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# REPORT TO THE CONGRESS



Examination Of The  
Financial Statements Of The  
Panama Canal Company  
And Canal Zone Government  
For Fiscal Year 1973

B-174839

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

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MARCH 6, 1974



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-114839

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

This is our report on the examination of the financial statements of the Panama Canal Company and the Canal Zone Government for the fiscal year ended June 30, 1973.

Our examination of the Company's financial statements was made pursuant to the Government Corporation Control Act (31 U.S.C. 841). We examined the Canal Zone Government's financial statements because the Company and the Canal Zone Government are closely related in mission and organization, and the Company is required by law to absorb the net cost of the Government.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of the Army; and the President of the Panama Canal Company.

*James B. Stacks*

Comptroller General  
of the United States

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ABBREVIATIONS

GAO General Accounting Office

D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act requires GAO to examine the Panama Canal Company's annual financial statements. Because the Company and the Canal Zone Government--the independent agency of the United States charged with the civil government of the Canal Zone--are closely related in mission and organization and the Company is required by law to absorb the net cost of the Canal Zone Government, GAO also examines the Government's annual financial statements.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the Company's financial statements accompanying the report, except for not recognizing depreciation on certain assets, present fairly its financial position at June 30, 1973, the results of its operations, changes in the investment of the United States, and source of Company funds used for capital expenditures for the fiscal year then ended, in conformity with generally accepted accounting principles

which, except for certain changes with which GAO concurs, have been applied on a basis consistent with the preceding year and with applicable Federal laws. (See p. 20.)

GAO also believes that the Canal Zone Government's financial statements present fairly its financial position at June 30, 1973, and the results of its operations and changes in the investment of the United States for the fiscal year then ended in conformity with principles and standards of accounting prescribed for executive agencies by the Comptroller General applied on a basis consistent with that of the preceding year--except for certain changes with which GAO concurs in the basis of capitalizing and depreciating assets. (See p. 20.)

The Company plans to begin annual depreciation charges of \$8.3 million during fiscal year 1974 on certain assets costing \$332 million which historically have not been depreciated. However, GAO has qualified its opinion on the Company's financial statements for fiscal

year 1973 because depreciation was not recognized on these assets during that year. (See pp. 11 and 12.)

The Company changed several of its accounting policies effective fiscal year 1973 which will enable it to more accurately recognize cost at a time when the related revenues accrue and value certain assets at their estimated realizable value. The total effect of the policy changes in fiscal year 1973 was to increase operating expenses by approximately \$3.9 million. (See pp. 12 through 16.)

The Canal Zone Government also implemented two accounting changes which were consistent with the policy changes of the Company. The effect of these changes in fiscal year 1973 was to increase the operating expense of the Canal Zone Government by about \$645,000, which, since the Company is required by law to absorb the net cost of the Canal Zone

Government, also increased the operating expense of the Company by the same amount. (See p. 13.)

#### OTHER MATTERS OF INTEREST

The report also includes a description of certain annual costs of about \$2.2 million that the U.S. Government contributes to the operation of the Canal which, pursuant to law, are excluded from the Company's financial statements. (See p. 16.)

#### RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress, as required by law, to disclose the results of GAO's examination and such other information as necessary to keep the Congress informed on the operations and financial conditions of the Company.

## CHAPTER 1

### INTRODUCTION

The Panama Canal Company, known as the Panama Railroad Company until it was renamed in 1951 by the Act of September 26, 1950 (64 Stat. 1038), was created in 1849 under the laws of the State of New York as a private corporation, acquired by the United States in 1904, and reincorporated under a Federal charter in 1948. It is a wholly owned Government corporation responsible for operating and maintaining the Canal and its supporting activities.

The act also redesignated the Panama Canal (the agency) as the Canal Zone Government. The Canal Zone Government, an independent U.S. agency, is responsible in the Canal Zone for the functions normally associated with civil government, including education, health, sanitation, and protection. The enterprise as a whole is referred to throughout this report as the Canal organization.

The functions of the Company pertaining to the waterway include transit operations and the maintenance of the canal and locks. Supporting service activities include harbor-terminal, supply, and vessel-repair operations; steamship and railroad operations; electric power, communication, and water systems; and other services--such as retail stores and rental housing--essential to employee welfare. In addition, under the terms of an interagency agreement, the Company acts as an agent in administering various functions for the Canal Zone Government. These functions include such services as legal and personnel matters; budget and accounting operations; and payment of the monthly operating and construction costs of the Canal Zone Government.

Some of the activities carried out by the Canal organization are illustrated in the photographs on pages 7 through 10.

The management of the Company is vested in a board of directors; the management of the Canal Zone Government is vested in the Governor of the Canal Zone who is also the President of the Company. Both organizations are subject

to the supervision of the President of the United States, who has delegated this authority to the Secretary of the Army. An organization chart of the Canal organization is presented on page 6.

### FINANCING OF ACTIVITIES

The Canal organization is designed to be financially self-sustaining with respect to its operating expenses, including depreciation on assets. The Company finances its operating and capital expenditures with revenue from its transit tolls and supporting service operations. Further, it may borrow from the United States Treasury, for any of the purposes of the Company, an amount not to exceed \$10 million outstanding at any time. Congressional appropriations are used to repay the Company for operating and capital expenditures made on behalf of the Canal Zone Government. However, the Company is required by law to reimburse the Treasury for the net operating cost of the Canal Zone Government.

Tolls from canal transits are the major source of revenue for the Company. The toll rates are regulated by the President of the United States and the terms of the Canal Zone Code. The basis of the toll rates is prescribed by section 412(b) of title 2 of the Canal Zone Code as follows:

"Tolls shall be prescribed at rates calculated to cover, as nearly as practicable, all costs of maintaining and operating the Panama Canal, together with the facilities and appurtenances related thereto, including interest and depreciation, and an appropriate share of the net costs of operation of the agency known as the Canal Zone Government."

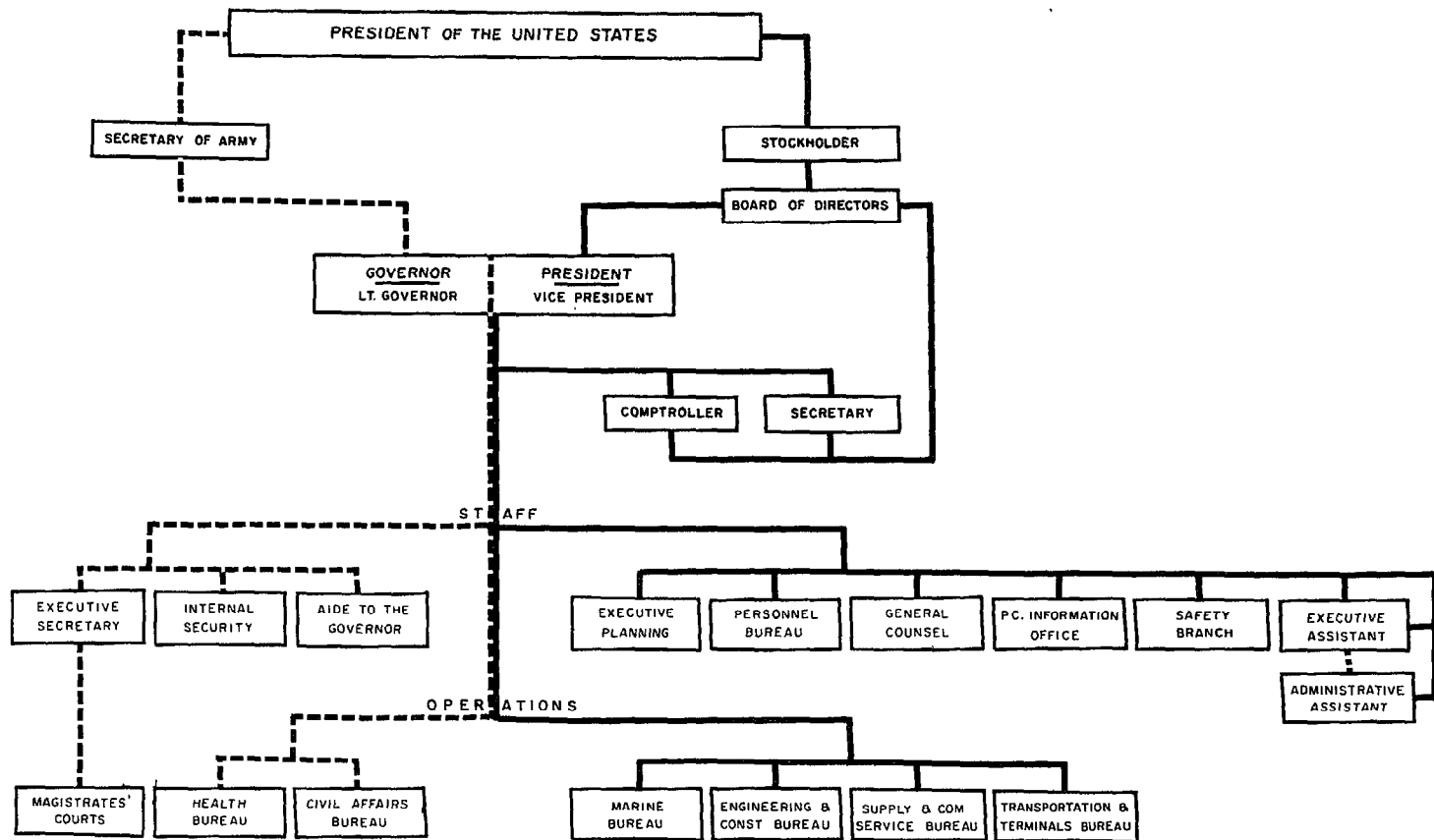
Except for a slight adjustment in 1938, Canal toll rates have remained the same as initially established in 1914. The Company, however, is in the process of evaluating the adequacy of the toll rates.

