

September 1989

FINANCIAL REVIEW

Panama Canal Commission's Financial Statements for 1988



**Comptroller General
of the United States**

B-114839

September 20, 1989

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

This report presents the results of our limited review of the Panama Canal Commission's financial statements for the year ended September 30, 1988. Due to security and visa problems with the Republic of Panama, we were unable to travel to Panama City, Panama, to conduct the 1988 financial audit of the commission as required by 22 U.S.C. 3723(a). We instead conducted a limited review of the commission's financial statements for the year ended September 30, 1988. This review is substantially less in scope than an audit. Until conditions with the Republic of Panama improve, we do not plan to conduct future financial audits of the commission.

Our review did not disclose any material modifications that should be made to the format of the accompanying financial statements in order for them to be presented in conformity with generally accepted accounting principles. However, since we were unable to conduct a financial audit, we cannot be assured that the financial statements are free of material misstatement. We also were unable to report on the commission's internal accounting controls and on its compliance with laws and regulations.

In conducting our limited review, we primarily analyzed the financial statements for unusual fluctuations and other changes from the prior year and obtained explanations from commission personnel by telephone. We also compiled, for additional analysis, unaudited schedules on treaty related costs and savings that are required by 22 U.S.C. 3723(b) of the Panama Canal Act of 1979. We accomplished this compilation by obtaining the amounts from federal agencies incurring such costs and savings.

The commission is a federal agency which was established on October 1, 1979, to carry out the responsibilities of the United States with respect to the Panama Canal under the Panama Canal Treaty of 1977. 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.

Our review noted the following three items of interest.

Reserve for Floating Equipment

In July 1984, the commission established a \$2 million reserve to provide for future repairs of floating equipment. During fiscal years 1985 through 1988, certain expenses of repairing floating equipment were charged to the reserve and the reserve was replenished annually. At September 30, 1988, the reserve balance was \$2 million, according to the commission's unaudited statement of financial position. The funds were initially transferred into the reserve without the commission following the regulatory procedures provided in the Panama Canal Act for changing the rules of measurement and rates of tolls. Further, the transfer of funds has not been approved in a subsequent regulatory action. The regulator can approve this action through an approval letter or as part of the toll-setting process. Discussions with commission personnel indicated that this will be corrected in the fiscal year 1990 toll rate submission.

Conversion to Revolving Fund

Effective January 1, 1988, Public Law 100-203 converted the commission's budget account for operations and administration of the Panama Canal from a special fund account requiring an annual appropriation to a public enterprise revolving fund which operates solely from toll and other nonappropriated revenue. This budgetary conversion to a revolving fund did not result in any major change in the accounting policies and principles of the commission, although it caused some reformatting of the 1988 financial statements.

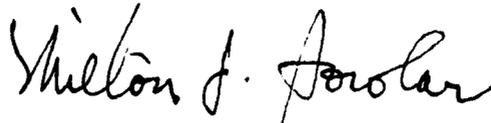
In converting the commission to a revolving fund, Public Law 100-203 also provided for the commission to (1) reimburse a 1980 advance of \$85.6 million in appropriated funds from the U.S. Treasury and (2) transfer \$61.7 million of interest collected between October 1, 1979, and January 1, 1986, to the U.S. government. This transfer would restore the full value of the interest-bearing investment of the U.S. government in the Panama Canal. These amounts were paid into the General Fund of the U.S. Treasury during 1988.

Change in Presentation of Employee Death and Disability Benefits Program

The commission administers a program in accordance with the Federal Employees' Compensation Act (FECA) to compensate employees for death and disability resulting from workplace injuries or illnesses. For the year ended September 30, 1988, a liability and deferred charge was recorded in the financial statements to reflect the gross amount to be recovered from tolls over the remaining life of the treaty. Amounts are to be paid annually into the Panama Canal Commission Compensation Fund administered by the Department of Labor pursuant to Public Law

100-705. This is a change from the prior year's presentation where no fund was established and the liability and deferred charge amount was stated in the 1987 financial statements at its net present value. The effect of this change on the financial statements is an increase of \$28.8 million to deferred charges and offsetting increases of \$7 million to accrued liabilities and \$21.8 million to long-term liabilities. We concur with this presentation.

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. Also, we are sending copies to the Director of the Office of Management and Budget; to the Secretaries of State, Defense, and the Army; and to the Chairman of the Board of Directors and the Administrator of the Panama Canal Commission.



