United States General Accounting Office

GAO

Report to the Congress

March 1994

FINANCIAL AUDIT

Panama Canal Commission's 1993 and 1992 Financial Statements

GAO/AIMD-94-89

GAO

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

Comptroller General
of the United States

B-114839

March 31, 1994

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

This report presents the results of our audits of the Panama Canal Commission's financial statements for the years ended September 30, 1993 and 1992, its internal controls, and its compliance with laws and regulations.

The Commission is a federal executive agency that was established on October 1, 1979, to carry out the responsibilities of the United States with respect to the Panama Canal Treaty of 1977. The Commission will operate the Canal until the Treaty terminates on December 31, 1999, when the Republic of Panama will assume full responsibility for the Canal.

We are required by the Panama Canal Act of 1979 to conduct an annual audit of the Commission's financial statements. In our opinion, the Panama Canal Commission's financial statements present fairly, in all material respects, its financial position as of September 30, 1993 and 1992, and the results of its operations, changes in capital, and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Also, in our opinion, internal controls in effect on September 30, 1993, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected. Our 1993 tests for compliance with the provisions of selected laws and regulations disclosed no material instances of noncompliance, and nothing came to our attention in the course of our work to indicate that material noncompliance with such provisions occurred. Our audit was conducted in accordance with generally accepted government auditing standards.

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

Scheduled Termination of the Commission

As provided by the Panama Canal Treaty of 1977, the Panama Canal Commission will terminate on December 31, 1999, when the Republic of Panama will assume full responsibility for the management, operation, and maintenance of the Panama Canal. The Treaty provides that the Canal be turned over in operating condition and free of liens and debts, except as the two parties may otherwise agree. As discussed in note 7 to the financial statements, as of September 30, 1993, the Commission estimates that the present $175 million in obligations will be recovered from future operations. The achievement of this forecast is dependent upon (1) obtaining the budgeted levels of Canal operations and (2) future economic events.

The Commission operates as a rate-regulated utility, and in fiscal year 1993 approximately 74 percent of its revenues were obtained from tolls and the remaining 26 percent, from nontoll revenues, such as navigation services and electric power sales. Early retirement, worker injury compensation benefit costs, and postretirement medical care costs are being funded from Canal revenues on an accelerated basis in order to be fully funded by 1999. The President of the United States serves as the rate regulator for tolls, which are established at a level to recover the costs of operating and maintaining the Canal.

Results of Operations

The Commission ended fiscal year 1993 with net operating revenue of $3.0 million, compared to the net operating loss of $3.6 million for fiscal year 1992. When the fiscal year 1993 net operating revenue is applied to the 1992 outstanding unrecovered costs, a $0.6 million balance is left to be recovered from subsequent revenues.

From fiscal years 1989 through 1993, toll and nontoll revenues increased an average of 4.9 percent annually. Fiscal year 1993 total operating revenues increased to $527 million, up 4.2 percent from fiscal year 1992. Even though the 1993 Canal traffic was less than in 1992, the increase occurred because a 9.9 percent toll increase went into effect on October 1, 1992. Nontoll revenues, which consist primarily of navigation services and electric power sales, increased to $141 million during fiscal year 1993, up 1.4 percent from fiscal year 1992.

From fiscal years 1989 through 1993, total operating expenses increased an average of 4.3 percent annually. Fiscal year 1993 total operating expenses increased to $524 million, up 2.9 percent over fiscal year 1992. The following were some of the highlights:

- Tonnage payments to the Republic of Panama increased 1.6 percent in fiscal year 1993, due principally to a 1 cent increase (from 35 cents to 36 cents) in the amount paid to the Republic of Panama for each "Panama Canal net ton" passing through the Canal.
- The cost of lock operations increased 5.9 percent over fiscal year 1992 due to an increase in lock maintenance projects.
- Administrative and general costs increased 13.4 percent in fiscal year 1993 due principally to the recognition of the liabilities for postretirement medical care costs and post-1999 costs for retirement benefits owed to certain former employees. These increases were offset in part by lower costs in other employee benefits.
- Depreciation expense decreased 13.7 percent in fiscal year 1993 principally because of a one-time $3.4 million increase in fiscal year 1992 to depreciation expense. The increase was caused by adjustments to the service lives of certain assets as the result of special studies made.
- Interest on interest-bearing investment decreased 8.8 percent in fiscal year 1993 principally because of lower interest rates and lower U.S. interest-bearing investment.