The Company may prescribe changes to the toll rates subject to the approval of the President of the



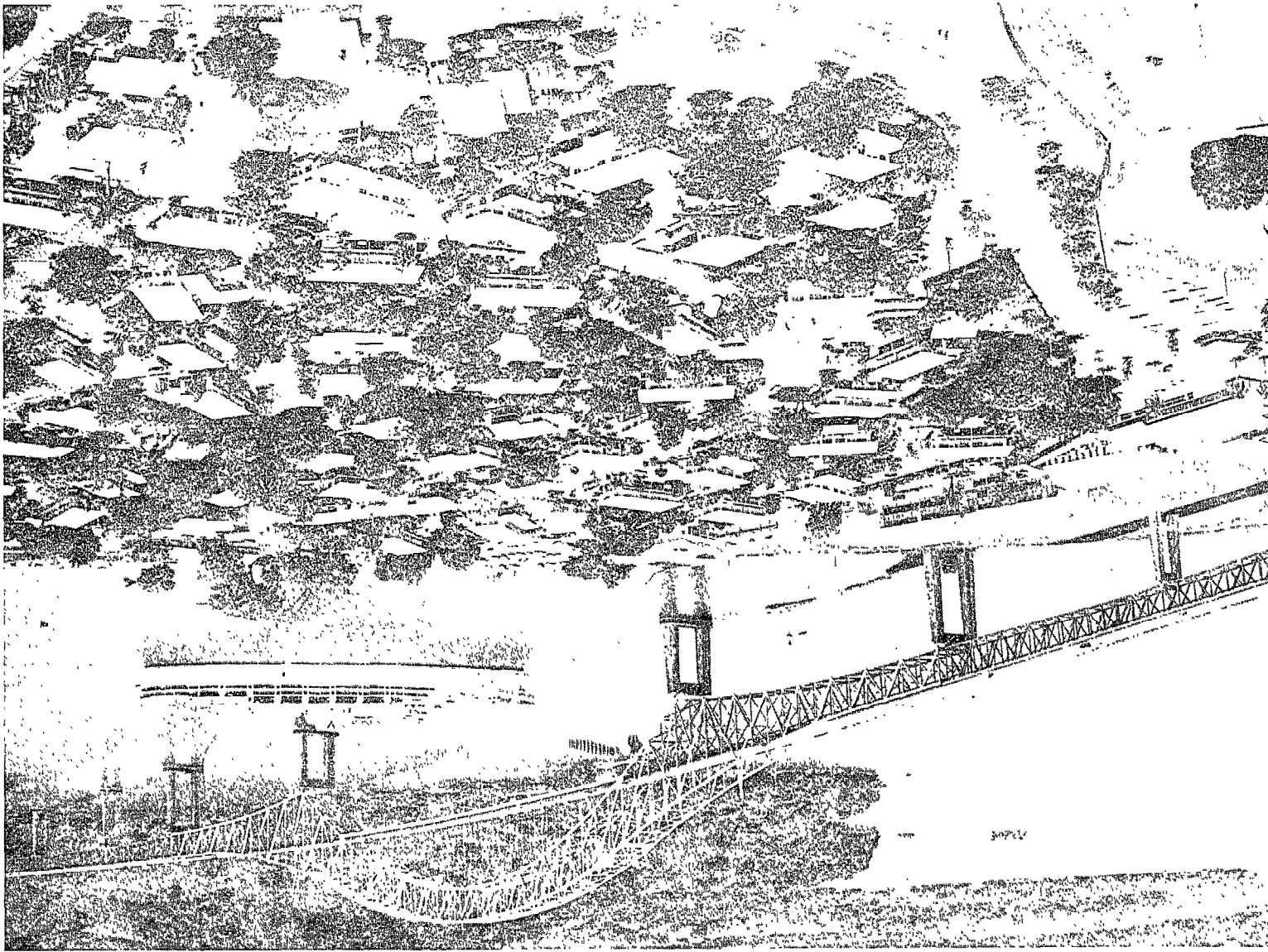
United States and only after notice of the proposed changes has been published 6 months in advance in the Federal Register and a public hearing has been conducted.

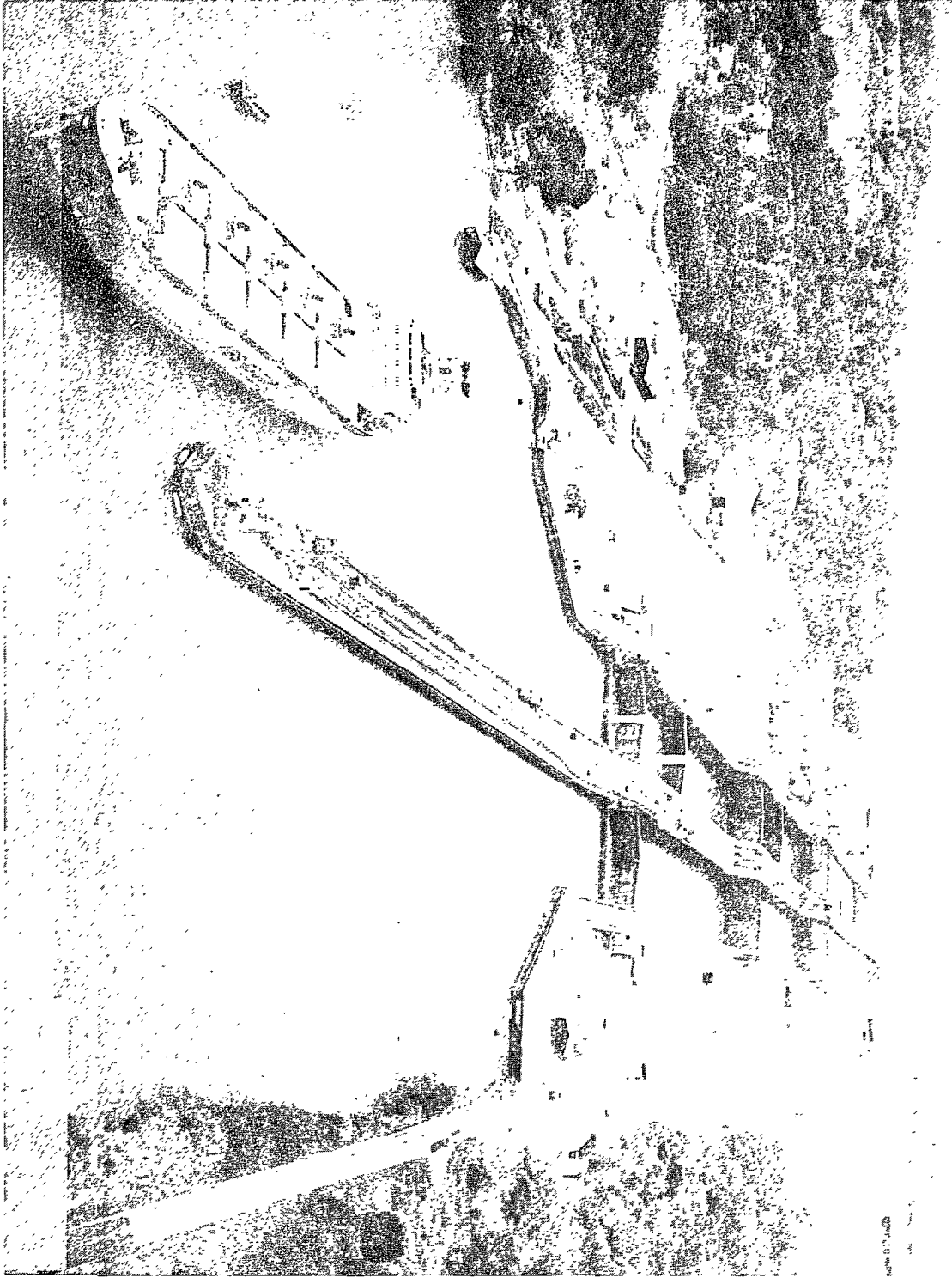
ORGANIZATION CHART  
OF THE  
CANAL ORGANIZATION