Acting Comptroller General
of the United States

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Abbreviation

FECA Federal Employees' Compensation Act

Financial Statements

Statement of Financial Position (Unaudited)

September 30, 1988

A S S E T S

PROPERTY, PLANT AND EQUIPMENT:

At cost (Note 2c).....	\$936,111,054
Less accumulated depreciation and valuation allowances (Notes 2e and 3).....	<u>464,872,854</u>
	<u>471,238,200</u>

CURRENT ASSETS:

Cash: (Note 4)	
U.S. Treasury account.....	138,872,443
Cash in commercial banks and on hand.....	5,800,906
Postal, other trust funds and cash in transit.....	<u>2,442,789</u>
	<u>147,116,138</u>

Accounts receivable..... 14,894,155

Inventories, less allowance for obsolete and excess inventory of \$400,000 (Note 2g)..... 36,928,949

Other current assets..... 382,019

199,321,261

OTHER ASSETS:

Deferred charges:	
Cost of early retirement benefits (Note 2h).....	166,584,000
Cost of work injuries compensation benefits (Notes 2m and 6).....	79,126,504
Retirement benefits to certain former employees of predecessor agencies (Note 2h).....	6,746,000
Other.....	<u>-</u>
	<u>252,456,504</u>

Unrecovered costs due from subsequent revenues (Notes 2b and 5)..... 2,408,665

254,865,169

TOTAL ASSETS..... \$925,424,630

The accompanying notes are an integral part of this statement.

Financial Statements

September 30, 1988

C A P I T A L A N D L I A B I L I T I E S

CAPITAL:	
Investment of the United States Government:	
Interest-bearing (10.379%) (Note 7).....	\$102,773,553
Non-interest-bearing.....	<u>371,024,286</u>
	473,797,839
CURRENT LIABILITIES:	
Accounts payable:	
U.S. Government agencies.....	4,245,938
Government of Panama.....	8,475,439
Other.....	34,802,392
	<u>47,523,769</u>
Accrued liabilities:	
Employees' leave.....	44,033,669
Salaries and wages.....	7,139,405
Cost of early retirement benefits (Note 2h).....	15,144,000
Cost of work injuries compensation benefits (Notes 2m and 6).....	7,033,467
Retirement benefits to certain former employees of predecessor agencies (Note 2h).....	844,000
Employees' repatriation.....	687,000
Marine accident claims.....	13,822,471
Other.....	1,923,101
	<u>90,627,113</u>
Other current liabilities:	
Advances for capital - unexpended (Notes 2d and 1l)	14,332,082
Other.....	1,889,140
	<u>16,221,222</u>
	154,372,104
DEFERRED CREDIT:	
Advances for capital being amortized (Notes 2d and 1l).....	40,941,046
LONG-TERM LIABILITIES AND RESERVES:	
Cost of early retirement benefits (Note 2h).....	151,440,000
Cost of work injuries compensation benefits (Notes 2m and 6).....	72,093,037
Retirement benefits to certain former employees of predecessor agencies (Note 2h).....	5,902,000
Employees' repatriation.....	6,053,000
Lock overhauls (Note 2i).....	211,633
Marine accidents (Note 2j).....	17,683,380
Casualty losses (Note 2j).....	941,882
Floating equipment overhaul (Note 2k).....	1,988,709
	<u>256,313,641</u>
TOTAL CAPITAL AND LIABILITIES.....	<u>\$925,424,630</u>

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Operations (Unaudited)

Fiscal Year Ended September 30, 1988

OPERATING REVENUES:	
Tolls revenue.....	\$339,319,326
Other revenues.....	<u>110,089,660</u>
Total operating revenues.....	<u>449,408,986</u>
OPERATING EXPENSES:	
Payments to the Government of Panama:	
Public services.....	10,000,000
Fixed annuity.....	10,000,000
Tonnage.....	<u>59,635,398</u>
	79,635,398
Maintenance of channels and harbors.....	42,258,524
Navigation service and control.....	77,384,665
Locks operation.....	47,709,751
General repair, engineering and maintenance services...	25,071,192
Supply and logistics.....	21,030,820
Utilities.....	31,895,242
Housing operations.....	5,553,796
General and administrative.....	73,107,100
Interest on interest-bearing investment (Note 7).....	11,250,757
Other.....	<u>36,329,982</u>
Total operating expenses.....	<u>451,227,227</u>
NET OPERATING REVENUE (LOSS) (Notes 2b and 5).....	<u>\$ (1,818,241)</u>