Assets, Liabilities, and Capital

During fiscal year 1993, total assets of the Commission increased by 1.8 percent to $839 million, and total liabilities and reserves increased by 1.8 percent to $293 million. Capital increased from $537 million to $546 million. The most significant changes in individual account balances for fiscal year 1993 were the following:

- Property, plant, and equipment (excluding depreciation and valuation allowances) increased by a net $30 million to $1,068 million. This increase was due primarily to capital expenditures of $34.5 million, offset in part by retirements and transfers of excess assets to the Republic of Panama and other U.S. government agencies. Capital additions to plant included major items, such as $9.5 million for the replacement and improvement of facilities; $8.9 million for the replacement and addition of miscellaneous equipment; $6.9 million for improvements to electric power, communication, and water systems; $4.4 million for the Canal widening/straightening program; $3.0 million for the replacement of motor vehicles; and $1.0 million for the replacement of launches.
- Current assets increased by a net $22 million to $188 million due principally to an increase in cash. Cash increased by $22.9 million mainly because of the $3.0 million of operating income during the year and a $20.5 million increase in operating liabilities. This increase was offset in part by the $2.5 million decrease in storehouse inventories.

- Deferred charges decreased by a net $12 million to $157 million. This was due principally to a $24.7 million decrease in funding for early retirement benefits and compensation benefits for work injuries. The decrease was offset in part by the recognition of $17.2 million in postretirement medical care costs.
- Liabilities and reserves increased by a net $5 million to $293 million, primarily due to a $5.3 million increase in the liability for employees' leave and the recognition of $20.4 million in postretirement medical care costs. Offsetting these increases, in part, was the amortization of $24.7 million for various employee benefits.
- Capital increased by a net $9 million to $546 million, principally because $8.2 million in capital expenditure contributions were amortized and $2.0 million of working capital contributions were made.

Treaty Related Costs

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

As part of the required annual audit, U.S. government agencies which provided services to the former Panama Canal Company and Canal Zone Government provided the net cost information required under the 1977 Treaty. This information is presented in unaudited supplementary schedules to the Commission's financial statements. From fiscal years 1980 to 1993, the net reported costs to the U.S. government under the Treaty amounted to $704 million, which is less than the act's inflation-adjusted target of $1,295 million as of September 30, 1993.

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.

Donald H Chapin for

Comptroller General
of the United States

Contents

Abbreviations

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

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To the Board of Directors
Panama Canal Commission

Our audits of the Panama Canal Commission found

- the fiscal years 1993 and 1992 financial statements to be reliable in all material respects;
- internal controls on September 30, 1993, to be effective in protecting assets, assuring material compliance with budget authority and with laws and regulations, and assuring that there were no material misstatements in the financial statements; and
- no material noncompliance with laws and regulations we tested for the fiscal year ended 1993.

Each of these conclusions is outlined in more detail below. This report 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 and accompanying notes present fairly the Commission's

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

Liquidation of Liabilities

As discussed in note 7 to the financial statements, 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 Viability presented in this footnote measures the Commission's ability to liquidate all estimated liabilities by December 31, 1999. As of September 30, 1993, the Commission had total obligations of $292.8 million and total resources of $117.7 million. The net unfunded $175.1 million in obligations is to be collected from future toll revenues over the remaining life of the Treaty.

Opinion on Internal Controls

The internal controls we evaluated were those designed to

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

Those controls in effect on September 30, 1993, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected.

Compliance With Selected Laws and Regulations

Our tests for compliance with the provisions of selected laws and regulations disclosed no material instances of noncompliance. Also, nothing came to our attention in the course of our other work to indicate that material noncompliance with such provisions occurred. Finally, nothing came to our attention to indicate that management's reports on internal controls prepared under the Federal Managers' Financial Integrity Act (FMFIA) conflict materially with the results of our evaluation of internal controls. The Commission reported no material weaknesses in its 1993 FMFIA report.

