United States General Accounting Office

GAO

Report to the Congress

September 1993

FINANCIAL AUDIT

Panama Canal Commission's 1992 and 1991 Financial Statements

GAO/AIMD-93-22

GAO

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

Comptroller General
of the United States

B-114839

September 10, 1993

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, 1992 and 1991, 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, 1992 and 1991, and the results of its operations, changes in the investment of the U.S. government, 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, 1992, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected. Our 1992 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 data processing and other operations which were not material to the financial statements. These matters are being communicated for the Commission's consideration 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.

To do this, the Commission needs to recover all of its costs from its revenues. The Commission operates as a rate-regulated utility, with approximately 73 percent of revenue obtained from tolls and the remaining 27 percent from nontoll revenue, such as navigation fees and electric power sales. 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. Early retirement and worker injury compensation benefit costs are being funded from Canal revenues on an accelerated basis so as to be fully funded by 1999.

Results of Operations

The Commission ended fiscal year 1992 with a net operating loss of $3.6 million, compared to net operating revenue of $3.6 million for fiscal year 1991. The net operating loss for 1992 was deferred as unearned costs to be recovered from subsequent revenues.

From 1988 through 1992, toll and nontoll revenues increased an average of 3.1 percent annually. Fiscal year 1992 total operating revenues remained almost constant at $506 million, down only 0.2 percent from fiscal year 1991. This was due to a slight decrease in the number of oceangoing vessels transiting the Canal during fiscal year 1992. Nontoll revenue, which consists primarily of navigation fees and electric power sales, increased slightly to $139 million during fiscal year 1992, up less than 0.9 percent from 1991.

From 1988 through 1992, total operating expenses increased an average of 3.1 percent annually. Fiscal year 1992 total operating expenses increased to $509 million, up 1.3 percent over fiscal year 1991. Most operating costs remained fairly constant between 1991 and 1992. Some of the highlights were the following:

- Tonnage payments to the Republic of Panama decreased 1.5 percent in 1992, due to a slight decrease in ocean-going traffic.
- Cost of maintenance of channels, dams, and spillways increased 13.2 percent over 1991, due to dredging of Canal waterways and overhauls of equipment.

- Supply and transportation services expense decreased 18.6 percent in 1992 principally because of a one-time $5.6 million increase in 1991 to the allowance for excess inventory. This adjustment was revised to $5.2 million in 1992.
- Administrative and general costs increased 2.8 percent in 1992 due principally to normal inflationary trends and an increase in the payments to the Department of Labor for Federal Employee Compensation Act benefits. These increases were offset in part by lower than expected costs for other employee benefits.
- Depreciation expense increased by 21.4 percent in 1992 due to an increase in the capitalization of work in process, principally transit and communication facilities and equipment. Other increases to depreciation expense resulted from studies made to determine the adequacy of the service lives of certain assets.

Assets, Liabilities, and Capital

Between September 30, 1991, and September 30, 1992, total assets of the Commission declined by 3.7 percent to $824 million, and total liabilities declined by 8.1 percent, to $352 million. U.S. government capital declined slightly, from $473.2 million to $472.3 million. The most significant changes in individual account balances for this period were the following:

- Property, plant, and equipment (excluding depreciation) increased by a net $16 million in 1992 to $1,038 million. This increase was due primarily to the more timely capitalization of construction costs, 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 $8.1 million for replacements and improvements to facilities, $3.1 million for the Canal widening/straightening program, $3 million of improvements to electric power and communication systems, $2 million for motor vehicle replacements, $1.9 million for replacement of launches and launch engines, and $1.1 million for replacement of an anchor barge.
- Current assets decreased in 1992 by $6 million to $167 million, due primarily to lower cash balances caused by the $3.6 million operating loss in fiscal year 1992, a $2.1 million decrease in accounts receivable, and a $1.7 million decrease in fuel inventory.
- Deferred charges declined by $17 million in 1992 to $169 million, primarily due to amortization of deferred charges for early retirement and workers' compensation benefits.
- Current liabilities decreased in 1992 by $14 million to $130 million, primarily due to the settlement of several long-standing marine accident

claims and the payment of a fuel oil purchase for which payment was pending at the end of fiscal year 1991.