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Changes in the Investment of the United States Government (Unaudited)

Fiscal Year Ended September 30, 1988						
	Invested Capital		Emergency Fund	Operating Funds	Capital Funds	Total
	Interest-Bearing	Non-Interest Bearing				
INVESTMENT AT OCTOBER 1, 1987.....	\$ 64,711,276	\$287,336,291	\$ 10,000,000	\$ 55,658,038	\$ 26,086,026	\$443,791,631
Appropriation by the Congress for FY 1988.	-	-	-	420,588,000	33,715,000	454,303,000
	<u>64,711,276</u>	<u>287,336,291</u>	<u>10,000,000</u>	<u>476,246,038</u>	<u>59,801,026</u>	<u>898,094,631</u>
Funds transferred by Public Law 100-203, effective January 1, 1988:						
Transferred from emergency fund.....	-	10,000,000	(10,000,000)	-	-	-
Transferred from operating funds.....	-	202,316,621	-	(202,211,390)	-	105,231
Transferred from capital funds.....	-	54,060,961	-	-	(54,060,961)	-
Adjustment for interest accrued 10/1/79-12/31/85.....	61,653,129	(61,653,129)	-	-	-	-
	<u>61,653,129</u>	<u>204,724,453</u>	<u>(10,000,000)</u>	<u>(202,211,390)</u>	<u>(54,060,961)</u>	<u>105,231</u>
	<u>126,364,405</u>	<u>492,060,744</u>	<u>-</u>	<u>274,034,648</u>	<u>5,740,065</u>	<u>898,199,862</u>
INCREASES IN INVESTMENT:						
Plant reactivations.....	-	-	-	-	-	-
Prior year receipts deposited into U.S. Treasury.....	-	1,088,117	-	-	-	1,088,117
Expenditures from capital appropriations..	5,740,065	-	-	-	(5,740,065)	-
Expenditures from operating appropriations	109,394,668	-	-	(109,394,668)	-	-
Expenditures from Panama Canal Revolving Fund.....	317,977,051	(317,977,051)	-	-	-	-
Repayment to the General Fund of the U.S. Treasury for FY 1980 appropriation..	85,582,579	(85,582,579)	-	-	-	-
Payment of interest accrued 10/1/79-12/31/85.....	-	(61,653,129)	-	-	-	(61,653,129)
Funds covered into the U.S. Treasury.....	(85,582,579)	-	-	-	-	(85,582,579)
Property transferred from other U.S. Government agencies.....	-	-	-	-	-	-
Unrecovered costs due from subsequent revenues (Notes 2b and 5).....	-	1,818,241	-	-	-	1,818,241
	<u>433,111,784</u>	<u>(462,306,401)</u>	<u>-</u>	<u>(109,394,668)</u>	<u>(5,740,065)</u>	<u>(144,329,350)</u>
DECREASES IN INVESTMENT:						
Tolls and other receipts deposited into PCC Fund.....	112,765,084	-	-	-	-	112,765,084
Tolls and other receipts deposited into Revolving Fund	343,508,525	(343,508,525)	-	-	-	-
Due U.S. Treasury for undeposited receipts	-	420,341	-	-	-	420,341
Property transferred to the Government of Panama.....	51,992	-	-	-	-	51,992
Property transferred to other U.S. Government agencies.....	377,035	-	-	-	-	377,035
Unwarranted appropriated funds.....	-	-	-	164,639,980	-	164,639,980
Net loss (Notes 2b and 5).....	-	1,818,241	-	-	-	1,818,241
	<u>456,702,636</u>	<u>(341,269,943)</u>	<u>-</u>	<u>164,639,980</u>	<u>-</u>	<u>280,072,673</u>
INVESTMENT AT SEPTEMBER 30, 1988.....	<u>\$102,773,553</u>	<u>\$371,024,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$473,797,839</u>

(Note 7)

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Cash Flows (Unaudited)

Fiscal Year Ended September 30, 1988

INCREASE (DECREASE) IN CASH

Cash Flows from Operating Activities:

Cash received:

Tolls.....	\$339,319,326	
Other collections.....	120,011,727	
Increase in receivables.....	<u>(3,057,444)</u>	
Total cash received.....		\$456,273,609

Cash disbursed:

Operating expenditures.....	(463,389,231)	
Increase in inventory.....	(1,789,780)	
Increase in liabilities.....	<u>59,367,762</u>	
Total cash disbursed.....		<u>(405,811,249)</u>
Net cash from operations.....		\$ 50,462,360