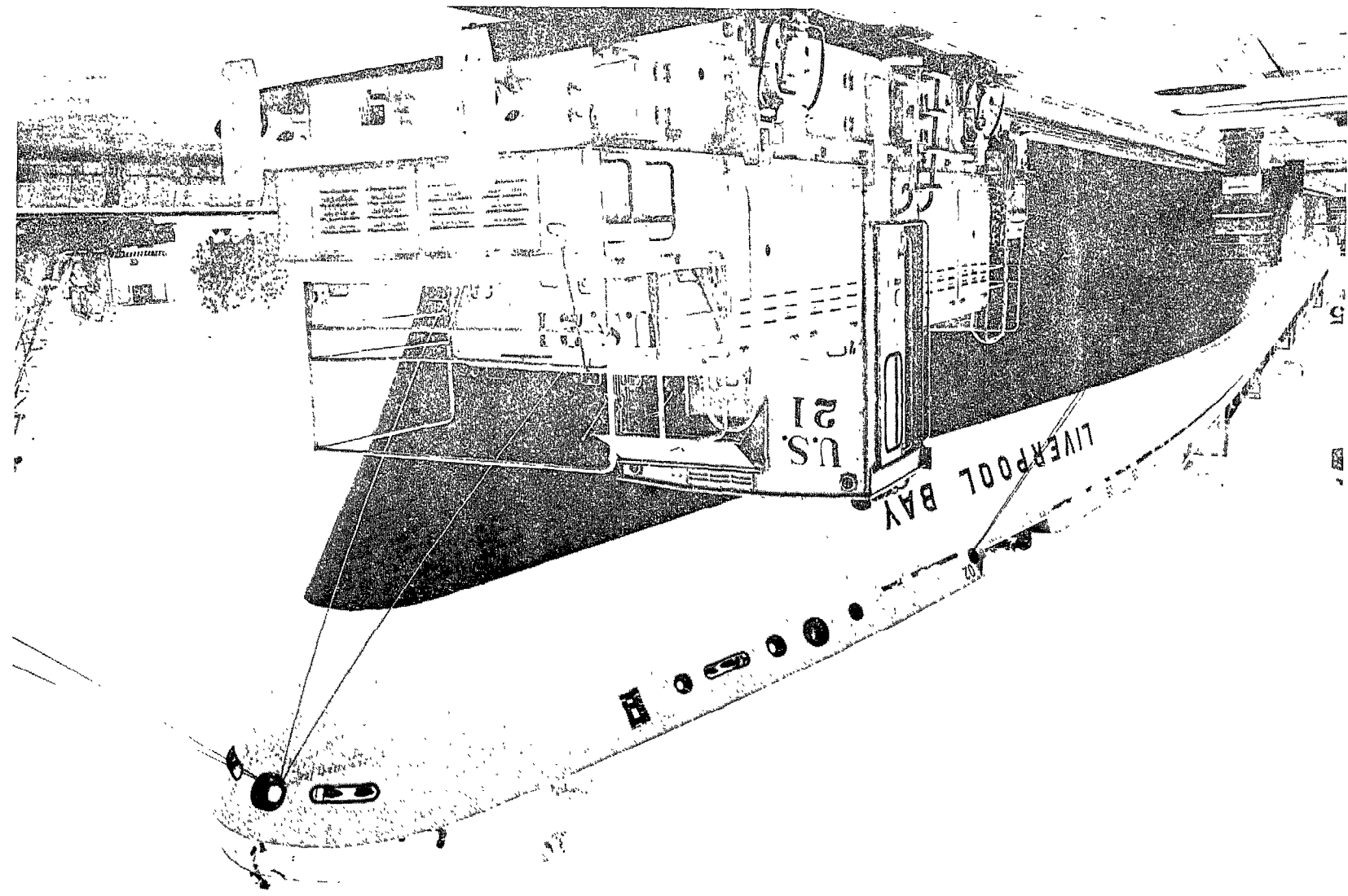
CANAL ZONE GOVERNMENT

PANAMA CANAL COMPANY

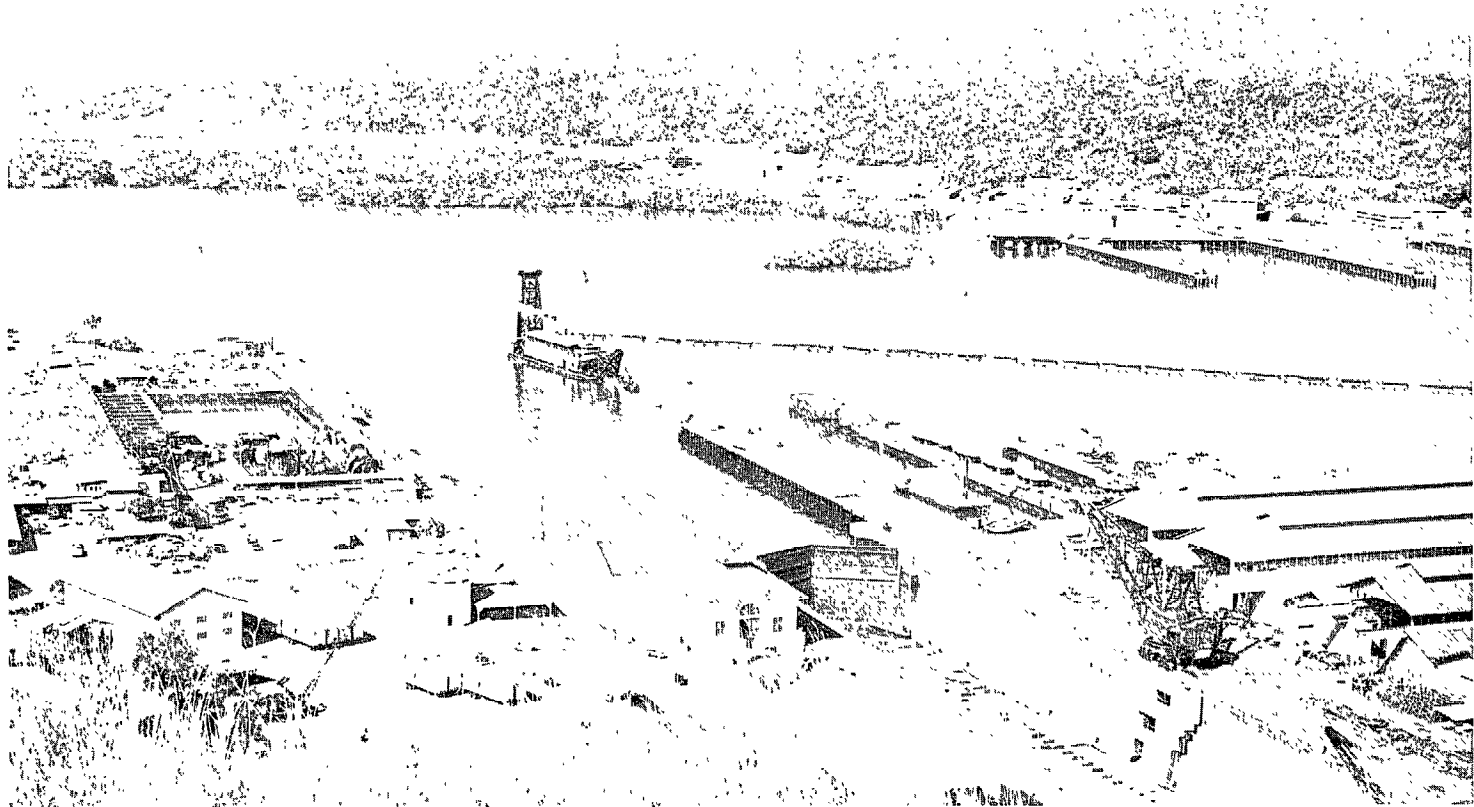




Gatun locks, 1 of 3 sets of locks, that are used to raise a vessel to the level of Gatun Lake (85 feet above sea level and the principal source of Canal water) and then lower the vessel to sea level again.



The Panama Canal is the only waterway in the world that uses towing locomotives. The "Mules" help pull and guide the ships through the chambers. An average ship will use four locomotives while a large ship like the "Liverpool Bay" will use eight. The locomotives, of the type in this picture, have been in use since 1965. They replaced the maller and less powerful "Mules" that had been in use since the Canal opened in 1914.



The suction dredge "Mindi" performing normal maintenance in the Balboa Harbor (Balboa industrial area in foreground). In addition to the continuous maintenance of harbors and channels, the Company recently used its dredging equipment to lower certain sections of the Canal channel bottom. This work, which permitted an increase of 2 feet in ship draft restrictions, turned out to be of significant value as the 1973 dry season was the driest in about 24 years.

## CHAPTER 2

### COMMENTS ON FINANCIAL STATEMENTS

#### PLANS TO INITIATE DEPRECIATION ON CERTAIN ASSETS

As stated in our report (B-114839, May 4, 1972) on the fiscal years 1971 and 1970 financial statements, the Company, historically, has not depreciated certain assets because it did not believe it could do so without legal authorization. These assets, represented by titles; treaty rights; excavations of channels, harbors, and basins; and other work, totaled about \$332 million at June 30, 1973.

However, during fiscal years 1972 and 1973, the Company reevaluated its position on this matter and now considers that there is nothing in the legislative history of the Company that shows the Congress' intent to exclude the assets in question from depreciation charges. It is the Company's view that it is sound accounting to depreciate the cost of these assets, and it plans to initiate depreciation in fiscal year 1974. This policy change will add an annual charge of about \$8.3 million to operations.

The Company therefore plans to initiate the depreciation that we have long advocated. In our report on the Company's fiscal years 1971 and 1970 financial statements, we stated our view that (1) the assets in question are limited-purpose land assets whose utility diminishes or terminates as the utility of the Canal diminishes, and therefore their cost should be depreciated; and (2) a change in legislation is not necessary to permit the Company to determine the effective date of depreciation of these assets to include related costs in its financial statements.

Furthermore, certain recent trends and circumstances indicate the diminishing utility of the Canal and thus the need for management to recover the cost of the assets in question through depreciation charges. Specifically, we have noted the trend toward constructing larger ships that cannot go through the Canal and the evolving U.S. policy in its continuing treaty negotiations with the Republic of Panama.

The Company plans to depreciate these assets over a period of 40 years beginning in fiscal year 1974 using the straight-line method of depreciation. The 40 years represent, in management's judgment, a reasonable period over which to recover the cost of these assets.

