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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of Fiscal Year 1979 Financial Statements Of The Panama Canal Organization And Treaty-Related Issues

This report covers the examination of the Panama Canal organization's financial statements for fiscal year 1979.

In carrying out future audits of the new Panama Canal Commission, the Panama Canal Act of 1979 requires GAO to:

- --Include a statement of costs incurred by the United States in implementing the Treaty in future audit reports of the Commission.
- --Certify the estimated revenues in the Commision's budget at the time it is submitted to Congress.
- --Approve the Commission's new accounting system.
- --Audit the annual $10-million payment by the Commission to Panama for public services rendered.

UNITED STATES GENERAL ACCOUNTING OFFICE

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

B-114839

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

This is our report on the examination of the Panama Canal organization's financial statements for fiscal year 1979, the last year before the Panama Canal Treaty of 1977 entered into force, and on Treaty-related issues.

Our examination of the financial statements was made pursuant to the Government Corporation Control Act (31 U.S.C. 841, et. seq.) in accordance with the Comptroller General's standards for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported on the Canal organization's financial statements for fiscal year 1978.

Chapter 3 of the report discusses the issue of Treaty-related costs and savings and our recommendation for coordination by the agencies to define, identify, and account for such costs and savings. The report also highlights in chapter 4 the impact of Treaty legislation on the Panama Canal Commission's budgeting and accounting system.

We are sending copies of this report to the Director, Office of Management and Budget; Secretaries of State, Defense, and the Army; and Administrator, Panama Canal Commission.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF FISCAL YEAR 1979 FINANCIAL STATEMENTS OF THE PANAMA CANAL ORGANIZATION AND TREATY-RELATED ISSUES

D I G E S T

The Panama Canal Act of 1979, the legislation implementing the Panama Canal Treaty, requires GAO to assume additional responsibilities in its future audits of the Canal organization, as follows.

--Audit the financial transactions of the Panama Canal Commission pursuant to the Accounting and Auditing Act of 1950 and submit to Congress a report of the audit not later than 6 months after the end of each fiscal year. This report will include a statement listing all direct and indirect U.S. costs incurred in implementing the Treaty and the cost of property transferred to Panama during the fiscal year.

--Audit the annual $10-million payment by the Commission to Panama for public services rendered.

--Certify the estimated revenues in the Commission's budget at the time it is submitted to the Congress.

--Approve the Commission's new accounting system.

COMMENTS ON FINANCIAL STATEMENTS

The Canal organization's financial statements include an adjustment of $9.1 million for doubtful accounts receivable from Panama that are now considered collectible. The adjustment was based on an agreement between the Governments of the United States and Panama that Panama would pay the $9.1 million, within a designated time period, in cash or by offsets against amounts due Panama by the United States under Articles III and XIII of the Treaty. (See p. 7.)

Due to events and information that became available subsequent to the September 30, 1979, balance sheet date, the Panama Canal Company financial statements were adjusted by $6.6 million in October 1980 for an under-accrual of marine accidents. Since marine accident is an element of the Canal organization's operating expense, this reduced the Company's net income by a corresponding amount. (See p. 8.)

As a consequence of the Treaty, Canal organization properties and other assets with a net book value of $84.8 million were transferred to the Government of Panama and $36.3 million to the Department of Defense on October 1, 1979, which reduces the U.S. Government's investment in the Canal organization by $121 million. (See p. 9 and Apps I and II)

The Canal organization is self-sustaining except for the costs of facilities acquired for national defense, interest on (1) interest capitalized during the construction of the Canal and (2) U.S. investment in the Canal Zone Government, and certain other costs incurred annually on behalf of the Canal organization. (See p. 9.)

TREATY IMPLEMENTATION COSTS

The Panama Canal Act of 1979 expresses the sense of the Congress that direct appropriated costs for Treaty implementation over the life of the Treaty should not exceed $665.7 million plus an appropriate inflation adjustment. This is the March 1979 estimated amount of taxpayer Treaty implementation costs presented to the Congress by the executive branch during consideration of the Act. (See p. 11.)

The Department of Defense will incur the largest amount of Treaty costs in Panama and has started to define, identify, and account for these costs. Other non-Defense agencies have not made much progress in this regard.

In GAO's review of agencies plans and actions to account for Treaty costs, the following problems were identified.

--Lack of a Government-wide definition of Treaty costs.

--Lack of a central control point for keeping track of overall Treaty costs.

--Costs and savings occurring which were not included in the March 1979 cost estimates. (See p. 15.)

--No rate for inflation adjustment prescribed.

GAO recommends that the Secretary of Defense establish and chair a steering committee at the department level, consisting of representatives from Agencies incurring Treaty-related costs and savings, to coordinate agencies' efforts to define, identify, and account for Treaty costs. This committee could develop a standard definition of Treaty costs and savings, a rate for inflation adjustments, and be a focal point for consolidating and reporting Treaty costs. (See p. 18.)

The Panama Canal Act of 1979 established the Panama Canal Commission as an appropriated funded agency to operate and maintain the Canal. This Commission replaced the Canal organization which was designed to be self-sustaining and consisted of (1) the Panama Canal Company, a wholly owned Government Corporation, and (2) the Canal Zone Government, which received annual appropriations to finance its operations and which repaid these appropriations to the U.S. Treasury. (See p. 20).

In view of the changes brought about by the Act, there was a need for the Commission to make changes to the budgeting process and accounting system of the prior Canal organization.