- Long-term liabilities decreased $22 million in 1992 to $159 million, primarily due to the amortization of employee benefits.

Treaty Related Costs

We are required by the Panama Canal Act of 1979 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 1992, the net reported costs to the U.S. government under the Treaty amounted to $648 million, which is less than the act's inflation-adjusted target of $1,261 million as of September 30, 1992.

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, the Secretaries of State and Defense, the Acting Secretary of the Army, the Chairman of the Board of Directors of the Panama Canal Commission, and the Administrator of the Panama Canal Commission.

Milton J. Socolar

Acting 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 1992 and 1991 financial statements to be reliable in all material respects;
- internal controls on September 30, 1992, 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 1992.

Each of these conclusions is outlined in more detail below. This report also presents unaudited supplemental information and discusses 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 the investment of the United States government; and
- cash flows.

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, 1992, provided reasonable assurance that losses, noncompliance, or misstatements material in relation 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 1992 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 purposes of additional analysis. We obtained treaty related cost data from other federal agencies and reviewed it 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:
  - financial reporting and budgeting,
  - treasury,
  - inventory,
  - fixed assets,
  - revenue,
  - expenditures, and
  - payroll;
- tested compliance with certain provisions of the following laws and regulations:
  - Panama Canal Act of 1979,
  - Anti-deficiency 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.

Milton J. Socolar

Acting Comptroller General
of the United States

May 6, 1993

Financial Statements

Statements of Financial Position

September 30, 1992 and 1991
(Dollars in thousands)

ASSETS	1992	1991
PROPERTY, PLANT AND EQUIPMENT:		
At cost	$1,038,128	$1,022,626
Less accumulated depreciation and valuation allowances	548,905	525,303
	489,223	497,323
CURRENT ASSETS:		
Cash	124,542	127,135
Accounts receivable	9,567	11,687
Inventories:		
Storehouse, less allowance for obsolete and excess inventory of $6,200 and $6,467, respectively	28,708	28,732
Fuel	3,479	5,168
Other	235	205
	166,531	172,927
DEFERRED CHARGES:		
Early retirement benefits	106,008	121,152
Compensation benefits for work injuries	54,346	59,530
Retirement benefits to certain former employees	4,673	5,178
Unrecovered costs due from subsequent revenues	3,569	-
	168,596	185,860
TOTAL ASSETS	$ 824,350	$ 856,110

The accompanying notes are an integral part of this statement.

September 30, 1992 and 1991
(Dollars in thousands)

CAPITAL AND LIABILITIES	1992	1991
CAPITAL:		
Investment of the United States Government:		
Interest-bearing (9.786% and 9.949%, respectively)	$122,271	$120,557
Non-interest-bearing	349,980	352,622
	472,251	473,179
CURRENT LIABILITIES:		
Accounts payable:		
Commercial vendors and other	14,484	17,706
U.S. Government agencies	2,172	1,905
Republic of Panama	9,060	8,827
	25,716	28,438
Accrued liabilities:		
Employees' leave	54,257	50,590
Salaries and wages	6,767	4,826
Early retirement benefits	15,144	15,144
Compensation benefits for work injuries	9,093	8,460
Retirement benefits to certain former employees	626	692
Employees' repatriation	731	785
Marine accident claims	12,593	21,034
Net operating revenue payable to Republic of Panama	-	875
Other	2,148	1,969
	101,359	104,375
Other current liabilities:		
Working capital contributions	2,000	-
Capital contributions - unexpended	-	9,079
Other	1,200	2,100
	3,200	11,179
	130,275	143,992
DEFERRED CREDIT:		
Capital contributions being amortized	62,507	57,760
LONG-TERM LIABILITIES AND RESERVES:		
Early retirement benefits	90,864	106,008
Compensation benefits for work injuries	45,253	51,070
Retirement benefits to certain former employees	4,047	4,486
Employees' repatriation	5,762	6,121
Lock overhauls	2,082	1,957
Marine accidents and casualty losses	8,000	8,000
Floating equipment overhauls	3,309	3,537
	159,317	181,179
TOTAL CAPITAL AND LIABILITIES	$824,350	$856,110

The accompanying notes are an integral part of this statement.

