United States General Accounting Office

GAO

Report to the Congress

March 1995

FINANCIAL AUDIT

Panama Canal Commission's 1994 and 1993 Financial Statements

GAO

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

Comptroller General
of the United States

B-114839

March 31, 1995

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, 1994 and 1993, 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, 1994 and 1993, 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, management's assertion is fairly stated that internal controls in effect on September 30, 1994, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected on a timely basis. In addition, our 1994 tests for compliance with the provisions of selected laws and regulations disclosed no reportable instances of noncompliance with the provisions we tested. 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 general controls over some of the Commission's computerized information systems 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, 1994, the Commission estimates that the present $124 million in obligations will be recovered from tolls over the remaining life of the Treaty. The ability to cover these future costs including administrative costs is dependent upon (1) obtaining the budgeted levels of Canal operations and (2) future economic events.

The Commission operates as a rate-regulated utility. In fiscal year 1994, 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, compensation benefits for work injuries, retirement benefits for certain former employees, and post-retirement 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 1994 with net operating revenue of $1.7 million, compared to the net operating revenue of $3.0 million for fiscal year 1993. When the fiscal year 1994 net operating revenue is applied to the $0.6 million outstanding balance of unrecovered costs from fiscal year 1992 operations, the $1.1 million balance left is payable to the Republic of Panama as stipulated by the Treaty.

From fiscal years 1990 through 1994, toll and nontoll revenues increased an average of 3.7 percent annually. Fiscal year 1994 total operating revenues increased to $548 million, up 4.1 percent from fiscal year 1993 due mainly to an increase in Canal traffic, principally larger vessels. Nontoll revenues, which consist primarily of navigation services and electric power sales, increased to $145 million during fiscal year 1994, up 3.2 percent from fiscal year 1993.

From fiscal years 1990 through 1994, total operating expenses increased an average of 4.0 percent annually. Fiscal year 1994 total operating expenses increased to $546 million, up 4.3 percent over fiscal year 1993. The following were some of the highlights:

- Tonnage payments to the Republic of Panama increased 4.1 percent in fiscal year 1994 due to the increase in "Panama Canal net tons" passing through the Canal.
- General repair, engineering, and maintenance services increased 7.2 percent in fiscal year 1994 due mainly to an increase in the general level of maintenance and repairs on Canal equipment and facilities.
- Utilities costs increased 12.4 percent in fiscal year 1994 due principally to increased diesel fuel consumption for power generation. Diesel fuel, rather than cheaper bunker C petroleum, was required for turbine power generation to replace the capacity lost while the steam power generators were out of operation for unscheduled repairs.
- Administrative and general costs increased 8.4 percent in fiscal year 1994 due principally to the total recognition of all post-1999 retirement medical care costs. The liability for the cost of repatriation of U.S. citizens was also reevaluated and the increase in costs was recognized.
- Depreciation expense increased 8.4 percent in fiscal year 1994 because of depreciation related to the additions during the year and a one-time increase of $0.9 million in depreciation expense to recognize new service lives for certain plant items.
- Interest paid during fiscal year 1994 on the interest-bearing investment decreased 28.3 percent principally because of lower interest rates and lower amount of U.S. interest-bearing investment on which to pay interest.

Assets, Liabilities, and Capital

By the end of fiscal year 1994, total assets of the Commission decreased by 1.7 percent to $824 million, and total liabilities and reserves decreased by 8.6 percent to $267 million. Capital increased from $546 million to $557 million. The most significant changes in individual account balances by the end of fiscal year 1994 were the following:

- Property, plant, and equipment (excluding depreciation and valuation allowances) increased by a net $35 million to $1,103 million. This increase was due primarily to capital expenditures of a net $40.1 million, offset in part by retirements and transfers of excess assets to other United States government agencies. Capital additions to plant included major items, such as $14.6 million for the replacement and improvement of facilities; $8.6 million for the Canal widening/straightening program; $8.3 million for the replacement and addition of miscellaneous equipment; $4.8 million for improvements to electric power, communication, and water systems; $2.4 million for the replacement of motor vehicles; and $1.0 million for the replacement of launches and launch engines.

- Current assets increased by a net $20 million to $208 million due principally to an increase in cash. Cash increased by $23.3 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 $44 million to $113 million. This was due principally to the amortization of deferred charges for early retirement, compensation benefits for work injuries, post-retirement medical care costs, and retirement benefits for certain former employees.
- Liabilities and reserves decreased by a net $25 million to $267 million, primarily due to the reduction of $35.0 million for certain employee benefits, and the reduction in the reserve for floating equipment. Offsetting these decreases, in part, were increases in the liabilities for employees' leave, repatriation, post-retirement medical care costs, and marine accident claims.
- Capital increased by a net $11 million to $557 million, principally because of a $6.3 million net increase in capital contributions for capital expenditures and a $5.0 million increase in contributions for working capital.