The Commission has identified, initiated, or implemented changes designed to conform its accounting system to the requirements of the Panama Canal Act. It has implemented an obligation and fund control concept that will result in administrative procedures to properly restrict obligations and expenditures to amounts appropriated. It also has a plan to complete all the necessary changes required to its accounting system to support an appropriated agency by February 1981 and to implement a completely revised automated accounting system in the coming years, with a goal of having the system ready for the fiscal year 1983 accounting cycle. (See p. 22.)

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the accompanying financial statements (schedules 1 through 5) present fairly the financial position of the Panama Canal Company at September 30, 1979, and the results of its operations, changes in the investment of the United States, and changes in financial position for the fiscal year then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis. (See p. 27.)

In GAO's opinion, the accompanying financial statements (schedules 6 through 11) present fairly the financial position of the Canal Zone Government at September 30, 1979, and the results of its operations and changes in the investment of the United States for the fiscal year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General which have been applied on a consistent basis. (See p. 27.)

The report also contains unaudited financial statements prepared by the Canal organization which show the effect of inflation by restating historical dollars in terms of purchasing power at September 30, 1979. Although the statements are unaudited, we have reviewed and concurred with the concepts and methods employed in their preparation. (See p. 26.)

AGENCY COMMENTS

The Commission and the Department of Defense reviewed the draft of this report and provided comments which have been incorporated to the extent considered appropriate. The Department of State declined to comment on the draft but stated that it will comment on the final report.

The Commission agreed with GAO's recommendation that Defense establish and chair a steering committee at the department level to coordinate agency efforts to define, identify, and account for Treaty costs but pointed out that most of its costs during the life of the Treaty will be recovered through tolls and other revenues. (See p. 18)

The Department of Defense agreed that an interagency effort is needed and stated that it will participate and chair an interagency task force to develop Treaty costs, cost savings, and inflation adjustment guidelines. It believes, however, that the Office of Management and Budget could better coordinate agency efforts in consolidating and reporting Treaty costs. (See p. 18.)

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FINANCIAL STATEMENTS

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ABBREVIATIONS

CZG	Canal Zone Government
DOD	Department of Defense
GAO	General Accounting Office
PCC	Panama Canal Company

THE FLAGS OF PANAMA AND THE UNITED STATES FLY SIDE BY SIDE AT THE PANAMA CANAL COMMISSION'S HEADQUARTERS.

CHAPTER 1

INTRODUCTION

This review was made to inform the Congress of the results of our examination of the financial statements of the Panama Canal Company (PCC) for fiscal year 1979, pursuant to the Government Corporation Control Act (31 U.S.C. 841, et. seq.). We also examined the financial statements of the Canal Zone Government (CZG) for the same period because PCC and CZG were closely related in terms of purpose and organization and because PCC is requried by law to absorb the net costs of CZG.

On October 1, 1979, the Panama Canal Treaty entered into force and the PCC/CZG organization was dissolved. A new organization, the Panama Canal Commission, was established to maintain and administer the Canal. The Panama Canal Act of 1979, the legislation implementing the Treaty, increased our responsibilities for examining the financial activities of the Commission. This report also discusses the issues we will address in future reports as required by the implementing legislation.