Statements of Operations

Fiscal Years Ended September 30, 1992 and 1991
(Dollars in thousands)

	1992	1991
OPERATING REVENUES:		
Tolls revenue	$368,663	$374,625
Less - Working capital contributions	(2,000)	-
- Capital contributions	-	(5,929)
Net tolls revenue	366,663	368,696
Other revenues	138,913	137,725
Total operating revenues	505,576	506,421
OPERATING EXPENSES:		
Payments to Republic of Panama:		
Public services	10,000	10,000
Fixed annuity	10,000	10,000
Tonnage	66,563	67,593
	86,563	87,593
Maintenance of channels, dams and spillways	40,338	35,628
Navigation service and control	84,768	86,221
Locks operation	51,766	53,778
General repair, engineering and maintenance services	25,098	25,775
Supply and transportation services	19,425	23,851
Utilities	35,932	31,772
Administrative and general	80,812	78,576
Depreciation	27,535	22,685
Fire and facility protection	14,707	13,351
Interest on interest-bearing investment	11,492	11,544
Other	30,709	32,059
Total operating expenses	509,145	502,833
Net Operating Revenue (Loss)	(3,569)	3,588
Recovery of prior year losses	-	(2,713)
		875
NET UNEARNED COSTS TO BE RECOVERED FROM SUBSEQUENT REVENUES	$ (3,569)	-
NET OPERATING REVENUE PAYABLE TO REPUBLIC OF PANAMA		$ 875

The accompanying notes are an integral part of this statement.

Statements of Changes in the Investment of the United States Government

Fiscal Years Ended September 30, 1991 and 1992
(Dollars in thousands)

1991	Invested Capital: Interest-Bearing	Invested Capital: Non-Interest Bearing	Total
INVESTMENT AT OCTOBER 1, 1990	$133,176	$340,663	$473,839
CHANGES IN INVESTMENT:			
Expenditures from Panama Canal Revolving Fund	503,009	(503,009)	-
Tolls and other receipts deposited into Panama Canal Revolving Fund	(515,001)	515,001	-
Net change in undeposited receipts	-	(33)	(33)
Adjustments for properties previously transferred to Republic of Panama	(63)	-	(63)
Property transferred to other U.S. Government agencies	(564)	-	(564)
	(12,619)	11,959	(660)
INVESTMENT AT SEPTEMBER 30, 1991	$120,557	$352,622	$473,179

1992	Invested Capital: Interest-Bearing	Invested Capital: Non-Interest Bearing	Total
INVESTMENT AT OCTOBER 1, 1991	$120,557	$352,622	$473,179
CHANGES IN INVESTMENT:			
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 the 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)
	1,714	(2,642)	(928)
INVESTMENT AT SEPTEMBER 30, 1992	$122,271	$349,980	$472,251

The accompanying notes are an integral part of this statement.

Statements of Cash Flows

Fiscal Years Ended September 30, 1992 and 1991
(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	1992	1991
Net operating revenue (loss)	$ (3,569)	$ 3,588
Working capital contributions	2,000	-
Adjustments to reconcile net revenue (loss) to net cash provided by operating activities:		
Depreciation	27,535	22,685
Net change in reserves and other	(840)	2,455
Changes in operating assets and liabilities:		
Decrease in receivables	2,120	1,644
Decrease in inventories	1,713	6,100
(Increase)/decrease in other assets	(29)	14
Increase/(decrease) in liabilities	(5,727)	4,453
Total adjustments	24,772	37,351
Net cash provided by operating activities	23,203	40,939
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital contributions	-	5,929
Capital expenditures	(25,796)	(34,214)
Net cash used in investing activities	(25,796)	(28,285)
Net increase/(decrease) in cash	(2,593)	12,654
Cash, beginning of year	127,135	114,481
CASH, END OF YEAR	$124,542	$127,135
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during year for interest	$ 11,691	$ 11,562

The accompanying notes are an integral part of this statement.

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 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 and 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 1991 have been reclassified to conform with the current financial statement presentation.

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, 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 3.41 percent in 1992 and 2.90 percent in 1991.