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 U.S. government agencies should not exceed $666 million, adjusted for inflation over the life of the Treaty. As of September 30, 1994, the inflation-adjusted target was $1,333 million.

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 1994, the net reported costs to the U.S. government under the Treaty amounted to $742 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

Charles A. Bowsher
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 1994 and 1993 financial statements to be reliable in all material respects;
- management fairly stated that internal controls on September 30, 1994, provided reasonable assurance that losses, noncompliance or misstatement material in relationship to the financial statements would be prevented or detected on a timely basis; and
- no reportable instances of noncompliance with laws and regulations we tested for the fiscal year ended 1994.

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, in all material respects, in accordance with generally accepted accounting principles, 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, 1994, the Commission had total obligations of \$266.9 million and total resources of \$143.1 million. The net unfunded \$123.8 million in obligations is to be collected from future toll revenues over the remaining life of the Treaty.

Opinion on Internal Controls

We evaluated management's assertion about the effectiveness of internal controls 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 that have a direct and material effect on the financial statements; and
- properly record, process, and summarize transactions to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets.

Management of the Commission fairly stated that those controls in effect on September 30, 1994, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected on a timely basis. Management made this assertion using the internal control and reporting criteria set forth in the implementing guidance for the Federal Managers' Financial Integrity Act (FMFIA) of 1982. We found that management's assertion is consistent with the results of our evaluation of controls.

Compliance With Selected Laws and Regulations

Our tests for compliance with significant provisions of selected laws and regulations disclosed no material instances of noncompliance.

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, 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 generally accepted accounting principles;

- establishing, maintaining, and evaluating the internal control structure to ensure that it provides reasonable assurance that the internal control objectives of FMFIA are met; and
- complying with applicable laws and regulations.

We have the responsibility to obtain reasonable assurance about whether (1) the financial statements are reliable (free of material misstatement and presented fairly in accordance with generally accepted accounting principles) and (2) management's assertion about the effectiveness of internal controls is fairly stated in all material respects based upon the control criteria in GAO's Standards for Internal Controls in the Federal Government required by the FMFIA. 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.

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,
  - Anti-Deficiency Act,
  - Prompt Payment Act,
  - Civil Service Reform Act of 1978, as amended,
  - Fair Labor Standards Act, and
  - Accounting and Auditing Act of 1950;
- 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

- reviewed 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 and implementing guidance, such as those relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to accounting and other 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 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.

Our audit was conducted in accordance with generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions.

Robert W. Gramling for

Comptroller General
of the United States

January 20, 1995

Financial Statement

Statements of Financial Position

September 30, 1994 and 1993
(Dollars in thousands)

ASSETS	1994	1993
PROPERTY, PLANT AND EQUIPMENT:		
At cost	$1,103,072	$1,068,263
Less accumulated depreciation and valuation allowances	599,681	574,250
	503,391	494,013
CURRENT ASSETS:		
Cash	170,673	147,341
Accounts receivable	9,094	9,498
Inventories:		
Storehouse, less allowances for obsolete and excess inventories of $5,600 and $6,400, respectively	25,812	26,226
Fuel	2,054	4,324
	207,633	187,389
DEFERRED CHARGES:		
Early retirement benefits	75,720	90,864
Compensation benefits for work injuries	26,500	44,775
Post-retirement medical care costs	10,880	17,237
Retirement benefits to certain former employees	-	3,260
Unrecovered costs due from subsequent revenues	-	553
	113,100	156,689
	320,733	344,078
TOTAL ASSETS	$ 824,124	$ 838,091

The accompanying notes are an integral part of these statements.

September 30, 1994 and 1993
(Dollars in thousands)