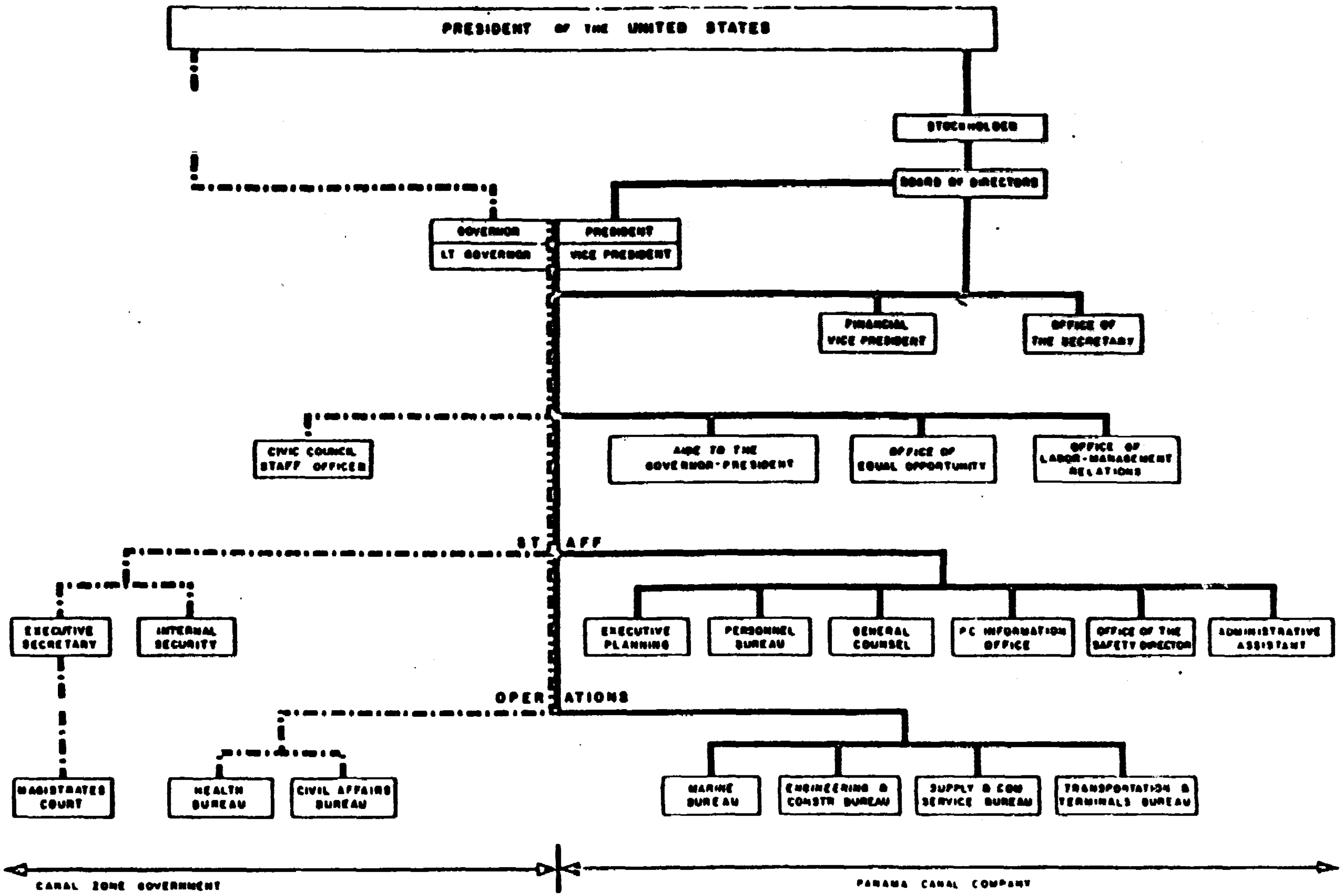
ORGANIZATIONAL STRUCTURE AND FINANCING

Prior to October 1, 1979, the Panama Canal organization consisted of the Panama Canal Company and the Canal Zone Government, both U.S. Government agencies charged with maintaining and administering the Panama Canal. (See chart 1.) These agencies were closely interrelated in terms of purpose, organization, and operation. The PCC was a wholly owned U.S. Government Corporation managed by a Board of Directors. The Secretary of the Army, in an independent capacity, was the direct representative of the President of the United States as the sole stockholder of the PCC and as supervisor of the administration of the CZG. He also appointed the Company's Board of Directors. The CZG was administered by the Governor of the Canal Zone, who was also the President of the Company.

The Panama Canal Company was responsible for transiting ships through the Canal, providing services to shipping interests, maintaining and operating the locks, and providing support services. Support services included vessel repairs and operation of the harbor terminal and railroad and electric power, communication, and water systems. PCC also provided services essential to employee welfare, such as operation and maintenance of rental housing, retail stores, and service and recreational facilities. In addition, under the terms of an interagency agreement, PCC administered the legal, personnel, and budget and accounting operations of the CZG.

Chart 1

PANAMA CANAL COMPANY / CANAL ZONE GOVERNMENT



The CZG operated, administered, and conducted a variety of functions associated with the civil government, including education, health, sanitation, protection, and postal services in the former Canal Zone.

The Canal organization was designed to be self-sustaining. The PCC financed operations and capital expenditures with revenue from transit tolls and support service operations. The CZG, to finance operating and capital expenditures, received annual appropriations which were returned to the U.S. Treasury through (1) recovery of charges for services rendered and (2) payments by PCC for the net cost of the CZG, (i.e., operating costs, including depreciation and other non-funded expenses in excess of recoveries for services rendered).