Other adjustments:

Cash from Panama Canal Commission Fund.....	289,663,021	
Restoration of funds previously withdrawn.....	105,231	
Operating revenues deposited into Panama Canal Commission Fund.....	<u>(112,765,084)</u>	
Net operating cash received from Treasury.....		<u>177,003,168</u>

Net cash provided by/(used in) operating activities..... 227,465,528

Cash Flows from Extraordinary Activities:

Payment of interest on net direct investment (Note 9)	(61,653,129)	
Repayment of 1980 appropriation (Note 9).....	<u>(85,582,579)</u>	
Net cash provided by/(used in) extraordinary activities..		(147,235,708)

Cash Flows from Capital Activities:

Capital expenditures.....	(27,069,345)	
Decrease in liabilities.....	<u>(231,190)</u>	
Net cash provided by/(used in) capital activities.....		(27,300,535)

Cash Flows from Postal and Trust funds:

Postal funds.....	(6,630)	
Trust funds.....	<u>12,048</u>	

Net cash provided by/(used in) postal and trust fund activities..... 5,418

Net increase/(decrease) in cash..... 52,934,703

Cash, beginning of year..... 94,181,435

Cash, end of year..... \$ 147,116,138

(Note 8)

The accompanying notes are an integral part of this statement.

Financial Statements

Fiscal Year Ended September 30, 1988

RECONCILIATION OF NET REVENUE (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net revenue (loss).....		\$ (1,818,241)
Adjustments to reconcile net revenue (loss) to net cash provided by operating activities:		
Adjustments not requiring outlay of cash:		
Depreciation.....	\$ 21,352,682	
Provision for lock overhauls.....	4,387,000	
Provision for casualty losses.....	2,901,952	
Provision for floating equipment repairs.....	4,019,000	
Advances for capital.....	10,458,055	
Other.....	<u>(1,640,029)</u>	41,478,660
Adjustments requiring outlay of cash:		
Lock overhauls expenditures.....	(5,699,523)	
Casualty losses expenditures.....	(5,671,166)	
Floating equipment overhaul expenditures.....	<u>(3,678,624)</u>	(15,049,313)
Other adjustments:		
Cash from Panama Canal Commission Fund.....	289,663,021	
Restoration of funds previously withdrawn.....	105,231	
Operating revenues deposited into Panama Canal Commission Fund.....	<u>(112,765,084)</u>	177,003,168
Changes in operating assets and liabilities:		
Increase in receipt receivables.....	(3,057,444)	
Increase in funded receivables.....	(2,091,761)	
Increase in inventories.....	(1,789,780)	
Decrease in other assets.....	1,505,355	
Increase in liabilities.....	<u>31,284,884</u>	25,851,254
Total adjustments.....		<u>229,283,769</u>
Net cash provided by/(used in) operating activities.....		\$ <u>227,465,528</u>

(Note 8)

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Status of Appropriations (Unaudited)

Fiscal Year Ended September 30, 1988

SOURCE OF APPROPRIATIONS:

Operating funds:

Current year operating appropriation.....	\$407,088,000
Appropriation Public Law 99-195 (indefinite - funded interest).....	<u>13,500,000</u>
	<u>420,588,000</u>
Restoration of funds previously withdrawn.....	<u>105,231</u>
Obligated operating funds brought forward:	
Fiscal year 1980.....	311,229
Fiscal years - Merged.....	4,006,116
Fiscal year 1986.....	5,695,374
Fiscal year 1987.....	<u>45,645,319</u>
	<u>55,658,038</u>
	<u>476,351,269</u>

Capital funds:

Current year capital appropriation (no year).....	<u>33,715,000</u>
Obligated capital funds brought forward:	
Fiscal year 1980.....	12,070
Fiscal years 1981 through 1987.....	<u>23,766,934</u>
	<u>23,779,004</u>
Unobligated capital funds brought forward (no year):	
Fiscal year 1980.....	8,257
Fiscal years 1981 through 1987.....	<u>2,298,765</u>
	<u>2,307,022</u>
	<u>59,801,026</u>

Emergency fund (no year).....	<u>10,000,000</u>
TOTAL SOURCE OF APPROPRIATIONS.....	<u>\$546,152,295</u>

(Note 10)

The accompanying notes are an integral part of this statement.