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. **CAPITAL CONTRIBUTIONS.** The Board of Directors may program a portion of tolls in excess of depreciation for plant replacement, expansion, or improvements. Such funds are considered capital contributions from Canal users. 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. In fiscal year 1992, no amount was programmed. For fiscal year 1991, $5.9 million were programmed.

f. **WORKING CAPITAL.** The Board of Directors may program a portion of tolls as contributions for working capital. Such funds are used to finance increases in amounts for storehouse inventories, primarily as a result of inflation. Working capital contributions in fiscal year 1992 were $2.0 million. No contributions were programmed in fiscal year 1991.

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.

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 a current year expense. Annual amounts expended for this plan were $1.0 million and $1.1 million in fiscal years 1992 and 1991, respectively. The liability for future annuity payments is reflected in the Statement of Financial Position as "Retirement benefits to certain former employees" and an equal amount is recorded as a deferred charge.

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 $106.0 million as of fiscal year 1992 and $121.2 million as of fiscal year 1991.

j. **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.

k. **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.

l. **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.

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 U.S. Treasury up to $100.0 million. No funds were borrowed during fiscal years 1992 and 1991.

3. UNRECOVERED COSTS DUE FROM SUBSEQUENT REVENUES.

The $3.6 million net loss from fiscal year 1992 operations was deferred as an unearned cost to be recovered from subsequent revenues. As such, it must be deducted from any future net operating revenue due the Republic of Panama.

4. NET REVENUE PAYABLE TO REPUBLIC OF PANAMA.

As of September 30, 1989, cumulative unrecovered costs from prior years operations were $9.7 million. Of that amount, $7.0 million was recovered in fiscal year 1990 and $2.7 million was recovered in fiscal year 1991. The balance of net operating revenues earned in fiscal year 1991 of $0.9 million was paid to the Republic of Panama in April 1992.

5. 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 inventory items retained for possible use, but whose actual use most often does not occur. During fiscal year 1991, a comprehensive evaluation of inventory items that are infrequently issued, but retained for possible use, was completed. This evaluation indicated a requirement for an allowance of $5.6 million for these items. The evaluation completed for fiscal year 1992 indicated reduced requirement of $5.2 million and the allowance was adjusted accordingly.

6. COMPENSATION BENEFITS FOR WORK INJURIES.

The Commission administers a program to compensate certain employees for death and disability resulting from performance of duty injuries or illnesses as set forth in the Federal Employees' Compensation Act. 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, 1991, was prepared by an independent actuarial firm. The values in that report were used to adjust the assets and liabilities at year-end 1991. The report also served as the basis for determining the adequacy of the assets and liabilities at year-end 1992. The gross amount to be recovered from tolls over the remaining life of the Treaty to retire this liability is $54.3 million in fiscal year 1992 and $59.5 million in fiscal year 1991.

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 was $122.3 million at September 30, 1992 and $120.6 million at September 30, 1991.

8. CONTINGENT LIABILITIES AND COMMITMENTS.

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.

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to $44.4 million at September 30, 1992 and $31.7 million at September 30, 1991.

Cash and negotiable securities held by United States depositories for the Commission to guarantee payment by third parties of their obligations were $15.3 million and $14.5 million at September 30, 1992 and 1991, respectively.

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 $120.2 million and $110.2 million at September 30, 1992 and 1991, 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 1992

Agency	Cumulative Costs 9/30/91	FY 92 Activity	Cumulative Costs 9/30/92
U.S. Army			
Base Operation	$194,181,980	$23,248,979	$217,430,959
Communications	32,826,773	764,842	33,591,615
Commissary	9,791,954	70,804	9,862,758
Transportation	2,907,103	7,146	2,914,249
Technical Assistance	360,240	0	360,240
Health Services	157,766,576	19,774,206	177,540,782
Disposition of Remains	3,874,969	833,557	4,708,526
Criminal Investigations	933,404	99,382	1,032,786
Tropical Test Center	35,408	0	35,408
Procurement of Equipment	3,046,789	0	3,046,789
Miltary Construction	36,397,791	0	36,397,791
Military Pay	96,091,171	14,275,214	110,366,385
Ports	165,868	0	165,868
Family Housing Operations	14,430,984	1,911,941	16,342,925
Executive Agent Costs	9,695,152	5,257,000	14,952,152
Total U.S. Army	562,506,162	66,243,071	628,749,233
U.S. Air Force	41,124,950	2,748,538	43,873,488
U.S. Navy	1,580,203	519,700	2,099,903
DOD Dependent Schools*	27,692,000	6,397,000	34,089,000
Defense Mapping Agency	1,158,764	0	1,158,764
Total DOD	$634,062,079	$75,908,309	$709,970,388