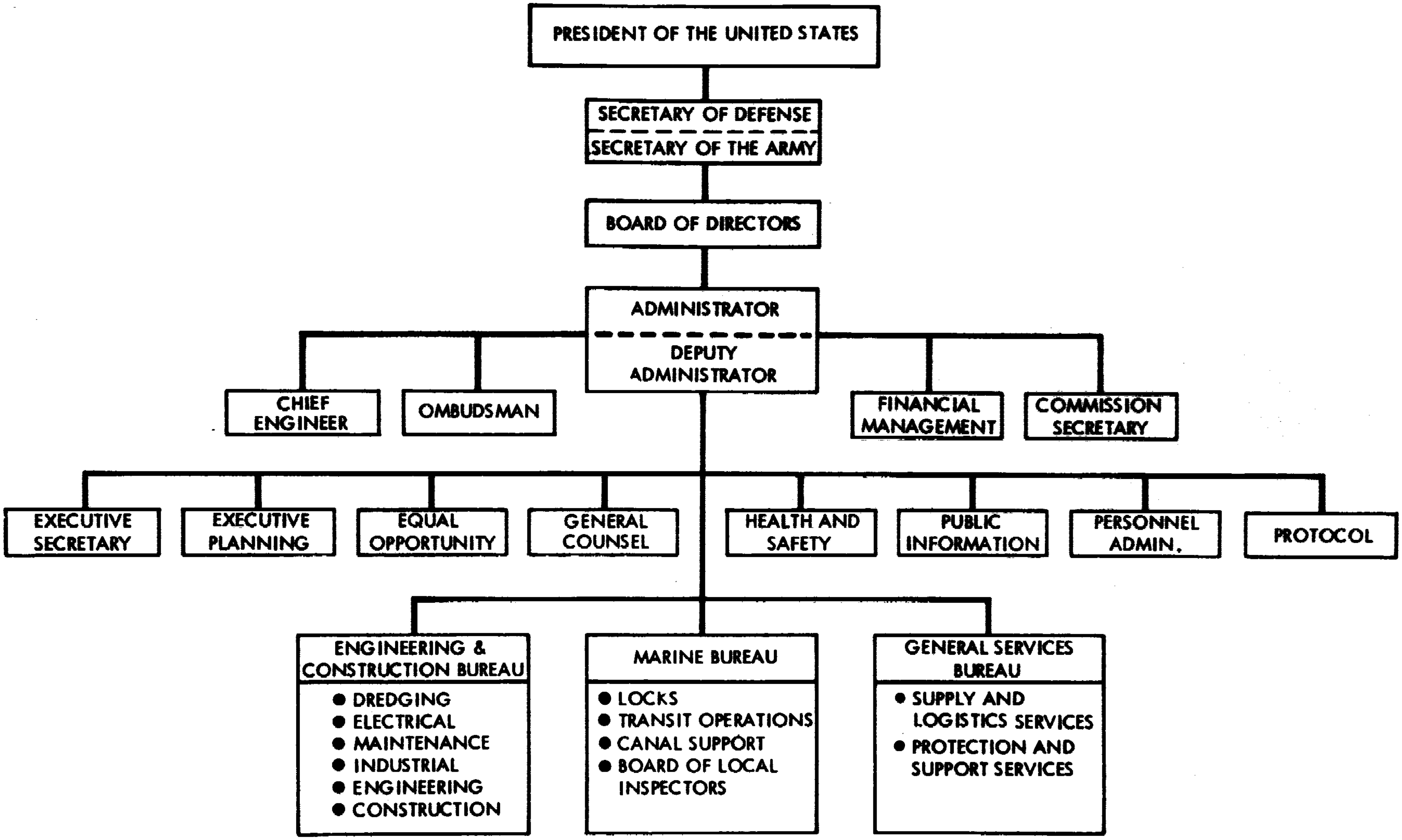
The United States and the Republic of Panama, by treaties dated September 7, 1977, agreed to terminate prior treaties for operating the Panama Canal and to enter into a new relationship. The new treaties, referred to as the Panama Canal Treaty and the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, entered into force on October 1, 1979. At this time, PCC/CZG was dissolved and the Panama Canal Commission was established. The assets and liabilities of the PCC/CZG were transferred to the Commission and other U.S. Government agencies and departments and certain assets transferred to the Government of Panama.

The Commission is supervised by a Board composed of nine members--five U.S. nationals and four Panamanian nationals. Until December 31, 1989, a U.S. national will act as Administrator of the Commission, with a Deputy Administrator from Panama. After that time, these positions will reverse. Chart 2 shows the Commission organization.

TREATY LEGISLATION

On September 27, 1979, the Congress passed the Panama Canal Act of 1979 to provide for the implementation of the Treaty and related agreements. The Act provides that the Commission be a non-corporate (appropriated fund) agency. It requires that tolls and other receipts of the Canal be paid into the Treasury and that expenditures be made pursuant to appropriations. It also establishes our responsibilities concerning the Commission and Treaty implementation.

Chart 2


PRESIDENT OF THE UNITED STATES
SECRETARY OF DEFENSE
SECRETARY OF THE ARMY
BOARD OF DIRECTORS
ADMINISTRATOR
DEPUTY ADMINISTRATOR
CHIEF ENGINEER
OMBUDSMAN
FINANCIAL MANAGEMENT
COMMISSION SECRETARY
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EQUAL OPPORTUNITY
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● INDUSTRIAL
● ENGINEERING
● CONSTRUCTION
MARINE BUREAU
● LOCKS
● TRANSIT OPERATIONS
● CANAL SUPPORT
● BOARD OF LOCAL INSPECTORS
GENERAL SERVICES BUREAU
● SUPPLY AND LOGISTICS SERVICES
● PROTECTION AND SUPPORT SERVICES

GAO responsibilities under Treaty legislation

Under the Act, we are required to perform the following other responsibilities in auditing the financial transactions and operations of the Canal organization.

--Audit the financial transactions of the Panama Canal Commission pursuant to the Accounting and Auditing Act of 1950 and submit to the Congress a report of the audit not later than 6 months after the end of each fiscal year.

--Audit the annual $10-million payment by the Commission to Panama for public services rendered.

--Certify the estimated revenues in the Commission's budget at the time it is submitted to the Congress.

--Approve the Commission's new accounting system.

The Act also provides that the scope of our annual audits be expanded from that of prior audits of the Canal organization to include a statement listing all direct and indirect U.S. costs incurred in implementing the Treaty and the cost of property transferred to Panama during the fiscal year.

OBJECTIVE, SCOPE, AND METHOLOGY

The scope of our examination of the PCC/CZG financial statements is included in chapter 5. In addition, we focused our review on the plans and actions taken by the various Government agencies located in Panama to account for Treaty-related costs and savings and the progress made by the Panama Canal Commission to change the budgeting process and accounting system of the prior Canal organization to comform with the Panama Canal Act.

We visited and held discussions concerning Treaty costs with representatives of the U.S. agencies and organizations in Panama and at the department level in Washington, D.C., including the Departments of Defense and State, U.S. Southern Command, U.S. Embassy, Federal Aviation Administration, Smithsonian Tropical Institute, Gorgas Memorial Laboratory, and Justice's Bureau of Prisons. We also examined pertinent supporting documents and Treaty costs projections that we obtained from these agencies and organizations.