We do not agree with the Company's decision to delay implementation of the policy until fiscal year 1974. To the extent that depreciation on these assets is excluded, the Company's financial statements for fiscal year 1973 do not present fairly its results of operations for that year.

The Company advised us it delayed the implementation of the policy to disclose the planned change in its next budget program to be submitted to the Congress and through this means advise the Congress of the planned change. The nature and effect of the planned change was described in the Company's fiscal year 1974 budget request and discussed in further detail during hearings before the applicable House and Senate Appropriations Subcommittees. The Congress subsequently approved the Company's fiscal year 1974 budget request, including the depreciation on these assets, as part of the Department of Transportation and Related Agencies Appropriation Act, 1974 (Public Law 93-98, approved Aug. 16, 1973).

The Company's planned action will reflect the adoption of the generally accepted accounting principle of recording depreciation on all depreciable assets. Under its planned method of implementing the principle, the Company will be charging the total cost of the assets over their remaining estimated lives. We believe that generally accepted accounting principles as they relate to a rate-regulated business, such as the Company, permit this method of implementation.

#### CHANGES IN ACCOUNTING POLICIES

As stated in note 2 to its financial statements, the Company, effective fiscal year 1973, changed several of its accounting policies. The Company adopted these changes, with which we agreed, primarily to (1) recognize cost at a time when the related revenues accrue and (2) value certain assets at their estimated realizable value. The policy



changes in fiscal year 1973 increased operating expenses by approximately \$3.9 million.

In implementing several of the new policies, the Company applied a generally accepted accounting principle applicable to regulated businesses. This principle allows a regulated business to defer recognition of certain costs to permit appropriate recognition of the costs in the rate-making process.

By deferring cost that was not considered in the current year's revenue rate, the regulated business is able to include such cost in future rates and write the cost off over the period or periods in which the related revenue accrues. This practice is not permitted under generally accepted accounting principles for nonregulated businesses because the effect of the rate-making process is not present.

The Canal Zone Government also implemented two accounting changes which were consistent with the Company's policy changes. These changes, which are disclosed in the notes to the Canal Zone Government's financial statements, pertain to plant assets. In fiscal year 1973 these changes increased the operating expense of the Canal Zone Government by about \$645,000, which, since the Company is required by law to absorb the net cost of the Canal Zone Government, also increased the Company's operating expense by the same amount.

Additional information on the nature and effect of some of these changes is provided below.

#### Allowance for doubtful accounts

In fiscal year 1973 the Company began charging expenses for bad debts based on projected uncollectible amounts. Previously the loss was recorded when an account was written off. In implementing this change, an allowance for doubtful accounts of about \$5.6 million was established to provide for losses arising from doubtful accounts receivable of both the Company and the Canal Zone Government.

The Canal Zone Government's doubtful accounts receivable, which amounted to about \$3.4 million, is also reflected in the Company's statement of financial condition as an accounts receivable with a corresponding amount shown as an other liability due to the Canal Zone Government. The \$3.4 million is reflected on the Canal Zone Government's statement of financial condition as a receivable from the Company. This procedure is appropriate because any bad debt expense of the Canal Zone Government is an element of its net operating cost and as such becomes an expense of the Company. Therefore, if the Company bears the full risk of nonpayment, it should recognize the anticipated loss.

About \$600,000 of the total allowance for doubtful accounts receivable relates to fiscal year 1973 receivables and was charged to expenses for that year. The remaining \$5 million in the allowance relates to prior year's receivables and was recorded in the Company's accounts as a deferred charge to be amortized on a straight-line basis over 5 years beginning with fiscal year 1973. According to Company officials, this policy change was adopted in view of the uncertainty of collection of a substantial dollar amount of accounts receivable and for stating Company account receivables at their estimated realizable value.

In fiscal year 1973 this change increased expenses by \$1.6 million, approximately \$1 million of which represented the amortization of the deferred charge.

#### Reserve for casualty losses

Effective in fiscal year 1973, the Company adopted the policy of providing for losses from marine accidents, fire, public liability, and other casualties through a self-insurance reserve. Previously such losses were recognized when a casualty occurred.

The required reserve, which management currently estimates should amount to \$6 million, will be achieved incrementally by an annual provision that is anticipated to exceed actual losses. That is, the reserve is credited, or increased, annually with an estimated provision and debited, or decreased, with the amount of the actual losses. An amount equal to the annual provision is charged to operations.

During fiscal year 1973 the Company credited the reserve for about \$2.2 million, or about double its average annual casualty losses for the 5 years ending with fiscal year 1972. Thus, it was anticipated that this provision would result in a net increment to the reserve in fiscal year 1973 of about \$1.1 million and that the reserve objective of about \$6 million would be reached in approximately 5 years. However, a balance of only \$350,000 was reached at the end of fiscal year 1973 because actual casualty losses exceeded the previous average annual experience.

The Company changed its method of accounting for casualty losses because of the fluctuations in these costs and the belief that the Company should have a reserve established to buffer the impact of possible casualties on net revenue of a particular year. The Company's position is that, since it is precluded by law from purchasing outside insurance to cover these risks, establishing self-insurance reserves provides for the normalization of such costs over more than one accounting period in consideration of the rate-making process.

The effect of this change on fiscal year 1973 operations was to increase expenses by approximately \$350,000, the amount established in the reserve.

#### Expense minor plant assets

The Canal organization redefined a minor plant asset, which is generally expensed when received, from less than \$100 to less than \$1,000 effective in fiscal year 1973.

The revised policy was implemented in fiscal year 1973 by, in effect, determining the unrecovered cost of the minor items on hand at June 30, 1972, adding the cost of minor items acquired during the year, and amortizing this cost over 5 years beginning with fiscal year 1973. The expensing of new minor assets at the time of receipt will begin in fiscal year 1974. The amortization of the unrecovered cost of existing assets, which will remain classified as plant assets until completely amortized, is being accomplished by adjusting the service lives of these assets so that the items will be fully written off in 5 years. The unrecovered cost that remains to be amortized at July 1, 1973, is about

\$4 million for Company assets and about \$3.3 million for Canal Zone Government assets.

Company officials said the basic reason for adopting this change is to reduce detailed property accounting. The Company does not consider the cost involved in the accounting and reporting of these assets commensurate with their relatively low value. According to data furnished by the Company, plant items costing less than \$1,000 represented 1.5 percent of the book value of the Canal organization's plant assets as of June 30, 1972, but accounted for some 79 percent of the total items recorded in the plant records.

The portion of the change that was effected in fiscal year 1973 increased Company expenses by about \$470,000 relating to Company assets, plus about \$560,000 relating to Canal Zone Government assets. The latter amount affected Company operations because the Company absorbs, as an operating expense, the net cost of the Canal Zone Government.

COSTS EXCLUDED FROM THE COMPANY'S  
FINANCIAL STATEMENTS PURSUANT TO LAW

The legislation pertaining to the creation of the Panama Canal Company and the reorganization of the Canal enterprise and related hearings and reports of congressional committees indicate that the Canal organization is to be operationally self-sustaining and impose no burden on the U.S. taxpayer except for:

- The cost of facilities acquired for national defense.
- Interest on capitalized interest during construction and on the U.S. investment in the Canal Zone Government.
- Extraordinary expenditures or losses incurred through directives based on national policy and not related to the Company's operations.

However, legislation was not passed to require the Company to reimburse the U.S. Government for certain costs incurred annually on behalf of the Canal organization.

Comments on these costs which currently amount to about \$2.2 million a year are contained in the following sections.

Annuity to the Republic of Panama

Article I of the 1955 treaty between the United States and the Republic of Panama increased the annual annuity payable to Panama from \$430,000 to \$1,930,000, and required adjustment of the annuity as the relation between the U.S. dollar and gold changes. In accordance with this latter provision, the annuity was increased during fiscal year 1973 to \$2,095,401.

The U.S. Treasury pays the annuity from appropriations received by the Department of State. However, as required by the Canal Zone Code, the Company reimburses the U.S. Treasury for the original amount of the annuity to Panama (\$466,855 after the fiscal year 1973 adjustment). The U.S. Government bears the remainder of the annuity, and through fiscal year 1973, payments have amounted to about \$27 million.

Recurring annuities and injury and death payments to certain former employees

Annuities and injury and death payments are made annually from funds provided by other U.S. agencies to certain employees of the predecessor agencies of the Canal organization. During fiscal year 1973 these payments amounted to about \$600,000.

The U.S. Civil Service Commission makes annuity payments to U.S. citizens (and their widows) who helped build the Canal during 1904 to 1914. The Company makes the injury and death compensation payments to the employees (and their dependents) of the Canal organization's predecessor agencies but is reimbursed by the Office of Federal Employees Compensation, Department of Labor. These payments totaled about \$56 million through fiscal year 1973, as shown below:

<u>Fiscal</u> <u>year</u>	<u>Construction</u> <u>annuity</u>	<u>Injury and</u> <u>death claims</u>	<u>Total</u>
Through 1971	\$49,745,593	\$5,316,518	\$55,062,111
1972	559,618	116,912	676,530
1973	<u>483,214</u>	<u>116,752</u>	<u>599,966</u>
Total	<u>\$50,788,425</u>	<u>\$5,550,182</u>	<u>\$56,338,607</u>

## CHAPTER 3

### SCOPE OF EXAMINATION

We have examined the Company's statement of financial condition as of June 30, 1973, and the related statements of operations, investment of the United States, and source of funds used for capital expenditures for the fiscal year then ended.