Financial Statements

Fiscal Year Ended September 30, 1988

APPLICATION OF APPROPRIATIONS:

Appropriations available.....	\$546,152,295
Less appropriated expenditures - 1st Quarter:	
Expenditures from operating appropriations:	
Fiscal year 1980.....	-
Fiscal years - Merged.....	(496,584)
Fiscal year 1986.....	447,217
Fiscal year 1987.....	32,653,300
Fiscal year 1988.....	76,790,735
	<u>109,394,668</u>
Expenditures from capital appropriations:	
Fiscal year 1980.....	12,506
Fiscal years 1981 through 1988.....	5,727,559
	<u>5,740,065</u>
	<u>115,134,733</u>
Less funds transferred to the revolving fund:	
From Operations:	
Fiscal year 1980.....	311,229
Fiscal year 1980 restored.....	105,231
Fiscal years - Merged.....	4,502,700
Fiscal year 1986.....	5,248,157
Fiscal year 1987.....	12,992,019
Fiscal year 1988.....	179,157,285
Emergency fund.....	10,000,000
	<u>212,316,621</u>
From Capital:	
Fiscal year 1980.....	7,821
Fiscal years 1981 and 1988.....	54,053,140
	<u>54,060,961</u>
	<u>266,377,582</u>
Less funds returned to the U.S. Treasury.....	<u>164,639,980</u>
BALANCE OF APPROPRIATIONS, SEPTEMBER 30, 1988.....	\$ <u> -</u>

(Note 10)

The accompanying notes are an integral part of this statement.

Notes to Financial Statements (Unaudited)

1. Conversion to a Revolving Fund Agency.

Public Law 100-203, converted the Panama Canal Commission from an appropriated fund agency to a revolving fund agency effective January 1, 1988. This conversion to a revolving fund financial structure did not result in any major change in the accounting policies and principles of the Commission.

2. Summary of Significant Accounting Policies.

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

a. Accounting and Reporting. As required by section 1311(a) of the Panama Canal Act of 1979 (Public Law 96-70), hereinafter referred to as the Act, the accounts of the Commission are maintained pursuant to the Accounting and Auditing Act of 1950. This requires that the principles, standards and related requirements be met, as prescribed by the Comptroller General of the United States, after consulting with the Secretary of the Treasury and the Director of the Office of Management and Budget concerning their accounting, financial reporting and budgetary needs. The Accounting and Auditing Act of 1950 also requires that the accounts be maintained on an accrual basis.

b. Cost Recovery. As required by section 1341(e)(1) of the Act, the application of generally accepted accounting principles to the Panama Canal Commission, a United States Government agency comparable to a rate-regulated public utility, determines the manner in which costs are recognized. The basis for tolls rates is prescribed in section 1602(b) of the Act. This section of the Act, known as the "statutory tolls formula," provides that:

"Tolls shall be prescribed at rates calculated to produce revenues to cover as nearly as practicable all costs of maintaining and operating the Panama Canal, together with the facilities and appurtenances related thereto, including unrecovered costs incurred on or after the effective date of this Act, interest, depreciation, 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."

Under this statutory tolls formula, any unrecovered costs are to be recovered from subsequent revenues. The amount for recovery from subsequent revenues is transferred from Invested Capital to an account within the Other Assets classification. Unrecovered costs are charged back to Invested Capital to the extent subsequent annual revenues exceed annual costs.

c. Property, Plant and Equipment. Property, plant and equipment are recorded at cost, or if acquired from another United States Government agency, at the value determined by the Director of the Office of Management and Budget. Administrative and other related general expenses are recovered currently and therefore not capitalized. The cost of minor items of property, plant and equipment is charged to expense as incurred.

d. Advances for Capital. A portion of tolls in excess of depreciation recoveries may be programmed annually by the Board of Directors for plant replacement, expansion, or improvements. In fiscal year 1988 no amounts were programmed for such purpose. Such funds are considered capital advances from Canal users. Upon utilization, these advances are amortized through an offset to depreciation expense in an amount calculated to approximate the depreciation on assets acquired with such advances.

e. Depreciation. Property, plant and equipment are depreciated over their estimated service lives at rates computed using a straight-line method with additional annual depreciation, identified as composite, to provide for premature plant retirements.