CAPITAL AND LIABILITIES	1994	1993
CAPITAL:		
Investment of the United States Government:		
Interest-bearing (9.390% and 9.621%, respectively).	$ 74,800	$ 98,237
Non-interest-bearing..............................	396,451	373,135
	471,251	471,372
Capital Contributions:		
Working capital..................................	9,000	4,000
Capital expenditures, being amortized.............	76,981	70,670
	85,981	74,670
	557,232	546,042
LIABILITIES AND RESERVES:		
Accounts Payable:		
Commercial vendors and other......................	14,491	15,518
U.S. Government agencies..........................	1,676	1,873
Republic of Panama................................	10,045	9,315
	26,212	26,706
Accrued Liabilities:		
Employees' leave..................................	62,618	59,582
Salaries and wages................................	8,329	7,367
Employees' repatriation...........................	7,624	5,983
Marine accident claims............................	15,432	12,961
Net operating revenue payable to Republic of Panama..	1,099	-
Other...	3,583	3,592
	98,685	89,485
Estimated Liabilities:		
Early retirement benefits.........................	75,720	90,864
Compensation benefits for work injuries............	26,500	44,775
Post-retirement medical care costs................	23,280	20,403
Retirement benefits to certain former employees....	4,426	6,013
	129,926	162,055
Reserves:		
Lock overhauls....................................	2,264	1,914
Marine accidents and casualty losses..............	8,000	8,000
Floating equipment overhauls......................	1,805	3,889
	12,069	13,803
	266,892	292,049
TOTAL CAPITAL AND LIABILITIES.........................	$824,124	$838,091

The accompanying notes are an integral part of these statements.

Statements of Operations

Fiscal Years Ended September 30, 1994 and 1993
(Dollars in thousands)

	1994	1993
OPERATING REVENUES:		
Tolls revenue	$419,219	$400,884
Less contributions for:		
- Working capital	(5,000)	(2,000)
- Capital expenditures	(11,500)	(13,000)
Net tolls revenue	402,719	385,884
Other revenues	145,402	140,876
Total operating revenues	548,121	526,760
OPERATING EXPENSES:		
Payments to Republic of Panama:		
Public services	10,000	10,000
Fixed annuity	10,000	10,000
Tonnage	70,396	67,597
	90,396	87,597
Maintenance of channels, dams, and spillways	41,697	39,376
Navigation service and control	91,766	88,444
Locks operation	57,248	54,837
General repair, engineering, and maintenance services	27,242	25,411
Supply and transportation services	19,290	19,434
Utilities	39,968	35,545
Administrative and general	99,337	91,630
Depreciation	25,756	23,767
Fire and facility protection	15,283	14,352
Interest on interest-bearing investment	7,520	10,486
Other	30,966	32,865
Total operating expenses	546,469	523,744
Net Operating Revenue	1,652	3,016
Prior year loss to be recovered	(553)	(3,569)
	1,099	
NET UNEARNED COSTS TO BE RECOVERED FROM SUBSEQUENT REVENUES	-	$ (553)
NET OPERATING REVENUE PAYABLE TO REPUBLIC OF PANAMA	$ 1,099	

The accompanying notes are an integral part of these statements.

Statements of Changes in Capital

Fiscal Years Ended September 30, 1993 and 1994
(Dollars in thousands)

1993

	Investment of U.S. Government			
	Interest-Bearing	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

1994

	Investment of U.S. Government			
	Interest-Bearing	Non-Interest Bearing	Capital Contributions	Total
CAPITAL AT OCTOBER 1, 1993	$ 98,237	$373,135	$74,670	$546,042
CHANGES IN CAPITAL:				
Expenditures from Panama Canal Revolving Fund	541,608	(541,608)	-	-
Tolls and other receipts deposited into Panama Canal Revolving Fund	(564,924)	564,924	-	-
Property transferred to other U.S. Government agencies	(121)	-	-	(121)
Working capital contributions	-	-	5,000	5,000
Capital expenditure contributions, being amortized	-	-	6,311	6,311
	(23,437)	23,316	11,311	11,190
CAPITAL AT SEPTEMBER 30, 1994	$ 74,800	$396,451	$85,981	$557,232

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

Fiscal Years Ended September 30, 1994 and 1993
(Dollars in thousands)

	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net operating revenue	$ 1,652	$ 3,016
Working capital contributions	5,000	2,000
Adjustments to reconcile net revenue to net cash provided by operating activities:		
Depreciation	25,756	23,767
Net change in reserves and other	(1,561)	704
Changes in operating assets:		
Decrease in accounts receivable	404	305
Decrease in inventories	2,684	1,637
Decrease in deferred charges	43,036	8,891
	46,124	10,833
Changes in operating liabilities:		
Increase in employees' leave	3,036	5,325
Decrease in estimated liabilities	(32,129)	(2,971)
Increase in all other liabilities	4,027	3,022
	(25,066)	5,376
Net change in operating assets and liabilities	21,058	16,209
Net cash provided by operating activities	51,905	45,696
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital contributions	11,500	13,000
Capital expenditures	(40,073)	(35,799)
Net cash used in investing activities	(28,573)	(22,799)
Net increase in cash	23,332	22,897
Cash, beginning of year	147,341	124,444
CASH, END OF YEAR	$170,673	$147,341
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during year for interest	$ 7,538	$ 10,504

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 United States 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 1993 have been reclassified to conform with the current financial statement presentation. Additionally, the presentation of liabilities was modified in fiscal year 1993. The classification of liabilities as current and long term is not meaningful in as much 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 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, 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 3.13 percent in fiscal year 1994 and 2.99 percent in fiscal year 1993.