Because the Company is required to assume the net cost of the Canal Zone Government as an operating expense and because it acts as an agent for the Canal Zone Government in (1) advancing funds for its monthly operations, construction, and other activities, and (2) collecting its revenue, we also examined the Canal Zone Government's statement of financial condition as of June 30, 1973, and the related statements of operation and investment of the United States for the fiscal year then ended.

Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and in view of the financial audit work performed by the Company's internal auditors.

The Canal organization's financial statements for fiscal year 1972 were audited by the Company's internal auditors. During our examination we used auditing procedures as considered necessary to verify the accuracy of the fiscal year 1973 beginning account balances and to determine whether accounting principles were consistently applied during the 2 years. In this regard, we relied largely on the coverage of the internal auditor's work.

## CHAPTER 4

### OPINIONS ON FINANCIAL STATEMENTS

#### PANAMA CANAL COMPANY

In our opinion, except for not recognizing depreciation on certain assets as discussed on pages 11 and 12 of this report, the accompanying financial statements (schedules 1 through 5) present fairly the financial position of the Panama Canal Company at June 30, 1973, and the results of its operations, changes in the investment of the United States and sources of funds used for capital expenditures for the fiscal year then ended in conformity with generally accepted accounting principles which, except for the changes with which we concur, in the accounting policies as described in note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year and with applicable Federal laws.

#### CANAL ZONE GOVERNMENT

In our opinion, the accompanying financial statements (schedules 6 through 9) present fairly the financial position of the Canal Zone Government at June 30, 1973, and the results of its operations and changes in the investment of the United States for the fiscal year then ended in conformity with principles and standards of accounting prescribed for executive agencies by the Comptroller General applied on a basis consistent with that of the preceding year except for the changes, with which we concur, on the basis of capitalizing and depreciating assets, as described in note 2 to the financial statements.



## SCHEDULES

PANAMA CANAL COMPANY  
Statement of Financial Condition

June 30, 1973 and 1972

A S S E T S	<u>1973</u>	<u>1972</u>
PROPERTY, PLANT, AND EQUIPMENT: (note 1b)		
At cost (note 2a and schedule 5)	\$831,710,319	\$825,214,328
Less accumulated depreciation and valuation allowances (notes 2b and 3)	<u>316,851,743</u>	<u>310,413,484</u>
	<u>\$514,858,576</u>	<u>\$514,800,844</u>
CURRENT ASSETS:		
Cash	\$ <u>39,099,593</u>	\$ <u>36,714,324</u>
Accounts receivable, less allowance for doubtful accounts of \$5,646,152 for 1973 (note 2c)	\$ <u>8,608,732</u>	\$ <u>9,089,982</u>
Inventories:		
Merchandise held for resale	\$ 6,294,068	\$ 6,122,763
Materials and supplies, less allowance for obsolete and ex- cess inventory of \$500,000 for 1973 (note 2d)	<u>10,724,673</u>	<u>10,831,503</u>
	<u>\$ 17,018,741</u>	<u>\$ 16,954,266</u>
Total current assets	<u>\$ 64,727,066</u>	<u>\$ 62,758,572</u>
DEFERRED CHARGES:		
Retirement benefits to certain former employees (note 1e)	\$ 11,916,000	\$ 12,682,000
Other (notes 1f, 2e, and 2c)	<u>6,004,871</u>	<u>784,939</u>
	<u>\$ 17,920,871</u>	<u>\$ 13,466,939</u>
	<u>\$597,506,513</u>	<u>\$591,026,355</u>

The "Notes to Financial Statements" on pages 29 through 35 are an integral part of this statement.

L I A B I L I T I E S	<u>1973</u>	<u>1972</u>
INVESTMENT OF THE UNITED STATES: (schedule 4)		
Contributed capital:		
Interest-bearing (3.956% and 3.759%)	\$318,060,149	\$317,375,883
Non-interest-bearing	18,051,630	18,051,630
Earned capital reinvested	<u>195,393,293</u>	<u>196,720,196</u>
	<u>\$531,505,072</u>	<u>\$532,147,709</u>
CURRENT LIABILITIES:		
Accounts payable:		
U.S. Government agencies	\$ 3,171,895	\$ 3,156,797
Other	<u>3,519,905</u>	<u>2,309,446</u>
	<u>\$ 6,691,800</u>	<u>\$ 5,466,243</u>
Accrued liabilities:		
Employees' leave	\$ 17,477,155	\$ 16,497,870
Salaries and wages	4,191,274	3,663,047
Retirement benefits to certain former employees (note 1e)	1,422,000	1,452,000
Claims for damages to vessels	3,766,400	2,463,200
U. S. Treasury	4,403,719	3,669,039
Other	<u>3,567,736</u>	<u>6,451,842</u>
	<u>\$ 34,828,284</u>	<u>\$ 34,196,998</u>
Total current liabilities	<u>\$ 41,520,084</u>	<u>\$ 39,663,241</u>
OTHER LIABILITIES AND RESERVES:		
Retirement benefits to certain former em- ployees (note 1e)	\$ 10,494,000	\$ 11,230,000
Employees' repatriation	4,767,000	4,617,000
Lock overhauls (note 2f)	5,510,251	3,368,405
Casualty losses (note 2g)	349,991	-
Other (note 2c)	<u>3,360,115</u>	<u>-</u>
	<u>\$ 24,481,357</u>	<u>\$ 19,215,405</u>
	<u>\$597,506,513</u>	<u>\$591,026,355</u>

SCHEDULE 2

PANAMA CANAL COMPANY

Statement of Operations  
Fiscal Years Ended June 30, 1973 and 1972

	<u>1973</u>	<u>1972</u>
OPERATING REVENUES:		
Tolls	\$113,381,398	\$101,488,689
Other	<u>86,466,666</u>	<u>81,897,612</u>
Total operating revenues	<u>\$199,848,064</u>	<u>\$183,386,301</u>
OPERATING EXPENSES (note 2):		
Maintenance of channels and harbors	\$ 10,426,238	\$ 10,384,382
Navigation service and control	24,228,890	22,902,548
Locks operation	17,129,361	15,692,293
General repair, storehouse, engineering and maintenance services	6,455,326	2,985,058
Marine terminal operations	13,941,440	13,745,409
Transportation and utilities	14,335,503	14,681,312
Retail and housing operations, including cost of goods sold of \$21,697,296 for 1973 and \$20,630,297 for 1972	37,885,635	36,714,335
General and administrative (note 5)	32,194,775	27,437,400
Interest	12,568,889	11,931,031
Net cost of Canal Zone Government (note 5)	24,795,445	22,245,861
Other	<u>7,213,465</u>	<u>3,985,397</u>
Total operating expenses	<u>\$201,174,967</u>	<u>\$182,705,026</u>
NET INCOME (LOSS) BEFORE EXTRA-ORDINARY ITEMS	\$(1,326,903)	\$ 681,275
Prior year adjustments net of extraordinary charges	<u>-</u>	<u>566,173</u>
NET INCOME (LOSS) (schedule 4)	<u>\$(1,326,903)</u>	<u>\$ 1,247,448</u>

The "Notes to Financial Statements" on pages 29 through 35 are an integral part of this statement.

## PANAMA CANAL COMPANY

Statement of Sources of Funds Used for Capital Expenditures  
Fiscal Years Ended June 30, 1973 and 1972

	<u>1973</u>	<u>1972</u>
FUNDS PROVIDED:		
Net income (loss) from operations (schedule 2)	\$ (1,326,903)	\$ 1,247,448
Add-expenses not requiring current outlay of funds (note 2):		
Depreciation	9,733,492	8,005,189
Amortization	1,222,415	191,214
Locks overhaul accrual	2,265,000	1,571,000
Accruals for self-insurance	2,150,000	-
Other	<u>412,087</u>	<u>257,639</u>
	\$14,456,091	\$11,272,490
Assumption of liability to Canal Zone Government for doubtful accounts receivable, net of amount deferred (note 2c)	577,814	-
Other	<u>105,692</u>	<u>311,743</u>
	<u>\$15,139,597</u>	<u>\$11,584,233</u>
FUNDS APPLIED:		
Casualty losses	\$ 1,800,009	\$ -
Charges deferred to future periods, excluding provisions for doubtful accounts receivable	1,275,621	34,479
Deferral of allowance for doubtful Company accounts receivable	2,234,742	-
Net increase in working capital	111,651	11,517
Locks overhaul expenditures	<u>123,154</u>	<u>521,595</u>
	\$ 5,545,177	\$ 567,591
FUNDS USED FOR CAPITAL EXPENDITURES	<u>\$ 9,594,420</u>	<u>\$11,016,642</u>

The "Notes to Financial Statements" on pages 29 through 35 are an integral part of this statement.

SCHEDULE 4

PANAMA CANAL COMPANY

Statement of Changes in the Investment of the United States  
Fiscal Years Ended June 30, 1973 and 1972

	<u>Contributed Capital</u>		<u>Earned capital reinvested</u>
	<u>Interest- bearing</u>	<u>Non- interest bearing</u>	
Balance June 30, 1971 as initially re- ported:	\$317,169,304	\$18,051,630	\$194,892,748
Prior years' ad- justment for women's tropical differential suit (note 4)	<u>-</u>	<u>-</u>	<u>580,000</u>
Balance June 30, 1971 restated:	\$317,169,304	\$18,051,630	\$195,472,748
Net Income (schedule 2)	-	-	1,247,448
Reactivations (note 3)	<u>206,579</u>	<u>-</u>	<u>-</u>
Balance June 30, 1972:	\$317,375,883	\$18,051,630	\$196,720,196
Net loss (schedule 2)	-	-	(1,326,903)
Reactivations (note 3)	<u>684,266</u>	<u>-</u>	<u>-</u>
Balance June 30, 1973	<u>\$318,060,149</u>	<u>\$18,051,630</u>	<u>\$195,393,293</u>

The "Notes to Financial Statements" on pages 29 through 35  
are an integral part of this statement.