Unaudited Supplementary Information

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

Objectives, Scope, and Methodology

Management has the responsibility for

- preparing financial statements on the basis of accounting principles described in note 1 to the financial statements,

- establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of FMFIA are met, and
- complying with applicable laws and regulations.

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

In order to fulfill these responsibilities we

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

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

Comptroller General
of the United States

February 11, 1994

Financial Statements

Statements of Financial Position

September 30, 1993 and 1992
(Dollars in thousands)

ASSETS	1993	1992
PROPERTY, PLANT AND EQUIPMENT:		
At cost	$1,068,263	$1,038,128
Less accumulated depreciation and valuation allowances	574,250	548,905
	494,013	489,223
CURRENT ASSETS:		
Cash	147,427	124,542
Accounts receivable	10,142	9,567
Inventories:		
Storehouse, less allowances for obsolete and excess inventories of $6,400 and $6,200, respectively	26,226	28,708
Fuel	4,324	3,479
Other	116	235
	188,235	166,531
DEFERRED CHARGES:		
Early retirement benefits	90,864	106,008
Compensation benefits for work injuries	44,775	54,346
Post-retirement medical care costs	17,237	-
Retirement benefits to certain former employees	3,260	4,673
Unrecovered costs due from subsequent revenues	553	3,569
	156,689	168,596
	344,924	335,127
TOTAL ASSETS	$ 838,937	$ 824,350

The accompanying notes are an integral part of these statements.

September 30, 1993 and 1992
(Dollars in thousands)

CAPITAL AND LIABILITIES	1993	1992
CAPITAL:		
Investment of the United States Government:		
Interest-bearing (9.621% and 9.786%, respectively)	$ 98,237	$122,271
Non-interest-bearing	373,135	349,980
	471,372	472,251
Capital Contributions:		
Working capital	4,000	2,000
Capital expenditures, being amortized	70,670	62,507
	74,670	64,507
	546,042	536,758
LIABILITIES AND RESERVES:		
Accounts Payable:		
Commercial vendors and other	15,604	14,484
U.S. Government agencies	1,873	2,172
Republic of Panama	9,315	9,060
	26,792	25,716
Accrued Liabilities:		
Employees' leave	59,582	54,257
Salaries and wages	7,367	6,767
Employees' repatriation	5,983	6,493
Marine accident claims	12,961	12,593
Other	4,352	3,348
	90,245	83,458
Estimated Liabilities:		
Early retirement benefits	90,864	106,008
Compensation benefits for work injuries	44,775	54,346
Post-retirement medical care costs	20,403	-
Retirement benefits to certain former employees	6,013	4,673
	162,055	165,027
Reserves:		
Lock overhauls	1,914	2,082
Marine accidents and casualty losses	8,000	8,000
Floating equipment overhauls	3,889	3,309
	13,803	13,391
	292,895	287,592
TOTAL CAPITAL AND LIABILITIES	$838,937	$824,350

The accompanying notes are an integral part of these statements.

Statements of Operations

Fiscal Years Ended September 30, 1993 and 1992
(Dollars in thousands)

	1993	1992
OPERATING REVENUES:		
Tolls revenue	$400,884	$368,663
Less contributions for:		
- Working capital	(2,000)	(2,000)
- Capital expenditures	(13,000)	-
Net tolls revenue	385,884	366,663
Other revenues	140,876	138,913
Total operating revenues	526,760	505,576
OPERATING EXPENSES:		
Payments to Republic of Panama:		
Public services	10,000	10,000
Fixed annuity	10,000	10,000
Tonnage	67,597	66,563
	87,597	86,563
Maintenance of channels, dams, and spillways	39,376	40,338
Navigation service and control	88,444	84,768
Locks operation	54,837	51,766
General repair, engineering, and maintenance services	25,411	25,098
Supply and transportation services	19,434	19,425
Utilities	35,545	35,932
Administrative and general	91,630	80,812
Depreciation	23,767	27,535
Fire and facility protection	14,352	14,707
Interest on interest-bearing investment	10,486	11,492
Other	32,865	30,709
Total operating expenses	523,744	509,145
Net Operating Revenue (Loss)	3,016	(3,569)
Prior year loss to be recovered	(3,569)	-
NET UNEARNED COSTS TO BE RECOVERED FROM SUBSEQUENT REVENUES	$ (553)	$ (3,569)

The accompanying notes are an integral part of these statements.