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

f. Accounts Receivable. Uncollectible accounts receivable of the Panama Canal Commission are recognized as a reduction in revenue when written off. Any subsequent collections of Commission accounts receivable previously written off are recorded as revenue.

g. Inventories. Operating materials and supplies are stated at average cost, plus cost of transportation to the ultimate destination on the Isthmus of Panama. An allowance has been established to reflect the estimated cost of obsolete and excess stock.

h. Retirement Benefits. Employer payments to the contributory United States Civil Service Retirement System, to the Federal Employee Retirement System, and to the Republic of Panama Social Security System are charged to expense. The Commission has no liability for future payments to employees under these systems.

Non-United States citizen employees, who retired from predecessor agencies prior to October 5, 1958, are not covered by the United States Civil Service Retirement System but do receive benefits under a separate annuity plan. Payments made under this annuity plan are recorded as a current year expense. Annual amount expended in fiscal year 1988 was \$1.3 million. The Commission's liability for future annuity payments to these former employees or their eligible widows is reflected in the balance sheet as retirement benefits to certain former employees of predecessor agencies and an equal amount is recorded as a deferred charge.

As required by the Act, the Panama Canal Commission is liable for the increase in the unfunded liability of the United States Civil Service Retirement Fund which is attributable to benefits payable from that fund to,

or on behalf of, employees and their survivors under the early retirement provisions of the Act. The annual installment to liquidate the increased liability is determined by the Office of Personnel Management.

i. Reserve for Lock Overhauls. A reserve is provided through an annual charge to expense to cover the estimated cost of periodic lock overhauls.

j. Reserve for Casualty Losses. A reserve is provided through an annual charge to expense to cover the estimated cost of marine accidents and other casualty losses.

k. Reserve for Floating Equipment Overhaul. A reserve is provided through an annual charge to expense to cover the estimated cost of overhauls to the Commission tugboat fleet.

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 Government of Panama under the terms of the Panama Canal Treaty of 1977. The cost to manage, maintain and provide livability improvements to these quarters is charged to expense. Rental income is included in other revenues.

m. Work Injuries Compensation Benefits. Under provisions of the Act, the Panama Canal Commission is liable for payment of all benefits due under the Federal Employees' Compensation Act (FECA) which provided compensation for workplace injuries for eligible employees. The Commission accounts for these costs on an accrual basis.

3. Plant Valuation Allowances.

At July 1, 1951, certain valuation allowances for property, plant and equipment transferred from the Panama Canal (agency) to the Panama Canal Company and the Canal Zone Government were established, to reduce to usable value the costs of the assets transferred. At October 1, 1979, such valuation allowances as were applicable to the assets transferred from the Panama Canal Company and the Canal Zone Government to the Panama Canal Commission were carried forward and are comprised of: (a) \$4.5 million at September 30, 1988, to reduce to usable value the cost of property, plant and equipment transferred; (b) \$50.9 million at September 30, 1988, to offset interest costs imputed for the original Canal construction period; and (c) \$42.3 million at September 30, 1988 to offset the cost of defense facilities and suspended construction projects, the latter being principally the partial construction of a third set of locks abandoned in the early part of World War II.

4. Cash and Fund Balances.

The cash balances are maintained to satisfy the solvency requirements as defined in Section 86.6 Office of Management and Budget Circular A-34, Instructions on Budget Execution, under which the incurring of obligations in excess of budgetary resources is a violation of the Antideficiency Act. All cash exceeding current operating requirements is kept on deposit with the U.S. Treasury.

Financial Statements

5. Unrecovered Costs due from Subsequent Revenues.

Pursuant to the provisions of section 1602 (b) of the Panama Canal Act of 1979 (Public Law 96-70), the net loss of \$0.6 million from fiscal year 1987 and \$1.8 from fiscal year 1988 operations, totalling \$2.4 million, were deferred as an unearned cost to be recovered from subsequent revenues. Also, in accordance with section 1341(b)(2) of the Act such unearned costs must be recovered from any future net operating revenue due to the Government of Panama.

6. Cost of Work Injuries Compensation.

The Commission administers a program to compensate certain employees for death and disability resulting from workplace injuries or illnesses as set forth 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, who elected coverage on that date. 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 occurring prior to October 1, 1988, adjusted for inflation and interest earned. This is a change from the fiscal year 1987 presentation where there was no fund established and the amounts in both accounts were stated at net present value.