## PANAMA CANAL COMPANY

Statement of Property, Plant and Equipment  
June 30, 1973 and 1972

	1973		1972	
	<u>Cost</u>	<u>Depreciation and valuation allowances</u>	<u>Cost</u>	<u>Depreciation and valuation allowances</u>
Titles and treaty rights	\$ 14,728,889	\$ -	\$ 14,728,889	\$ -
Interest during original construction	50,892,311	50,892,311	50,892,311	50,892,311
Canal excavation, fills and embankments	316,979,958	682,986	316,979,958	682,986
Canal structures and equipment	194,436,545	109,054,224	193,817,644	106,667,084
Other maritime facilities	26,959,218	19,784,347	27,253,804	19,723,725
Supporting and general facilities	160,702,032	84,456,363	162,050,170	84,099,721
Plant additions in progress	11,021,024	-	11,104,079	-
Facilities held for future use	5,558,459	5,521,737	5,567,532	5,527,716
Suspended construction projects	40,145,798	40,145,798	42,819,941	42,819,941
Minor items of plant and equipment	<u>10,286,085</u>	<u>6,313,977</u>	<u>-</u>	<u>-</u>
Total	<u>\$831,710,319</u>	<u>\$316,851,743</u>	<u>\$825,214,328</u>	<u>\$310,413,484</u>

The "Notes to Financial Statements" on pages 29 through 35 are an integral part of this statement.





PANAMA CANAL COMPANY

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The application of generally accepted accounting principles to the Panama Canal Company, a Government corporation established by the Congress comparable to a public utility, determines the manner in which costs are recognized in the setting of toll rates. The basis for toll rates is prescribed in Section 412(b) of Title 2 of the Canal Zone Code, which provides:

"Tolls shall be prescribed at rates calculated to cover, as nearly as practicable, all costs of maintaining and operating the Panama Canal, together with the facilities and appurtenances related thereto, including interest and depreciation, and an appropriate share of the net costs of operation of the agency known as the Canal Zone Government."

a. Property, plant and equipment

Property, plant and equipment are recorded at cost or, if acquired from another Government agency, at original cost to such agency. Administrative and other general expenses and the costs of funds used during construction are not capitalized. The cost of minor items of property, plant, and equipment is charged to expense.

b. Depreciation

Depreciation is provided using a straight-line method applied on a composite basis. The provisions expressed as a percentage of average depreciable plant, exclusive of amounts historically not depreciated as described below and valuation allowances described in Note 3, were 2.68% and 2.25% for fiscal years 1973 and 1972, respectively. Historically, depreciation has not been provided on titles, treaty rights, excavations of channels, harbors and basins, and other works costing

\$332 million at June 30, 1973. However, the Company no longer considers it appropriate to assume that these assets have indefinite economic lives. Accordingly, the Company will initiate depreciation of these assets over a period of 40 years beginning with fiscal year 1974. This change in policy will result in an additional annual charge to expense of \$8.3 million.

c. Accounts receivable

An allowance for losses arising from uncollectible accounts receivable is provided by a charge to expense.

d. Inventories

Operating materials and supplies are restated annually at last receipt cost. An allowance to reflect the estimated cost of obsolete and excess materials and supplies is established by an annual charge to expense.

Merchandise held for resale is stated at average cost.

e. Retirement benefits

Employer payments to the contributory Civil Service Retirement System covering substantially all employees are charged to expense. Payments for fiscal years 1973 and 1972 were \$5.5 million and \$5.4 million, respectively. The Company has no liability for future payments to employees under this system.

Non-United States citizen employees who retired prior to October 5, 1958, are not covered by the Civil Service Retirement System but do receive retirement benefits under a separate annuity plan. The amounts of the payments made under this annuity plan are recorded as a current-year expense. Payments for both fiscal years 1973 and 1972 were \$1.5 million. The liability of the Company for future annuity payments to these former employees or their eligible widows is reflected in the Statement of Financial Condition as "Retirement Benefits to Certain Former Employees," and an equal amount is recorded as a Deferred Charge.

f. Deferred costs

The incremental costs of major systems or engineering studies, or extraordinary maintenance costs, except for lock overhauls, are deferred until completion and then amortized on a straightline basis over periods not exceeding five years. Included in Other Deferred Charges on the Statement of Financial Condition is approximately \$500,000 deferred under this policy in fiscal year 1973 in connection with a Canal traffic control study which is expected to be completed during fiscal year 1976.

g. Reserve for lock overhauls

A reserve is provided through an annual charge to expense to cover the estimated cost of periodic lock overhauls.

h. Reserve for casualty losses

The Company is establishing a reserve to provide coverage for marine accidents, fire, and other casualty losses.

2. Accounting Changes During Fiscal Year 1973

Certain of the policies described in Note 1 above represent changes during fiscal year 1973 from policies followed in previous years. These accounting policy changes were adopted by the Board of Directors as alternatives which better reflect the results of operations in conformity with generally accepted accounting principles for this type of enterprise. The changes made and their effects on the Company's fiscal year 1973 operations were:

a. The cost at which minor units of plant and equipment are capitalized. The service lives on items in the plant accounts that met the former capitalization criteria have been adjusted so that those assets will become fully depreciated over the five-year period ending June 30, 1977. The remaining book value of these items at June 30, 1973, was

\$4.0 million. This change resulted in an additional expense of approximately \$470,000.

b. From a unit basis of depreciation to a composite basis, including an adjustment to depreciation rates to provide for the undepreciated cost of property, plant and equipment retired prior to the end of their service lives. This change resulted in an additional expense of approximately \$217,000.

c. From the direct write-off method to the allowance method of providing for losses arising from uncollectible accounts receivable of both the Company and the Canal Zone Government. The Company has assumed on its books at June 30, 1973, the doubtful Canal Zone Government receivables amounting to \$3.4 million with a corresponding amount added to the Company's allowance for doubtful accounts. Included in Other Liabilities at June 30, 1973, is a liability to the Canal Zone Government equal to these receivables. That portion of the total allowance applicable to accounts receivable from years prior to fiscal year 1973 was recorded as a deferred charge. The deferral is being amortized on a straightline basis over five years beginning in fiscal year 1973. Remaining in Other Deferred Charges at June 30, 1973, is approximately \$4.0 million of this deferral. This change resulted in an additional expense of approximately \$1.6 million.

d. From the direct write-off method to the allowance method of providing for losses arising from obsolete and excess materials and supplies inventories. This change resulted in an additional expense of approximately \$500,000.

e. From expensing the incremental costs of major studies and extraordinary maintenance as they are incurred to deferring such costs until project completion and amortizing them over a maximum period of 5 years. This change resulted in an expense reduction of approximately \$500,000.

f. From a method of accounting for the prospective cost of lock overhauls which resulted in

fluctuating annual expense to a method which is designed to normalize the amount charged to expense for each year. The provision, formerly determined on an individual lock basis over the anticipated interval between overhauls with any over or under accruals being reflected in current period operations, is now determined on a combined basis over 7 years with any over or under accruals being reflected in the reserve. This change resulted in an additional expense of approximately \$1.2 million.

g. From the direct writeoff method to the reserve method of providing for losses arising from marine accidents, fire, and other casualty losses. A reserve requirement currently estimated to be \$6 million will be achieved over a reasonable period by annual charges to expense anticipated to be in excess of actual losses. The reserve accumulated at June 30, 1973, was less than originally estimated because fiscal year 1973 losses exceeded previous average annual experience. This change resulted in an additional expense of approximately \$350,000.

### 3. Plant valuation allowances

Valuation allowances have been established as follows: (a) \$15.3 million at June 30, 1973, and \$13.3 million at June 30, 1972, to reduce to usable value the cost of property, plant, and equipment transferred to the Company from the Panama Canal (agency) at July 1, 1951, and from other Government agencies subsequent to that date; (b) \$50.9 million at June 30, 1973 and 1972, to offset interest costs during the original construction period; and (c) \$66.2 million at June 30, 1973, and \$68.9 million at June 30, 1972, 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.

Property, plant, and equipment offset by valuation allowances, when fully or partially reactivated, are reinstated by a reduction in the valuation allowance

and by an increase to the interest-bearing contributed capital account.

4. Restatement of Investment of United States

The estimated liability arising from back pay litigation in the U.S. Court of Claims and the U.S. District Court for tropical differential due married women employees of both the Panama Canal Company and the Canal Zone Government (the net cost of which is borne by the Company) was recorded in fiscal year 1970. As a result of recognizing more recent estimates, the balance of the Investment of the United States at June 30, 1971, was restated by \$580,000 with a corresponding decrease in the liability.

5. Reclassification of Certain Expense Items

Education, hospital and fire protection services amounting to \$8.9 million and \$7.2 million for fiscal years 1973 and 1972, respectively, previously classified as part of the Net cost of Canal Zone Government, are now included in general and administrative expenses.

