Force	284,874	0	284,874
Total DOD	124,114,731	62,800,000	186,914,731
Federal Aviation Administration	4,638,360	0	4,638,360
Total	$128,753,091	$62,800,000	$191,553,091

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

Agency	Acquisition Costs: Cumulative Transfers 9/30/95	FY 96 Transfers	Cumulative Transfers 9/30/96
Canal Zone Government and Panama Canal Company	$168,317,629	0	$168,317,629
Panama Canal Commission	36,223,711	1,697,094	37,920,805
Total	$204,541,340	$1,697,094	$206,238,434

Agency	Net Book Value: Cumulative Transfers 9/30/95	FY 96 Transfers	Cumulative Transfers 9/30/96
Canal Zone Government and Panama Canal Company	$84,886,222	0	$84,886,222
Panama Canal Commission	11,373,633	555,833	11,929,466
Total	$96,259,855	$555,833	$96,815,688

Schedule of Property, Plant, and Equipment

September 30, 1996 and 1995
(Dollars in Thousands)

		1996		1995	
	Estimated Service Life	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
Titles and treaty rights	26 yrs.	$ 14,729	$ 10,455	$ 14,729	$ 9,140
Interest during construction	-	50,892	50,892	50,892	50,892
Canal excavation, fills and embankments	15-100 yrs.	365,905	202,485	364,401	192,669
Canal structures and equipment	4-100 yrs.	454,876	229,647	441,566	215,804
Supporting and general facilities	3-100 yrs.	202,150	127,035	205,012	128,969
Facilities held for future use	15-100 yrs.	1,582	1,368	2,043	1,729
Plant additions in progress	-	43,347	-	22,614	-
Suspended construction projects	-	40,139	40,139	40,146	40,146
TOTAL		$1,173,620	$662,021	$1,141,403	$639,349

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