* Obligations incurred rather than actual expenditures

Non-DOD Costs (Savings) Through Fiscal Year 1992

Agency	Cumulative Costs 9/30/91	FY 92 Activity	Cumulative Costs 9/30/92
State Department	($19,354,282)	($1,789,240)	($21,143,522)
Federal Aviation Administration	(44,967,683)	(4,251,300)	(49,218,983)
American Battle Monuments Commission	3,801,950	254,284	4,056,234
Panama Canal Commission	300,000		300,000
General Accounting Office	1,879,145	255,645	2,134,790
Smithsonian Tropical Research Institute	4,632,889	662,645	5,295,534
Gorgas Memorial Laboratory	(257,351)	0	(257,351)
Canal Area Court System	0	0	0
U.S. Attorney	(1,223,182)	(144,619)	(1,367,801)
U.S. Marshall	(589,075)	(62,300)	(651,375)
Clerk of Court	(4,214,415)	0	(4,214,415)
Bureau of Prisons	2,664,358	41,493	2,705,851
Foreign Broadcast Information System	597,870	87,484	685,354
National Oceanic & Atmospheric Administration	78,679	0	78,679
Total Non-DOD	($56,651,097)	($4,945,908)	($61,597,005)
Total DOD	634,062,079	75,908,309	709,970,388
Total DOD and Non-DOD	$577,410,982	$70,962,401	$648,373,383

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

Agency	Cumulative Transfers 9/30/91	FY 92 Transfers	Cumulative Transfers 9/30/92
Department of Defense			
U.S. Army	$46,288,046	$0	$46,288,046
U.S. Navy	4,930,769	7,600,000	12,530,769
U.S. Air Force	275,874	9,000	284,874
Total DOD	51,494,689	7,609,000	59,103,689
Federal Aviation Administration	4,638,360	0	4,638,360
Total	$56,133,049	$7,609,000	$63,742,049

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

	Acquisition Cost		
Agency	Cumulative Transfers 9/30/91	FY 92 Transfers	Cumulative Transfers 9/30/92
Canal Zone Government and Panama Canal Company	$168,317,629	$0	$168,317,629
Panama Canal Commission	29,225,827	3,360,423	32,586,250
Total	$197,543,456	$3,360,423	$200,903,879

	Net Book Value		
Agency	Cumulative Transfers 9/30/91	FY 92 Transfers	Cumulative Transfers 9/30/92
Canal Zone Government and Panama Canal Company	$84,886,222	$0	$84,886,222
Panama Canal Commission	9,614,749	811,915	10,426,664
Total	$94,500,971	$811,915	$95,312,886

Schedules of Property, Plant, and Equipment

September 30, 1992 and 1991
(Dollars in thousands)

	Estimated Service Life	1992 Cost	1992 Depreciation and valuation allowances	1991 Cost	1991 Depreciation and valuation allowances
Titles and treaty rights	40 yrs.	$14,729	$7,088	$14,729	$6,720
Interest during construction	–	50,892	50,892	50,892	50,892
Canal excavation, fills and embankments	15–100 yrs.	349,155	165,686	348,240	157,284
Canal structures and equipment	4–100 yrs.	389,242	178,847	354,859	170,779
Supporting and general facilities	3–100 yrs.	177,338	104,488	163,509	96,905
Facilities held for future use	10–100 yrs.	1,949	1,758	3,331	2,577
Plant additions in progress	–	14,677	–	46,920	–
Suspended construction projects	–	40,146	40,146	40,146	40,146
TOTAL		$1,038,128	$548,905	$1,022,626	$525,303

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