6. Contingent Liabilities and Commitments

a. The estimated maximum liability which could result from pending claims and lawsuits was \$6.7 million at June 30, 1973. In the opinion of the Company's Counsel, these suits have little merit and their ultimate settlement will not have a material effect on the financial position of the Company.

b. Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$10.4 million at June 30, 1973.

c. The Company held as custodian negotiable Government securities in the face amount of \$4.9 million at June 30, 1973 to guarantee payment by third parties of their obligations.

d. Effective May 9, 1969, the Company entered into a 25-year contract with Instituto de Recursos Hidraulicos y Electrificacion, an autonomous agency of the Republic of Panama, for the purchase of electric power to be produced by the agency. Effective September 1, 1972, by mutual agreement, the contract was suspended for a period of 3 years. As of June 30, 1973, the Company's total minimum liability over the remaining period of the contract amounted to approximately \$32 million.

7. Borrowing authority

The Company has authority to borrow funds from the U.S. Treasury not to exceed \$10 million outstanding at any time at interest rates to be determined by the Secretary of the Treasury; no amount, as of June 30, 1973, was due and owing.

CANAL ZONE GOVERNMENT  
Statement of Financial Condition  
June 30, 1973 and 1972

A S S E T S	<u>1973</u>	<u>1972</u>
PROPERTY, PLANT, AND EQUIPMENT: (schedule 9)		
At cost (note 2)	\$94,832,000	\$92,388,826
Less accumulated depreciation and valuation allowances (notes 2 and 3)	<u>37,994,756</u>	<u>35,300,194</u>
	<u>\$56,837,244</u>	<u>\$57,088,632</u>
CURRENT ASSETS:		
Cash	\$ <u>9,363,624</u>	\$ <u>8,893,868</u>
U.S. Treasury notes redeemable at par value	\$ <u>1,000,000</u>	\$ <u>1,000,000</u>
Accounts receivable:		
Panama Canal Company (note 4)	\$ 3,360,115	\$ -
Other	<u>1,842,635</u>	<u>4,888,563</u>
	<u>\$ 5,202,750</u>	<u>\$ 4,888,563</u>
Inventories at average cost	\$ <u>582,858</u>	\$ <u>454,148</u>
Total current assets	<u>\$16,149,232</u>	<u>\$15,236,579</u>
SUMS DUE FROM FUTURE APPROPRIATIONS	<u>\$ 8,714,895</u>	<u>\$ 8,173,215</u>
	<u>\$81,701,371</u>	<u>\$80,498,426</u>

The "Notes to Financial Statements" on pages 41 to 44 are an integral part of this statement.



L I A B I L I T I E S	<u>1973</u>	<u>1972</u>
INVESTMENT OF THE UNITED STATES: (schedule 8)		
Invested capital	\$57,420,102	\$57,542,780
Unobligated capital fund	3,822,980	3,288,514
Obligated funds	<u>2,606,148</u>	<u>2,565,692</u>
	<u>\$63,849,230</u>	<u>\$63,396,986</u>
CURRENT LIABILITIES:		
Accounts payable:		
U.S. Government Agencies	\$ 5,721,049	\$ 4,663,670
Postal money orders payable	\$ 1,905,875	\$ 1,496,076
Less deposits with U.S. Postal Service	<u>577,743</u>	<u>576,240</u>
	<u>\$ 1,328,132</u>	<u>\$ 919,836</u>
Other	\$ 420,734	\$ 559,526
	<u>\$ 7,469,915</u>	<u>\$ 6,143,032</u>
Accrued liabilities:		
Employees' leave	\$ 5,061,895	\$ 4,610,215
Salaries and wages	1,485,413	1,062,022
Other	<u>694,918</u>	<u>2,242,171</u>
	<u>\$ 7,242,226</u>	<u>\$ 7,914,408</u>
Total current liabilities	<u>\$14,712,141</u>	<u>\$14,057,440</u>
OTHER LIABILITIES:		
Employees' repatriation	\$ 2,380,000	\$ 2,102,000
Retirement benefits to certain former employees (note 1c)	<u>760,000</u>	<u>942,000</u>
	<u>\$ 3,140,000</u>	<u>\$ 3,044,000</u>
	<u>\$81,701,371</u>	<u>\$80,498,426</u>

SCHEDULE 7

CANAL ZONE GOVERNMENT

STATEMENT OF OPERATIONS  
FISCAL YEAR ENDED JUNE 30, 1973

	Operating expenses				Recoveries (note 5)	Net cost of operations borne by Panama Canal Company
	Funded costs	Accrued deprecia- tion	Other non-fund charges and credits	Total		
<b>CIVIL FUNCTIONS:</b>						
Office of director	\$ 388,083	\$ 2,048	\$ 16,909	\$ 407,040	\$ -	\$ 407,040
Customs and Immigration	1,005,704	3,054	15,911	1,024,669	24,274	1,000,395
Postal service	1,795,819	15,177	24,271	1,835,267	1,555,175	280,094
Police protection	5,601,854	55,297	41,958	5,699,109	34,341	5,644,768
Fire protection	2,179,810	44,548	9,148	2,233,506	2,380,082	(146,576)
Judicial system	191,601	-	4,771	196,372	130,468	65,904
Education	17,343,596	780,324	37,058	18,160,978	16,590,839	1,570,139
Public areas and facilities	2,965,865	690,923	-	3,656,788	-	3,656,788
Library	374,326	1,973	8,042	384,341	7,907	376,434
Internal security	283,771	29	6,644	290,444	-	290,444
Civil defense	50,268	6,266	-	56,534	-	56,534
Licenses and other fees	183,847	1,749	4,806	190,402	551,477	(361,075)
<b>Total civil functions</b>	<b>\$32,364,544</b>	<b>\$1,601,388</b>	<b>\$169,518</b>	<b>\$34,135,450</b>	<b>\$21,274,561</b>	<b>\$12,860,889</b>
<b>HEALTH AND SANITATION:</b>						
Office of director	\$ 292,555	\$ 135	\$ (3,374)	\$ 289,316	\$ 1,812	\$ 287,504
Hospitals and medical services:						
Corgas hospital and clinics	11,257,375	395,687	153,500	11,806,562	8,885,246	2,921,316
Coco Solo hospital and clinics	3,312,741	88,706	56,528	3,457,975	2,393,351	1,064,624
Canal Zone mental health center	2,135,355	24,386	36,523	2,196,264	659,712	1,536,552
Palo Seco hospital	347,134	6,074	1,581	354,789	342,235	12,554
Other public health services:						
Sanitation	777,947	2,567	11,769	792,283	7,894	784,389
Garbage collection	293,998	-	-	293,998	-	293,998
Preventive medicine and quarantine	534,527	3,630	10,539	548,696	16,210	532,486
School health unit	157,627	-	-	157,627	-	157,627
Veterinarian services	413,803	3,821	4,006	421,630	137,447	284,183
Cemeteries, operation, and maintenance	146,714	1,603	-	148,317	37,707	110,610
Dental clinics	315,166	3,553	3,954	322,673	193,292	129,381
Care of dead	88,233	8,255	939	97,427	38,560	58,867
<b>Total health and sanitation</b>	<b>\$20,073,175</b>	<b>\$ 538,417</b>	<b>\$275,965</b>	<b>\$20,887,557</b>	<b>\$12,713,466</b>	<b>\$ 8,174,091</b>
<b>GENERAL EXPENSES:</b>						
Office of the Governor	\$ 251,629	\$ -	\$ 3,942	\$ 255,571	\$ -	\$ 255,571
Recruitment and repatriation	426,681	-	-	426,681	-	426,681
Employees' home leave travel	334,090	-	-	334,090	-	334,090
Transportation of employees' vehicles	70,621	-	-	70,621	-	70,621
Government buildings and sites	554,016	61,078	-	615,094	24,523	590,571
Retirement benefits to certain former employees	112,892	-	-	112,892	-	112,892
Net increase in accrued liability for employees' repatriation	-	-	283,000	283,000	-	283,000
Miscellaneous charges and credits	871,928	809,549	3,329	1,684,806	(2,233)	1,687,039
<b>Total General Expenses</b>	<b>\$ 2,621,857</b>	<b>\$ 870,627</b>	<b>\$290,271</b>	<b>\$ 3,782,755</b>	<b>\$ 22,290</b>	<b>\$ 3,760,465</b>
<b>Total</b>	<b>\$55,059,576</b>	<b>\$3,010,432</b>	<b>\$735,754</b>	<b>\$58,805,762</b>	<b>\$34,010,317</b>	<b>\$24,795,445</b>

The "Notes to Financial Statements" on pages 41 to 44 are an integral part of this statement.