The recurring costs of dredging the waterway are charged to expense. Non-recurring dredging cost 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 were $11.5 million in fiscal year 1994 and $13.0 million in fiscal year 1993.

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 $5.0 million in fiscal year 1994 and $2.0 million in fiscal year 1993.

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 $75.7 million as of fiscal year 1994 and $90.9 million as of fiscal year 1993.

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". Amounts expensed in fiscal years 1994 and 1993 were $2.2 million and $3.4 million, respectively. The amount for 1994 includes $1.7 million, which completes the funding of the liability. The amount for 1993 includes $2.8 million for the costs of annuities estimated to be paid post 1999.

j. **POST-RETIREMENT MEDICAL CARE COSTS.** 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 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 the post 1999 benefits were recognized in fiscal years 1993 and 1994. The costs for these benefits prior to the year 2000 are recognized as payments are made. The charge to operating expenses for these benefits in fiscal years 1994 and 1993 were $11.8 million and $6.1 million, respectively. The amounts for fiscal years 1994 and 1993 include $9.2 million and $3.2 million, respectively, for post 1999 costs.

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 the 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 United States Treasury up to $100.0 million. No funds were borrowed during fiscal years 1994 and 1993.

3. **NET REVENUE PAYABLE TO THE REPUBLIC OF PANAMA.**

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 revenues for fiscal years 1993 and 1994 were $3.0 million and $1.7 million, respectively; and, when netted against the $3.6 million of outstanding unrecovered costs from fiscal year 1992, leaves a balance of $1.1 million payable to the Republic of Panama.

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 1994 and 1993, the allowance for excess stock was adjusted to $4.6 million and $5.4 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, 1994, was prepared by an independent actuarial firm. The values in that report were used to adjust the asset and liability at year end 1994. The gross amount to be recovered from tolls over the remaining life of the Treaty to retire this liability was $26.5 million in fiscal year 1994 and $44.8 million in fiscal year 1993. This reduction in the amount from 1993 to 1994 was attributable to $9.2 million in payments in 1994 and a change in assumptions and loss experience relative to payments to be made after 1994.

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 $74.8 million at September 30, 1994, and $98.2 million at September 30, 1993.

7. 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 following Statements of Financial Viability, as of September 30, 1994 and 1993, measure the Commission's ability to liquidate all estimated liabilities on December 31, 1999:

STATEMENTS OF FINANCIAL VIABILITY
SEPTEMBER 30, 1994 AND 1993
(Millions of Dollars)

	Sept 30, 1994	Sept 30, 1993
OBLIGATIONS:		
Accounts payable	$ 26.2	$ 26.7
Accrued liabilities	98.7	89.5
Estimated liabilities	129.9	162.0
Reserves	12.1	13.8
TOTAL OBLIGATIONS	266.9	292.0
RESOURCES:		
Cash	170.7	147.3
Accounts receivable	9.1	9.5
Less: Cash collected for capital commitments but not yet expended	(36.7)	(39.9)
TOTAL RESOURCES	143.1	116.9
OBLIGATIONS TO BE FUNDED FROM FUTURE RESOURCES	123.8	175.1
PROGRAMMED RESOURCES FROM FUTURE OPERATIONS:		
Cash to be collected for deferred charges	113.1	156.1
Cash to be collected for unrecovered costs due from subsequent revenues	0.0	0.6
TOTAL PROGRAMMED RESOURCES FROM FUTURE OPERATIONS	113.1	156.7
WORKING CAPITAL DEFICIENCY	10.7	18.4
Programmed resources from future operations for working capital deficiency	10.7	18.4
	$ 0.0	$ 0.0

In fiscal year 1994, the $113.1 million programmed resources from future operations and the $10.7 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 $41.9 million at September 30, 1994 and $45.1 million at September 30, 1993.

c. Cash and negotiable securities held by United States depositories for the Commission to guarantee payment by third parties of their obligations were $17.0 million at September 30, 1994 and $17.4 million at September 30, 1993.