We reviewed the Panama Canal Commission's plan and timeframe for making the necessary changes to its budget and accounting system and to submit its revised accounting system to us for approval. We discussed this plan with Commission representatives and reviewed supporting documents from the Commission files as we deemed necessary.

Our audit work was done between September 1979 and July 1980. The draft of our report was submitted to the Panama Canal Commission and the Departments of Defense and State in August 1980. We received comments from the Panama Canal Commission and Department of Defense in September 1980 and they have been incorporated in this report.

CHAPTER 2

COMMENTS ON FINANCIAL STATEMENTS

The PCC/CZG financial statements for fiscal year 1979 include an adjustment of $9.1 million for doubtful accounts receivable from the Government of Panama now considered collectible, and an adjustment made subsequent to the fiscal year of $6.6 million for the underaccrual of marine accidents. In addition:

--As a consequence of the Treaty, PCC/CZG properties with a net book value of $84.8 million were transferred to the Government of Panama and $36.3 million to the Department of Defense on October 1, 1979.

--Pursuant to legislation other costs relating to the operation of the Canal are not to be borne by PCC/CZG and therefore have been excluded from PCC/CZG financial statements.

COLLECTION OF DOUBTFUL ACCOUNTS RECEIVABLE FROM PANAMA

In 1979 and 1980, the Governments of the United States and Panama reached agreement for Panama to pay the $9.1 million in accounts receivable owed to PCC/CZG that had been previously considered uncollectible. 1/ This includes $744,157 that, under a special agreement in January 1979 IDAAN, an autonomous agency of the Republic of Panama, agreed to pay in 36 monthly installments of $20,671 beginning January 1979 for outstanding surcharges on bills for water processing costs. As of September 30, 1979, IDAAN has paid $186,039 of this amount.

On March 25, 1980, the Government of Panama signed a separate agreement to pay $8.2 million for outstanding accounts receivable owed PCC/CZG at June 30, 1979, which includes outstanding invoices dating back to January 1959. Payments will be made in nine quarterly installments of $909,000 or by offsetting these amounts against quarterly payments to be made by the United States to Panama under Articles III and XIII of the Treaty. Although the signed agreement provided for the payment of Panama's doubtful accounts as of June 30, 1979, Panama informally agreed to pay to the Commission an additional $0.2 million for delinquent accounts accrued between June 30 and September 30, 1979.

1/ See footnote 7, PCC financial statements and footnote 5, CZG financial statements.

ADJUSTMENT SUBSEQUENT TO FISCAL YEAR 1979 FOR UNDER-ACCRUAL OF MARINE ACCIDENTS

The PCC financial statements include an adjustment of $6.6 million made subsequent to the the September 30, 1979 balance sheet date for an under-accrual of marine accidents. 1/ This adjustment reduced net income by a corresponding amount, since marine accident accrual is an element of the Canal organization's operating expense.

According to Commission officials, this adjustment was based on events which occurred and information that became available subsequent to fiscal year 1979 which significantly increased the Canal organization's estimated liability for ship accidents that occurred in fiscal year 1979 over original estimates. Late in fiscal year 1980 it was noted that the amount of settlement payments for marine accidents which occurred in fiscal year 1979 were significantly larger than the related original accrued estimates. A review was made by the Commission's Legal and Accounting staffs to obtain a more reliable estimate of the liability for outstanding claims. As a result of this review, the Commission concluded that PCC financial statements understated the liability for marine accidents by $6.6 million. An adjustment was made to correct this understatement by crediting the marine accident accrued liability and charging expense in the PCC statements.

The majority of the $6.6-million adjusted amount is attributed to the opinion of the Legal Counsel of the Commission that the settlement for five major ship accident claims will be about $6 million more than originally estimated. This revised estimate is based on filed suits, negotiations, court judgements, and other data relating to these accident claims that has become available since the original estimates. The remaining $0.6 million adjustment amount is due to revised estimates of liability for other claims because of the rush to settle these claims through the U.S. Courts in the former Canal Zone before these courts are phased out in 1982 under the Treaty. Thus, long negotiations are no longer taking place and more claims are being settled in the court, which usually results in higher settlements and related costs. Commission officials also stated that, contrary to prior years, more damaged vessels are being repaired in port facilities that do not provide 24-hour repair service rather than at facilities operated by the Commission. This has resulted in longer downtime and larger claims for lost profits.

Commission officials stated that in the past no systematic reviews of amounts accrued for marine accidents were made to determine whether adjustments to original estimates were warranted.

1/See footnote 9, PCC financial statements.

However, due to the problems experienced this fiscal year, accrued amounts will be periodically reviewed and adjusted if this is determined to be necessary.

In our opinion, the additional information that has become available supports a more reasonable estimate of the accrued liability for marine accidents in PCC financial statements. Since the audited financial statements had not been issued at the time the revised estimates were made available, we believe that, under generally accepted accounting principles pertaining to the accounting treatment of subsequent events, the adjustment for the accrual is warranted. We also agree with the Commission that it should monitor marine accident accruals in the future by periodically reviewing this account during the fiscal year and adjusting it as necessary; we strongly suggest that it take such action.

PROPERTY TRANSFERS TO PANAMA
AND DEPARTMENT OF DEFENSE

On October 1, 1979, as a consequence of the Treaty, PCC/CZG properties with a net book value of $84.9 million were transferred to the Government of Panama and $36.3 million to the Department of Defense (DOD). These amounts include $2.1 million of inventories and other assets. Under a separate agreement, the Commission retains the right to use "free of charge" about $30.6 million worth of employee housing which is included in the property transferred to Panama.