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SCHEDULE 8

CANAL ZONE GOVERNMENT

Statement of Changes in the Investment  
of the United States  
June 30, 1973

	<u>Invested capital</u>	<u>Operating funds</u>	<u>Capital fund</u>	<u>Total investment</u>
Investment at June 30, 1972	\$57,542,780	\$ 1,680,751	\$ 4,173,455	\$ 63,396,986
Appropriations by the Congress for Fiscal Year 1973	<u>-</u>	<u>55,950,000</u>	<u>4,500,000</u>	<u>60,450,000</u>
Investment at July 1, 1972	<u>\$57,542,780</u>	<u>\$57,630,751</u>	<u>\$ 8,673,455</u>	<u>\$123,846,986</u>
Decreases of investment:				
Funded costs	\$ -	\$55,059,576	\$ -	\$ 55,059,576
Depreciation	3,010,431	-	-	3,010,431
Unobligated operating funds withdrawn by U.S. Treasury, net of restoration of \$63,351	-	1,919,899	-	1,919,899
Miscellaneous plant adjustments	<u>7,850</u>	<u>-</u>	<u>-</u>	<u>7,850</u>
	<u>\$ 3,018,281</u>	<u>\$56,979,475</u>	<u>\$ -</u>	<u>\$ 59,997,756</u>
Transfers between funds:				
Capital expenditures	\$ 2,766,893	\$ -	\$(2,766,893)	\$ -
Increases in inventories	<u>128,710</u>	<u>(128,710)</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,895,603</u>	<u>\$ (128,710)</u>	<u>\$(2,766,893)</u>	<u>\$ -</u>
Investment at June 30, 1973	<u>\$57,420,102</u>	<u>\$ 522,566</u>	<u>\$ 5,906,562</u>	<u>\$ 63,849,230</u>

INVESTMENT BY COMMITMENT OF FUNDS

Unobligated capital fund	\$ -	\$ -	\$ 3,822,980	\$ 3,822,980
Obligated funds	-	522,566	2,083,582	2,606,148
Invested capital:				
Property, plant, and equipment	56,837,244	-	-	56,837,244
Inventories	<u>582,858</u>	<u>-</u>	<u>-</u>	<u>582,858</u>
	<u>\$57,420,102</u>	<u>\$ 522,566</u>	<u>\$ 5,906,562</u>	<u>\$ 63,849,230</u>

The "Notes to Financial Statements" on pages 41 to 44 are an integral part of this statement.

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SCHEDULE 9

CANAL ZONE GOVERNMENT

STATEMENT OF PROPERTY, PLANT AND EQUIPMENT  
JUNE 30, 1973 AND 1972

	1973		1972	
	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
<b>CIVIL FUNCTION FACILITIES:</b>				
Customs and immigration	\$ 201,760	\$ 181,897	\$ 215,178	\$ 184,545
Postal division	459,180	121,933	475,023	128,396
Police division	875,023	429,071	996,354	469,939
Fire division	916,453	455,437	1,083,336	498,372
Fire hydrant system	240,062	161,080	240,062	155,183
Division of schools	27,800,095	7,082,656	31,061,887	7,718,088
Roads, streets, sidewalks	15,670,858	9,685,970	15,204,545	9,328,596
Traffic management	-	-	4,252	632
Sewer system	7,012,318	3,318,299	6,937,166	3,171,013
Permanent townsites	7,698,110	4,343,208	7,707,619	4,198,143
Experimental gardens	35,607	17,646	37,889	17,744
Street lighting system	1,688,057	825,688	1,547,048	773,200
Public area - facilities	660,148	145,275	791,966	157,287
Libraries - museum	4,550	841	27,560	9,405
Internal security	-	-	287	57
License section	26,364	5,730	9,155	2,281
Civil affair director's office	1,195	316	2,757	373
<b>Total civil function facilities</b>	<b>\$63,289,780</b>	<b>\$26,775,047</b>	<b>\$66,342,084</b>	<b>\$26,813,254</b>
<b>HEALTH AND SANITATION FACILITIES:</b>				
Gorgas Hospital - clinics	\$11,292,681	\$ 2,979,111	\$12,490,960	\$ 3,112,036
Coco Solo Hospital - clinics	3,158,603	1,172,639	3,136,483	1,338,610
Canal Zone Mental Health	1,016,511	382,641	1,139,209	449,586
Palo Seco Hospital	211,899	170,479	233,571	179,349
Division of Preventive Medicine	29,203	10,001	47,919	17,591
Sanitation Division	96,183	46,769	107,426	60,019
Division of Veterinary Medicine	133,753	84,682	129,488	100,625
Dental and Care of Dead	305,114	113,612	339,951	118,494
Office of Health Director	48,132	24,311	51,979	26,420
<b>Total health and sanitation facilities</b>	<b>\$16,292,079</b>	<b>\$ 4,984,245</b>	<b>\$17,676,991</b>	<b>\$ 5,402,730</b>
<b>GENERAL FACILITIES:</b>				
Civil defense - youth activities	\$ 251,202	\$ 76,147	\$ 253,636	\$ 82,682
Government buildings	3,463,816	1,986,765	3,374,442	1,906,178
<b>Total general facilities</b>	<b>\$ 3,715,018</b>	<b>\$ 2,062,912</b>	<b>\$ 3,628,078</b>	<b>\$ 1,988,860</b>
MINOR ITEMS OF PLANT AND EQUIPMENT (note 2a)	\$ 6,353,101	\$ 3,064,303	\$ -	\$ -
<b>TOTAL FIXED ASSETS IN SERVICE</b>	<b>\$89,649,978</b>	<b>\$36,886,507</b>	<b>\$87,647,153</b>	<b>\$34,204,844</b>
<b>FACILITIES HELD FOR FUTURE USE</b>	<b>\$ 2,276,303</b>	<b>\$ 1,108,249</b>	<b>\$ 2,297,823</b>	<b>\$ 1,095,350</b>
<b>PLANT ADDITIONS IN PROGRESS</b>	<b>\$ 2,905,719</b>	<b>\$ -</b>	<b>\$ 2,443,850</b>	<b>\$ -</b>
<b>TOTAL (schedule 6)</b>	<b>\$94,832,000</b>	<b>\$37,994,756</b>	<b>\$92,388,826</b>	<b>\$35,300,194</b>

The "Notes to Financial Statements" on pages 41 to 44 are an integral part of this statement.

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## CANAL ZONE GOVERNMENT

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

##### a. Property, plant and equipment

Property, plant and equipment are recorded at cost or, if acquired from another Government agency, at original cost to such agency. Administrative and other general expenses and the costs of funds used during construction are not capitalized. The cost of minor items of property, plant and equipment is charged to expense.

##### b. Depreciation

Depreciation is provided using a straight-line method applied on a composite basis. The provisions expressed as a percentage of average depreciable plant, exclusive of amounts offset by valuation allowances described in Note 3, were 3.26% and 2.44% for fiscal years 1973 and 1972, respectively.

##### c. Retirement benefits

Employer payments to the contributory Civil Service Retirement System, covering substantially all employees, are charged to expense. Payments for fiscal years 1973 and 1972 were \$2.2 million and \$2 million, respectively. The Canal Zone Government has no liability for future payments to employees under this system.

Non-United States citizen employees who retire prior to October 5, 1958, are not covered by the Civil Service Retirement System but do receive retirement benefits under a separate annuity plan. The amounts of the payments made under this annuity plan are recorded as a current-year expense. Payments for both fiscal years 1973 and 1972 were \$1 hundred thousand. The liability of the Canal Zone Government for future annuity payments to these former employees

or their eligible widows is reflected in the Statement of Financial Condition as "Retirement Benefits to Certain Former Employees" and an equal amount is recorded in "Sums Due from Future Appropriations."

## 2. Accounting Changes During Fiscal Year 1972

The policies described in Notes 1a and 1b above, represent changes during fiscal year 1973 from policies followed in previous years. These accounting policy changes were adopted to simplify property accounting and to maintain consistency of accounting between Canal Zone Government and Panama Canal Company operations. These changes and their effect on the Canal Zone Government's fiscal year 1973 operations were:

a. The cost at which minor items of plant and equipment are capitalized. The service lives on items in the plant accounts that met the former capitalization criteria have been adjusted so that those assets will become fully depreciated over the five-year period ending June 30, 1977. The remaining book value of these items at June 30, 1973, was \$3.3 million.

b. From a unit basis of depreciation to a composite basis, including an adjustment to depreciation rates to provide for the undepreciated cost of property, plant, and equipment retired prior to the end of their service lives.

The combined impact of these changes was a non-fund cost of \$6 hundred thousand in fiscal year 1973.

## 3. Plant Valuation Allowances

Plant valuation allowances were established at \$1.2 million at June 30 for both fiscal years 1973 and 1972 to reduce to usable value the cost of property, plant and equipment transferred to the Canal Zone Government from the Panama Canal (agency) at July 1, 1951, and from other U.S. Government agencies subsequent to that date. Property, plant and equipment

and the related valuation allowance at June 30, 1972, include \$3 hundred thousand cost of defense facilities restored to the Statement of Financial Condition in fiscal year 1973.

Property, plant and equipment offset by valuation allowances, when fully or partially reactivated, are reinstated by a reduction in the valuation allowance and by an increase to the invested capital account.

#### 4. Accounts Receivable

The doubtful Canal Zone Government accounts receivable were assumed by the Panama Canal Company in its accounts at June 30, 1973, as guarantor of those receivables. The stated value of these accounts is shown on the Canal Zone Government Statement of Financial Condition as receivable from the Company.

#### 5. Services Rendered to Panama Canal Company

During fiscal year 1973 the Panama Canal Company began paying the Canal Zone Government for its share of the cost of certain services instead of absorbing such cost as part of the net cost of Canal Zone Government. The effect of this charge on the Statement of Operations was to increase recoveries by about \$8.9 million and decrease the net cost of operations by the same amount.

#### 6. Contingent Liabilities and Commitments

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$2.6 million at June 30, 1973. In addition, the Canal Zone Government is liable for an indeterminable amount with respect to death and disability payments under the Federal Employees' Compensation Act. The maximum liability which could result from outstanding claims and lawsuits is estimated at \$4 hundred thousand.

7. Administrative Services

Under the terms of an interagency agreement, the Panama Canal Company provides certain general and administrative support to the Canal Zone Government. As the cost of providing this support cannot be readily determined, no reimbursement is made.



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