7. 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 at September 30, 1988, was determined as follows:

	<u>Millions of Dollars</u>	
Investment at September 30, 1987		\$ 64.7
Fiscal year 1988 transactions:		
Adjustment for interest accrued		
10/1/79 - 12/31/85.....	\$ 61.7	
Disbursements.....	433.1	
Receipts.....	(456.3)	
Net property transfers.....	<u>(0.4)</u>	
Net change.....		<u>38.1</u>
Investment at September 30, 1988		<u>\$102.8</u>

8. Statement of Cash Flows.

Reflected on this statement is the conversion of the Panama Canal Commission from an appropriated fund agency to a revolving fund agency three months into fiscal year 1988. As such, the statement identifies appropriated funds received during the first quarter of the fiscal year.

9. Extraordinary Activities.

In addition to converting the Panama Canal Commission to a revolving fund agency, Public Law 100-203, The Budget Reconciliation Act of 1987, provided: (a) for restoring \$61.7 million to the interest-bearing investment of the United States Government in the Panama Canal by transferring interest collections prior to January 1, 1986 to the General Fund of the U.S. Treasury, and (b) for reimbursement to the General Fund of the U.S. Treasury of the \$85.6 million balance of the 1980 appropriation to the Commission.

10. Statement of Status of Appropriations.

This statement reflects the conversion of the Panama Canal Commission from an appropriated fund agency to a revolving fund agency. As such, the statement identifies: (a) expenditures made by the Commission during the first quarter operations as an appropriated fund agency, (b) funds transferred to the revolving fund January 1, 1988 and (c) funds returned to the U.S. Treasury, also as of January 1, 1988.

11. Advances for Capital - Transit Booking System Fees.

With the approval of the Board of Directors, a system was activated in fiscal year 1983 whereby shippers, for a fee, can make an advance reservation for vessel transit. This system generated funds of \$8.5 million in fiscal year 1988. Such funds are considered capital advances from Canal users. By direction of the Board of Directors, these fees are set aside for capital improvements. Upon utilization, these advances are amortized through an offset to depreciation expense in an amount calculated to approximate the depreciation on assets acquired with such advances.

12. Contingent Liabilities and Commitments.

In addition to recorded liabilities, the estimated maximum contingent liability which could result from pending claims and lawsuits was \$18.6 million at September 30, 1988. In the opinion of management and Commission counsel, these pending claims and lawsuits will be resolved with no material adverse effect on the financial condition of the agency.

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$42.2 million at September 30, 1988. Of this amount, \$0.1 million in unfilled purchase orders were prepaid as of September 30, 1988.

Cash and negotiable securities of a kind acceptable by the United States Government in the amount of \$11.6 million were held by the United States depositories designated by the Panama Canal Commission at September 30, 1988 to guarantee payment by third parties of their obligations.

The Panama Canal Treaty of 1977, Article XIII, paragraph 4(c), provides that an annual amount of up to \$10 million per year be paid to the Government of Panama out of operating revenues to the extent that such revenues exceed expenditures. Payment to the Government of Panama is subject to the limitations set forth in section 1341(e) of the Act. In the event operating revenues in any year do not produce a surplus sufficient to cover this payment, the unpaid balance shall be paid from operating surpluses in future years up to the amount available from these surpluses. As of September 30, 1988, the balance contingently payable to the Government of Panama amounts to \$81.1 million.

13. Borrowing Authority.

The Panama Canal Commission has authority to borrow funds from the U.S. Treasury not to exceed \$100 million outstanding at any time for any of the purposes of the Commission. At September 30, 1988 none of this amount had been borrowed.

14. Treaty Impact.

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

Supplementary Information

Schedules of Treaty-Related Costs (Unaudited)

Agency	<u>Non-DOD Costs (Savings) Through Fiscal Year 1988</u>		
	<u>Prior FY costs (note a)</u>	<u>FY 1988 costs</u>	<u>Total costs</u>
State Department	\$(12,163,252)	\$(1,795,935)	\$(13,959,187)
Federal Aviation Administration	(27,962,483)	(4,251,300)	(32,213,783)
American Battle Monuments Commission	2,808,203	217,000	3,025,203
Panama Canal Commission	300,000	0	300,000
General Accounting Office	1,398,211	216,040	1,614,251
Smithsonian Tropical Research Institute	2,627,869	349,767	2,977,636
Gorgas Memorial Laboratory	(393,646)	0	(393,646)
Canal Area Court System			
U.S. Attorney	(662,135)	(123,985)	(786,120)
U.S. Marshal	(366,408)	(51,662)	(418,070)
Clerk of Court	(2,987,132)	(599,528)	(3,586,660)
Bureau of Prisons	1,265,913	462,784	1,728,697
Foreign Broadcast Information System	206,092	68,823	274,915
National Oceanic and Atmospheric Administration	<u>11,964</u>	<u>note b</u>	<u>11,964</u>
Total Non-DOD	<u>\$(35,916,804)</u>	<u>\$(5,507,996)</u>	<u>\$(41,424,800)</u>