Statements of Changes in Capital

Fiscal Years Ended September 30, 1992 and 1993
(Dollars in thousands)

1992	Investment of U.S. Government: Interest-Bearing	Investment of U.S. Government: Non-Interest Bearing	Capital Contributions	Total
CAPITAL AT OCTOBER 1, 1991	$120,557	$352,622	$57,760	$530,939
CHANGES IN CAPITAL:				
Expenditures from Panama Canal Revolving Fund	511,772	(511,772)	-	-
Tolls and other receipts deposited into Panama Canal Revolving Fund	(509,091)	509,091	-	-
Net change in undeposited receipts	-	39	-	39
Property transferred to Republic of Panama	(812)	-	-	(812)
Adjustments for properties previously transferred to Republic of Panama	(6)	-	-	(6)
Property transferred to other U.S. Government agencies	(149)	-	-	(149)
Working capital contributions	-	-	2,000	2,000
Capital expenditure contributions, being amortized	-	-	4,747	4,747
	1,714	(2,642)	6,747	5,819
CAPITAL AT SEPTEMBER 30, 1992	$122,271	$349,980	$64,507	$536,758

1993	Investment of U.S. Government: Interest-Bearing	Investment of U.S. Government: Non-Interest Bearing	Capital Contributions	Total
CAPITAL AT OCTOBER 1, 1992	$122,271	$349,980	$64,507	$536,758
CHANGES IN CAPITAL:				
Expenditures from Panama Canal Revolving Fund	518,848	(518,848)	-	-
Tolls and other receipts deposited into Panama Canal Revolving Fund	(542,003)	542,003	-	-
Property transferred to Republic of Panama	(674)	-	-	(674)
Adjustments for properties previously transferred to Republic of Panama	(7)	-	-	(7)
Property transferred to other U.S. Government agencies	(198)	-	-	(198)
Working capital contributions	-	-	2,000	2,000
Capital expenditure contributions, being amortized	-	-	8,163	8,163
	(24,034)	23,155	10,163	9,284
CAPITAL AT SEPTEMBER 30, 1993	$ 98,237	$373,135	$74,670	$546,042

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

Fiscal Years Ended September 30, 1993 and 1992
(Dollars in thousands)

	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net operating revenue (loss)	$ 3,016	$(3,569)
Working capital contributions	2,000	2,000
Adjustments to reconcile net revenue (loss) to net cash provided by operating activities:		
Depreciation	23,767	27,535
Net change in reserves and other	955	(840)
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(575)	2,120
Decrease in inventories	1,637	1,713
(Increase)/decrease in other assets	131	(29)
Increase/(decrease) in liabilities	14,753	(5,727)
Total adjustments	40,668	24,772
Net cash provided by operating activities	45,684	23,203
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital contributions	13,000	-
Capital expenditures	(35,799)	(25,796)
Net cash used in investing activities	(22,799)	(25,796)
Net increase/(decrease) in cash	22,885	(2,593)
Cash, beginning of year	124,542	127,135
CASH, END OF YEAR	$147,427	$124,542

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

	1993	1992
Cash paid during year for interest	$ 10,504	$ 11,691

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

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

The operation of the waterway is conducted on a self-financing basis. The Commission is expected to recover through tolls and other revenues all costs of operating and maintaining the Canal, including interest, depreciation, working capital, capital for plant replacement, expansion, improvements, and payments to the Republic of Panama for public services and annuities. Revenues from tolls and all other sources are deposited in the U.S. Treasury in an account known as the Panama Canal Revolving Fund. The resources in this fund are available for continuous use and serve to finance Canal operating and capital programs, which are reviewed annually by the Congress. 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 pursuant to the Accounting and Auditing Act of 1950. Under this Act, the Comptroller General of the United States prescribes the principles, standards, and related requirements to be met. The Commission maintains its accounts in accordance with generally accepted accounting principles and follows STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 71, "Accounting for the Effects of Certain Types of Regulation."