The property transferred included title to employee housing, port facilities and equipment, the Thatcher Ferry Bridge, Panama Railroad, and various other facilities and equipment to Panama, and the schools, hospitals, and other public-service-type facilities and equipment to DOD. A further description of property transferred and its effects on the U.S. investment in the Canal organization is shown in apps. I and II.

COSTS EXCLUDED FROM PCC'S FINANCIAL
STATEMENTS PURSUANT TO LAW

Legislation and related hearings indicate that the PCC/CZG was designed to be operationally self-sustaining, imposing no burden on the U.S. taxpayer except for

--the cost of facilities acquired for national defense;

--interest on (1) interest capitalized during construction of the Canal and (2) the U.S. investment in the CZG; and

--extraordinary expenditures on losses incurred through directives based on national policy and not related to PCC operations.

PCC was not legally required to reimburse the U.S. Government for certain other costs incurred annually on behalf of the Canal organization. These costs, totaling $2,109,508 for fiscal year 1979, included a portion of the annuity paid to Panama and recurring annuities and compensation payments to certain former employees.

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. Adjustments required by changes in the relationship between the U.S. dollar and gold increased the annuity to $2,328,200 in fiscal year 1974, where it has since remained. The annuity is paid to Panama by the Treasury from appropriations received by the Department of State. PCC is required to reimburse the U.S. Treasury for the amount of the original annuity plus adjustments. PCC's portion in fiscal year 1979 was $518,718; the remaining $1,809,482 was borne by the U.S. Government. Through fiscal year 1979, payments borne by the U.S. Government have totaled approximately $38.4 million.

Annuities were also paid annually to certain former employees of predecessor agencies of the Canal organization. PCC paid injury and death compensation to employees (and their dependents) of these agencies and was reimbursed by the U.S. Department of Labor. Construction annuities are paid by the Office of Personnel Management (formerly the Civil Service Commission) to U.S. citizens (and their widows) who helped to construct the Canal between 1904-14. During fiscal year 1979, payments from funds provided by these agencies totaled $300,026. Payments through fiscal year 1979 have totaled $58.9 million.

CHAPTER 3

TREATY LEGISLATION LIMITS IMPLEMENTATION COSTS

The Act expresses the sense of the Congress that direct appropriated costs for Treaty implementation over the life of the Treaty should not exceed $665.7 million plus an appropriate inflation adjustment. This was the estimated amount of taxpayer Treaty implementation costs that the executive branch presented to the Congress during consideration of the Act in March 1979. Total estimated costs were $776.7 million, less $111 million in estimated cost savings. (See app. III.)

DOD will incur the largest amount of Treaty costs in Panama, and has started to define, identify, and account for these costs. Other non-DOD agencies have not made much progress in this regard.

In our review of agencies' plans and actions to account for Treaty costs, we identified the following problems.

--Lack of a Government-wide definition of Treaty costs.

--Lack of a central control point for keeping track of overall Treaty costs.

--Costs and savings not included in the March 1979 cost estimates.

--No rate for inflation adjustment prescribed.

DOD TREATY-RELATED COSTS

DOD is projected to incur about $760 million (98 percent) of direct appropriated Treaty costs over the life of the Treaty. The affected military branches, principally the Department of the Army, have made progress in preparing to account for these costs. Nonetheless, there still appear to be problems in defining, identifying, and recording these costs and related cost savings and there is a possibility of additional problems occurring in future years. Costs estimated for fiscal years 1979-84 are shown on the chart on the next page.

Table 1

DOD Estimated Treaty Costs for fiscal years 1979-84

Branch	Operations	Estimated cost (millions)
Army	Base operations	$ 86.7
Army	Commissary operations	7.4
Army	Port operations	4.6
Army	Communications	4.4
Army	Disposal of remains	.8
Army	Criminal investigation	.6
Army	Medical operations	55.5
Air Force	Postal operations	7.3
DOD Dependent Schools	School system	30.0
All branches	Military pay	17.5
Army	Military construction	72.9
Army	Equipment procurement	22.6
Army	Hospital credits	-33.3
Total		$277.0

DOD estimates that its net additional Treaty costs for fiscal years 1985-2000 will be $30 million per year or a total of $480 million. However, this figure is highly speculative and represents, in terms of constant dollars, maximum DOD costs for the period.

Many of the costs DOD will incur are the result of its taking over various activities previously run by the PCC/CZG, such as the school system, medical facilities, and retail and postal operations. Although some of those activities are transfers of functions between agencies rather than creation of functions, there is an important difference that will result in additional costs being borne by U.S. taxpayers. Previously these activities were operated by PCC/CZG on a cost-recovery basis; under DOD not all costs will be recovered.

As shown above, the Army will incur the largest amount of Treaty costs. To control the diverse cost areas, the Headquarters of the Army Forces Command and the Office of the Comptroller of the Army issued instructions prior to Treaty implementation on defining, identifying, and controlling these costs.