Notes

- a Includes prior-year adjustments
- b Not recorded

Supplementary Information

Department of Defense (DOD) Costs (Savings)
through FY 1988

<u>Agency</u>	<u>Prior FY costs (note a)</u>	<u>FY 88 costs</u>	<u>Total costs</u>
U.S. Army			
Base Operations	\$122,283,394	\$15,674,267	\$137,957,661
Communications	21,480,072	2,846,012	24,326,084
Commissary	7,838,171	752,620	8,590,791
Transportation	2,899,181	1,885	2,901,066
Technical Assistance	360,240	0	360,240
Health Services	92,236,351	12,748,352	104,984,703
Disposition of Remains	2,250,173	411,767	2,661,940
Criminal Investigations	449,515	148,266	597,781
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	71,533,712	5,742,635	77,276,347
Ports	165,868	0	165,868
Family Housing Operations	<u>8,700,129</u>	<u>3,113,599</u>	<u>11,813,728</u>
Total Army	369,676,794	41,439,403	411,116,197
U.S. Air Force	31,444,258	2,573,464	34,017,722
U.S. Navy	317,816	625,206	943,022
DOD Dependents Schools (note c)	2,787,000	1,100,000	3,887,000
Defense Mapping Agency	<u>1,158,764</u>	<u>note b</u>	<u>1,158,764</u>
Total DOD	<u>\$405,384,632</u>	<u>\$45,738,073</u>	<u>\$451,122,705</u>

Notes

a Includes prior year adjustments

b Not reported

c Obligations incurred rather than actual expenditures

Supplementary Information

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

<u>Agency</u>	<u>Prior transfers</u>	<u>FY 1988 transfers</u>	<u>Total transfers</u>
Department of Defense			
U.S. Army	\$40,338,046	\$ 0	\$40,338,046
U.S. Navy	4,930,769	0	4,930,769
U.S. Air Force	<u>275,874</u>	<u>0</u>	<u>275,874</u>
Total DOD	45,544,689	0	45,544,689
Federal Aviation Administration			
	<u>4,638,360</u>	<u>0</u>	<u>4,638,360</u>
Total	<u>\$50,183,049</u>	<u>\$ 0</u>	<u>\$50,183,049</u>

Supplementary Information

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

<u>Agency</u>	<u>Acquisition Cost</u>		
	<u>Prior transfers</u>	<u>FY 1988 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$168,317,629	\$ 0	\$168,317,629
Panama Canal Commission	<u>28,833,089</u>	<u>392,738</u>	<u>29,225,827</u>
Total	<u>\$197,150,718</u>	<u>\$392,738</u>	<u>\$197,543,456</u>

<u>Agency</u>	<u>Net Book Value</u>		
	<u>Prior transfers</u>	<u>FY 1988 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$ 84,886,222	\$ 0	\$ 84,886,222
Panama Canal Commission	<u>9,562,757</u>	<u>51,992</u>	<u>9,614,749</u>
Total	<u>\$ 94,448,979</u>	<u>\$ 51,992</u>	<u>\$ 94,500,971</u>

Supplementary Information

Schedule of Property, Plant, and Equipment (Unaudited)

September 30, 1988

	<u>Estimated Service Life</u>	<u>Cost</u>	<u>Depreciation and valuation allowances</u>
Titles and treaty rights.....	40 yrs.	\$ 14,728,889	\$ 5,615,390
Interest during construction.....	-	50,892,311	50,892,311
Canal excavation, fills and embankments....	15-100 yrs.	347,555,199	131,595,146
Canal structures and equipment.....	4-100 yrs.	317,897,397	151,022,970
Supporting and general facilities.....	5-100 yrs.	131,459,891	83,223,723
Facilities held for future use.....	10-100 yrs.	2,824,202	2,377,516
Plant additions in progress.....	-	30,607,367	-
Suspended construction projects.....	-	<u>40,145,798</u>	<u>40,145,798</u>
TOTAL.....		<u>\$936,111,054</u>	<u>\$464,872,854</u>

The accompanying notes are an integral part of this statement.

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