b. RECLASSIFICATIONS. Certain amounts for fiscal year 1992 have been reclassified to conform with the current financial statement presentation. Additionally, the presentation of liabilities has been modified. The classification of liabilities as current and long term is not meaningful inasmuch as resources are required to liquidate all liabilities as of December 31, 1999. See Note 7, "Liquidation of Liabilities."

c. COST RECOVERY. The basis for toll 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, interest, depreciation, working capital, payments to the Republic of Panama pursuant to paragraph 5 of Article III and paragraph 4(a) and (b) of Article XIII of the Panama Canal Treaty of 1977, and capital for plant replacement, expansion, and improvements. Tolls shall not be prescribed at rates calculated to produce revenues sufficient to cover payments to the Republic of Panama pursuant to paragraph 4(c) of Article XIII of the Panama Canal Treaty of 1977."

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

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

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. Provisions for depreciation, expressed as an annual percentage of the cost of average depreciable property, plant, and equipment in service, were 2.99 percent in fiscal year 1993 and 3.41 percent in fiscal year 1992.

The recurring costs of dredging the waterway are charged to expense. Non-recurring dredging costs for substantial improvements and betterments to the waterway are considered additions to plant and are capitalized and depreciated over their estimated service lives.

e. CONTRIBUTIONS FOR CAPITAL EXPENDITURES. The Board of Directors may program a portion of tolls in excess of depreciation for plant replacement, expansion, or improvements. Such funds from Canal users are considered contributions for capital expenditures. Upon utilization, these contributions are amortized through an offset to depreciation expense in an amount calculated to approximate the depreciation on assets acquired with such contributions. Contributions for capital expenditures in fiscal year 1993 were $13.0 million. No amount was programmed for fiscal year 1992.

f. CONTRIBUTIONS FOR WORKING CAPITAL. The Board of Directors may program a portion of tolls as contributions for working capital. Such funds are used to finance the amounts for storehouse and fuel inventories. Contributions for working capital were $2.0 million each in fiscal years 1993 and 1992, respectively.

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 $90.9 million as of fiscal year 1993 and $106.0 million as of fiscal year 1992.

Non-United States citizen employees, who retired from predecessor agencies prior to October 5, 1958, receive benefits under a separate annuity plan. Payments made under this plan are recorded as current year expense. The liability for future annuity payments is reflected in the Statement of Financial Position as "Retirement benefits to certain former employees," and the amount to be recovered over the remaining life of the Treaty is reported as a deferred charge. Amounts expensed in fiscal years 1993 and 1992 were $3.4 million and $0.7 million, respectively. The amount for 1993 includes $2.8 million for the costs of annuities estimated to be paid post 1999.

j. ACCOUNTING CHANGE. Effective in fiscal year 1993, the Commission adopted STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 106, "Employers' Accounting for Postretirement Benefits Other Than

Pensions." The benefits cover Commission-sponsored medical care costs for certain former employees.

The liability for future medical care costs is reflected in the Statement of Financial Position as "Postretirement medical care costs," and the amount to be recovered over the remaining life of the Treaty is reported as a deferred charge. The cost of post 1999 benefits is being recognized over the three-year period 1993-1995. Costs for these benefits prior to the year 2000 are recognized as payments are made. The charge to operating expenses for these benefits was $6.1 million in fiscal year 1993. The amount for 1993 includes $3.2 million of the post 1999 medical care cost estimate.

k. COMPENSATION BENEFITS FOR WORK INJURIES. The Federal Employees' Compensation Act (FECA) provides compensation for performance of duty injuries for eligible employees. The costs of the FECA program are recognized over the remaining life of the Treaty.

l. 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.

m. 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. 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 1993 and 1992.

3. UNRECOVERED COSTS DUE FROM SUBSEQUENT REVENUES.

Unrecovered costs from prior year operations must be recovered before determining any net operating revenues due to the Republic of Panama. The unrecovered costs from fiscal year 1992 operations were $3.6 million. The net operating revenue for fiscal year 1993 was $3.0 million, which when netted against the $3.6 million of outstanding unrecovered costs from fiscal year 1992, leaves a balance of $0.6 million to be recovered from subsequent revenues.