In December 1979, the Assistant Secretary of Defense issued a memorandum instructing the Army, Navy, Air Force, DOD Dependent Schools, and Defense Mapping Agency to augment their accounting systems to account for the resources in Panama used to implement the Treaty. It provided that this accounting will be in the same classification as the budget. Annual Decision Package Sets in the budget review will assure that DOD does not exceed its Treaty cost estimates. Budget guidelines will be revised so that the DOD components' budget submissions will contain prior year accumulated totals. A central focal point for DOD Treaty cost matters was established within the Office of the Secretary of Defense. Each DOD component was instructed to designate a central office to maintain current Treaty cost data and be able to respond promptly to inquiries and to furnish cost estimates classified as initial one-time and recurring costs. All the DOD components responded designating focal points and the following costs of maintaining the data.

	Initial one-time cost	Annual recurring cost
Air Force	$12,900	$ 5,600
Army	37,386	112,884
DOD Dependent Schools	875	360
Defense Mapping	50	150

The Navy considered the cost of maintaining Treaty cost data too insignificant to report.

The Army instructions list areas which are to be considered as Treaty-related costs, including supplies, contractual services, equipment obtained from Army depot stock or as new procurement, and increased rates on the Panama Railroad.

In many instances it appears that these definitions in themselves can be used to identify the Treaty cost areas. When costs of supplies, for example, cannot be identified totally as Treaty-related, according to Army instructions they may be prorated.

The Army will use its existing accounting system for Treaty-related costs, employing a unique accounting code to record those costs. It will report Treaty costs on a monthly basis. For the most part, the Army is recording Treaty costs at the time they are initially obligated, although some costs are being identified and recorded at the time they are expensed. Instructions do not require the obligations recorded to be reconciled with actual expenditures, but an Army official in Panama stated that if this were required it would be difficult to do without authority and instructions from the Washington Headquarters level. Army officials in Washington stated that they plan to issue instructions for the Army to keep track of Treaty costs by expenditures. However, until such instructions are issued and implemented, Army Treaty cost reports will reflect not actual expenditures but a mixture of obligations and expenditures.

The Dependent Schools system will incur the second largest amount of Treaty-related costs, because it has taken over school operations formerly provided by CZG. The school system's accounting, however, has come under the auspices of the Air Force. Since the Air Force did not account for school operations prior to the Treaty, these costs can be identified easily. This will also be the case with the expanded APO system, since its operation was very small prior to the Treaty.

However, Air Force officials in Panama have expressed some concern about defining, identifying, and recording such Treaty costs as (1) what percent of increased utility rates should be allocated to Treaty costs, and (2) what percent of increased security personnel should be allocated to Treaty costs as the result of a change in security standards. Also, the Air Force has been accumulating Treaty costs manually but anticipates problems in recording these costs in fiscal year 1980.

The Navy and the Inter-American Geodetic Survey have incorporated or will incorporate in their accounting systems a means of identifying and accounting for Treaty-related costs; the Navy will use job order files to retain its relatively few expenses, and the Geodetic Survey will incorporate an identifying number in its automated system. However, neither had projected significant short or long-term Treaty costs as of January 1980.

The various DOD facilities will also experience some savings as a result of the Treaty. For example, the Air Force and Navy local budgets for fiscal year 1980 were reduced by $1.7 million and $50,000, respectively, corresponding to annual payments to the CZG hospital for medical services to military personnel. Also, according to a Geodetic Survey official, some savings will result from a proposed movement of the Geodetic Survey back to the United States, although the amount of savings has not been determined at this point.

Although DOD has taken a number of actions to control Treaty costs, including the designation of a central collection point for this information, military officials have expressed concern about their continuing ability to keep track of these costs in future years. They believe that it may become increasingly difficult to distinguish between Treaty-related operating costs and those incurred as part of normal operations. For example, it will be difficult to determine whether Treaty or non-Treaty matters necessitated increases or decreases in personnel resulting from personnel surveys. DOD has designated a central point for information gathering in the office of the Deputy Comptroller, Program/Budget, and this will be the point where such an issue will be addressed.

TREATY-RELATED COSTS OF THE PANAMA CANAL ORGANIZATION

The March 1979 estimates included potential Treaty costs for the Panama Canal organization of $3.7 million--$1.7 million in disinterment/reinterment (cemetery) costs and $2.0 million in potential interest on employer/employees retirement contributions for employees that choose to transfer to Panama's retirement system. As of January 1980, the Canal organization had realized about $300,000 in cemetery costs (incurred in fiscal year 1979) and appeared likely to incur little, if any, interest costs.

Most of the Commission's costs during the life of the Treaty will be funded through tolls and other revenues. However, the cemetery costs and interest on employer/employees' contributions to the Civil Service Retirement Fund of eligible employees choosing to transfer to Panama's Social Security System would be paid from appropriated funds.

The total cemetery cost was originally estimated at $3.2 million, of which the CZG would incur $1.7 million and the Battle Monuments Commission $1.5 million. The CZG's costs were covered by a special appropriation in fiscal year 1979. As of October 1, 1979, this responsibility passed to DOD, so no additional cost will be incurred by the Commission.

As of February 1980, no eligible employees had elected to transfer to Panama's Social Security System, so it is probable that little cost will be realized in this area.

The Commission has not identified any savings that will result from the Treaty.

OTHER GOVERNMENT AGENCIES INCURRING TREATY-RELATED COSTS

Other government agencies located in Panama will be incurring additional costs or experiencing savings as a result of the Panama Canal Treaty, including the Department of State, Federal Aviation Administration, Smithsonian Tropical Research Institute, Gorgas Memorial Laboratory, Foreign Broadcast Information Service, and Justice's Bureau of Prisons. These agencies are incurring costs that had not been included in the original estimate presented to the Congress in March 1979 which formed the basis for the Treaty cost ceiling. For this reason, additional costs may be charged against the $665.7 million estimate without provisions having been made for them in the limitation.