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 $139.1 million at September 30, 1994 and $130.2 million at September 30, 1993. 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 Fiscal Year 1994

Agency	Cumulative Costs 9/30/93	FY 94 Activity	Cumulative Costs 9/30/94
U.S. Army			
Base Operations	$226,471,000	$8,810,659	$235,281,659
Communications	34,179,691	4,493,581	38,673,272
Commissary	9,931,773	38,729	9,970,502
Transportation	2,918,580	3,304	2,921,884
Technical Assistance	360,240	0	360,240
Health Services	197,497,925	19,772,562	217,270,487
Disposition of Remains	5,403,417	428,156	5,831,573
Criminal Investigations	1,205,341	176,853	1,382,194
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	122,058,958	3,054,693	125,113,651
Ports	165,868	0	165,868
Family Housing Operation	17,401,018	939,700	18,340,718
Executive Agent Costs	27,029,152	0	27,029,152
Total U.S. Army	684,102,951	37,718,237	721,821,188
U.S. Air Force	46,783,070	2,706,170	49,489,240
U.S. Navy	2,713,428	632,109	3,345,537
DOD Dependent Schools *	35,462,000	1,566,000	37,028,000
Defense Mapping Agency	1,158,764	0	1,158,764
Total DOD	$770,220,213	$42,622,516	$812,842,729

* Obligations incurred rather than actual expenditures

Non-DOD Costs (Savings) Through Fiscal Year 1994

Agency	Cumulative Costs 9/30/93	FY 94 Activity	Cumulative Costs 9/30/94
State Department	($22,936,321)	(1,795,439)	($24,731,760)
Federal Aviation Administration	(53,470,283)	(4,251,300)	(57,721,583)
American Battle Monuments Commission	4,332,234	307,000	4,639,234
Panama Canal Commission	300,000	0	300,000
General Accounting Office	2,472,070	416,460	2,888,530
Smithsonian Tropical Research Institute	5,981,606	662,210	6,643,816
Gorgas Memorial Laboratory	(257,351)	0	(257,351)
Canal Area Court System			
U.S. Attorney	(1,516,469)	(152,777)	(1,669,246)
U.S. Marshall	(715,856)	(66,544)	(782,400)
Clerk of Court	(4,214,415)	0	(4,214,415)
Bureau of Prisons	2,751,700	45,777	2,797,477
Foreign Broadcast Information System	778,684	117,909	896,593
National Oceanic & Atmospheric Administration	78,679	0	78,679
Total Non-DOD	($66,415,722)	($4,716,704)	($71,132,426)
Total DOD	770,220,213	42,622,516	812,842,729
Total DOD and Non-DOD	$703,804,491	$37,905,812	$741,710,303

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

Agency	Cumulative Transfers 9/30/93	FY 94 Transfers	Cumulative Transfers 9/30/94
Department of Defense			
U.S. Army	$49,502,046	$2,797,042	$52,299,088
U.S. Navy	12,530,769	0	12,530,769
U.S. Air Force	284,874	0	284,874
Total DOD	62,317,689	2,797,042	65,114,731
Federal Aviation Administration	4,638,360	0	4,638,360
Total	$66,956,049	$2,797,042	$69,753,091

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

Agency	Acquisition Costs: Cumulative Transfers 9/30/93	FY 94 Transfers	Cumulative Transfers 9/30/94
Canal Zone Government and Panama Canal Company	$168,317,629	$0	$168,317,629
Panama Canal Commission	35,653,803	0	35,653,803
Total	$203,971,432	$0	$203,971,432

Agency	Net Book Value: Cumulative Transfers 9/30/93	FY 94 Transfers	Cumulative Transfers 9/30/94
Canal Zone Government and Panama Canal Company	$84,886,222	$0	$84,886,222
Panama Canal Commission	11,100,846	0	11,100,846
Total	$95,987,068	$0	$95,987,068

Schedule of Property, Plant, and Equipment

September 30, 1994 and 1993
(Dollars in Thousands)

		1994		1993	
	Estimated Service Life	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
Titles and treaty rights	40 yrs.	$14,729	$7,825	$14,729	$7,456
Interest during construction	-	50,892	50,892	50,892	50,892
Canal excavation, fills and embankments	15-100 yrs.	355,900	182,935	350,989	174,262
Canal structures and equipment	4-100 yrs.	410,462	196,383	398,523	186,933
Supporting and general facilities	3-100 yrs.	197,638	120,008	187,744	112,876
Facilities held for future use	10-100 yrs.	1,657	1,492	1,863	1,683
Plant additions in progress	-	31,446	-	25,377	-
Suspended construction projects	-	40,148	40,146	40,148	40,146
TOTAL		$1,103,072	$599,681	$1,068,263	$574,250

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