4. 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 1993 and 1992, the allowance for excess stock was adjusted to $5.4 million and $5.2 million, respectively; and the allowance for obsolete stock remained at $1.0 million each fiscal year.

5. 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 set forth in 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, adjusted for inflation and interest earned. An evaluation, as of September 30, 1993, was prepared by an independent actuarial firm. The values in that report were used to adjust the assets and liabilities at year end 1993. The gross amount to be recovered from tolls over the remaining life of the Treaty to retire this liability is $44.8 million in fiscal year 1993 and $54.3 million in fiscal year 1992. The current portions of these total liabilities were $8.2 million in fiscal year 1993 and $9.1 million in fiscal year 1992.

6. INTEREST-BEARING INVESTMENT OF THE UNITED STATES GOVERNMENT.

The interest-bearing investment of the United States Government in the Panama Canal is determined based on section 1603(a) of the Act. The interest-bearing investment of the United

States Government was $98.2 million at September 30, 1993, and $122.3 million at September 30, 1992.

7. LIQUIDATION OF LIABILITIES.

As a 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 following Statement of Financial Viability, as of September 30, 1993, measures the Commission's ability to liquidate all estimated liabilities on December 31, 1999:

STATEMENT OF FINANCIAL VIABILITY
SEPTEMBER 30, 1993
(MILLIONS OF DOLLARS)

OBLIGATIONS:		
Accounts payable	$ 26.8	
Accrued liabilities	90.2	
Estimated liabilities	162.0	
Reserves	13.8	
TOTAL OBLIGATIONS		$292.8
RESOURCES:		
Cash	147.4	
Accounts receivable	10.1	
Other current assets	0.1	
Less: Cash collected for capital commitments but not yet expended	(39.9)	
TOTAL RESOURCES		117.7
OBLIGATIONS TO BE FUNDED FROM FUTURE RESOURCES		175.1
PROGRAMMED RESOURCES FROM FUTURE OPERATIONS:		
Cash to be collected for deferred charges	156.1	
Cash to be collected for unrecovered costs due from subsequent revenue	0.6	
TOTAL PROGRAMMED RESOURCES		156.7
Working capital deficiency		18.4
Programmed resources from future operations for working capital deficiency		18.4
		$ 0.0

The $156.7 million programmed resources from future operations and the $18.4 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.

It should be noted that certain expenditures, such as administrative costs of liquidation, have not been estimated at this time and are not included in the Statement of Viability. These expenditures will be programmed to be recovered from future operations when reliable estimates are available. In the opinion of management, the funding of these expenditures will not have a material adverse effect on the financial position of the Commission.

8. 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 $45.1 million at September 30, 1993, and $44.4 million at September 30, 1992.

c. Cash and negotiable securities held by United States depositories for the Commission to guarantee payment by third parties of their obligations were $17.4 million and $15.3 million at September 30, 1993, and 1992, respectively.

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 expenditures. If the operating revenues in any year do not produce a surplus sufficient to cover this payment, the unpaid balance shall be paid from operating surpluses in future years. The balance contingently payable to the Republic of Panama amounted to $130.2 million and $120.2 million at September 30, 1993, and 1992, respectively. However, as set forth in the Treaty and in the Act, nothing shall be construed as obligating the United States Government to pay, after the date of termination of the Treaty, any unpaid balance accumulated before such date.

Supplementary Information (Unaudited)

Schedules of Treaty Related Costs

Department of Defense (DOD) Costs (Savings) Through FY 1993

Agency	Cumulative Costs 9/30/92	FY 93 Activity	Cumulative Costs 9/30/93
U.S. Army			
Base Operations	$217,430,959	$9,040,041	$226,471,000
Communications	33,591,615	588,076	34,179,691
Commissary	9,862,758	69,015	9,931,773
Transportation	2,914,249	4,331	2,918,580
Technical Assistance	360,240	0	360,240
Health Services	177,540,782	19,957,143	197,497,925
Disposition of Remains	4,708,526	694,891	5,403,417
Criminal Investigations	1,032,786	172,555	1,205,341
Tropical Test Center	35,408	0	35,408
Procurement of Equipment	3,046,789	0	3,046,789
Military Construction	36,397,791	0	36,397,791
Military Pay	110,366,385	11,692,573	122,058,958
Ports	165,868	0	165,868
Family Housing Operations	16,342,925	1,058,093	17,401,018
Executive Agent Costs	14,952,152	12,077,000	27,029,152
Total U.S. Army	628,749,233	55,353,718	684,102,951
U.S. Air Force	43,873,488	2,909,582	46,783,070
U.S. Navy	2,099,903	613,525	2,713,428
DOD Dependent Schools *	34,089,000	1,373,000	35,462,000
Defense Mapping Agency	1,158,764	0	1,158,764
Total DOD	$709,970,388	$60,249,825	$770,220,213

* Obligations incurred rather than actual expenditures

Non–DOD Costs (Savings) Through Fiscal Year 1993

Agency	Cumulative Costs 9/30/92	FY 93 Activity	Cumulative Costs 9/30/93
State Department	($21,143,522)	($1,792,799)	($22,936,321)
Federal Aviation Administration	(49,218,983)	(4,251,300)	(53,470,283)
American Battle Monuments Commission	4,056,234	276,000	4,332,234
Panama Canal Commission	300,000	0	300,000
General Accounting Office	2,134,790	337,280	2,472,070
Smithsonian Tropical Research Institute	5,295,534	686,072	5,981,606
Gorgas Memorial Laboratory	(257,351)	0	(257,351)
Canal Area Court System			
U.S. Attorney	(1,367,801)	(148,668)	(1,516,469)
U.S. Marshall	(651,375)	(64,481)	(715,856)
Clerk of Court	(4,214,415)	0	(4,214,415)
Bureau of Prisons	2,705,851	45,849	2,751,700
Foreign Broadcast Information System	685,354	93,330	778,684
National Oceanic & Atmospheric Administration	78,679	0	78,679
Total Non–DOD	($61,597,005)	($4,818,717)	($66,415,722)
Total DOD	709,970,388	60,249,825	770,220,213
Total DOD and Non–DOD	$648,373,383	$55,431,108	$703,804,491

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

Agency	Cumulative Transfers 9/30/92	FY 93 Transfers	Cumulative Transfers 9/30/93
Department of Defense			
U.S. Army	$46,288,046	$3,214,000	$49,502,046
U.S. Navy	12,530,769	0	12,530,769
U.S. Air Force	284,874	0	284,874
Total DOD	59,103,689	3,214,000	62,317,689
Federal Aviation Administration	4,638,360	0	4,638,360
Total	$63,742,049	$3,214,000	$66,956,049

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

	Acquisition Costs		
Agency	Cumulative Transfers 9/30/92	FY 93 Transfers	Cumulative Transfers 9/30/93
Canal Zone Government and Panama Canal Company	$168,317,629	$0	$168,317,629
Panama Canal Commission	32,586,250	3,067,553	35,653,803
Total	$200,903,879	$3,067,553	$203,971,432

	Net Book Value		
Agency	Cumulative Transfers 9/30/92	FY 93 Transfers	Cumulative Transfers 9/30/93
Canal Zone Government and Panama Canal Company	$84,886,222	$0	$84,886,222
Panama Canal Commission	10,426,664	674,182	11,100,846
Total	$95,312,886	$674,182	$95,987,068

Schedule of Property, Plant, and Equipment

September 30, 1993 and 1992
(Dollars in Thousands)

		1993		1992	
	Estimated Service Life	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
Titles and treaty rights	40 yrs.	$14,729	$7,456	$14,729	$7,088
Interest during construction	–	50,892	50,892	50,892	50,892
Canal excavation, fills and embankments	15–100 yrs.	350,989	174,262	349,155	165,686
Canal structures and equipment	4–100 yrs.	396,523	186,933	389,242	178,847
Supporting and general facilities	3–100 yrs.	187,744	112,878	177,338	104,488
Facilities held for future use	10–100 yrs.	1,863	1,683	1,949	1,758
Plant additions in progress	–	25,377	–	14,677	–
Suspended construction projects	–	40,146	40,146	40,146	40,146
TOTAL		$1,068,263	$574,250	$1,038,128	$548,905

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