The Smithsonian Tropical Research Institute had requested a $348,000 supplement to its 1980 budget, citing the following costs attributable to the Treaty.

--Implementation of cost of living and quarters allowances to compensate staff for loss of tropical differential and commissary privileges and to develop a separate personnel system as provided by the Act ($116,000).

--Additional personnel and equipment costs to carry out its Treaty responsibility as the custodian of the Barro Colorado Island Nature Monument ($156,000).

--Various other personnel, supply, and administrative costs to comply with Treaty requirements and Panamanian law ($76,000).

The Institute also, estimates that it will incur an undetermined amount of costs from customs fees, potential losses resulting from delays in processing perishables through Panamanian customs, and higher costs of utilities from having to contract locally instead of obtaining these services through PCC. However, it estimates savings of approximately $2,800 a year in rental costs that were paid to PCC for facilities now provided rent-free by the Government of Panama.

The Department of State's cost estimate included $3.7 million for additional consular services and $3.8 million for U.S. participation in the joint Commission on the Environment and Consultative Committees; it did not include Embassy personnel who worked full or part-time on Treaty-related matters, such as the Treaty officer. Estimates for these costs have not been compiled.

Other costs and savings which were not included in the March 1979 estimates are shown below; although some of the amounts have not been determined, agency officials told us they are relatively small.

Costs

--Customs fees and potential losses resulting from delays in processing perishables through Panamanian Customs, and $60,000 in higher costs of utilities (Gorgas Memorial Laboratory).

--Additional personnel needed to meet new responsibilities under the Treaty (Foreign Broadcast Information Service).

Savings

--Approximately $600,000 a year or more reduction in the Federal Aviation Administration's program costs during the 5-year phaseout period (in addition to the $75 million savings shown).

--Approximately $5,000 per year savings because of facilities being provided rent free to the Gorgas Memorial Laboratory by the Government of Panama.

--At least $250,000 savings by the Bureau of Prisons for the early turnover of the U.S. prison to Panama.

A more serious problem at these various agencies is their differing interpretations of Treaty costs. For example, the Gorgas Memorial Laboratory and Smithsonian Tropical Research Institute regard additional utility costs as Treaty-related while the Foreign Broadcast Information Service does not. Another agency believes that, because it is performing functions which the PCC/CZG had performed, it is not incurring additional cost but just a cost transfer from one agency to another. This disparity of thought is an indication of the confusion that may arise because of a lack of guidelines defining Treaty costs and an absence of a central reporting point and guidance for questions concerning costs. Possibly as an adjunct to the lack of guidance on Treaty-related costs, most agencies have done very little forward planning for these costs. Although some non-DOD agencies have projected costs for 2 to 5 years, only the Department of State has projected costs for the life of the Treaty. This lack of projection may pose problems in attempts to monitor controls over Treaty costs.

CONCLUSION

The Department of Defense which will be incurring the largest amount of Treaty related costs, has made progress in preparing to account for these costs over the life of the Treaty; other agencies have not made as much progress.

DOD has taken specific action to (1) define Treaty-related costs, (2) establish a method to identify and record costs in its accounting system, and (3) identify a central point for information. However, the Air Force in Panama anticipates that it may incur some problems in accounting for Treaty costs that cannot be readily identified.

Other agencies have not received guidance from the department level. Specifically, there is (1) no common definition of Treaty cost, (2) no centralized collection/guidance point to gather cost information or provide direction on areas not obviously Treaty-related, and (3) little future planning or projecting of Treaty cost estimates for fund control purposes.

Treaty costs and savings are also being incurred that were not included in the March 1979 estimates used as the basis for the Treaty cost ceiling. Since such items have not been provided for in the estimates, it is important that they be closely monitored for control purposes.

Finally, guidance for inflation adjustments to Treaty costs has not been published by any of the agencies. It is important that such guidance be issued for proper comparison of actual costs incurred with the March 1979 cost estimates.

RECOMMENDATION

Since the Department of Defense will incur the largest amount of Treaty costs and has acted to account for these costs, we recommed that the Secretary of Defense establish and chair a steering committee at the department level, consisting of representatives from agencies incurring Treaty-related costs and savings, to coordinate agencies' efforts to define, identify, and account for Treaty costs. This committee could develop a standard definition of Treaty costs and savings and a rate for inflation adjustments and be a focal point for consolidating and reporting Treaty costs.

AGENCY COMMENTS AND OUR EVALUATION

The Panama Canal Commission and the Department of Defense furnished comments on a draft of this report, which we have incorporated to the extent considered appropriate throughout the report. The Department of State declined to comment on our draft but stated that it would comment on our final report.

In its comments, the Commission agreed with our recommendation but pointed out that, as we had indicated, most of its costs during the life of the Treaty will be recovered through tolls and other revenues.

DOD agreed that an interagency effort is needed to recommend definitions of Treaty cost and costs savings and to provide guidance for inflation adjustments to these costs. It did not believe, however, that a steering committee should be established to coordinate agency efforts in consolidating and reporting Treaty costs, but stated that the Office of Management and Budget could better coordinate such agency efforts. DOD said that the Office of Management and Budget, through its guidance to agencies in developing budget estimates, should require the affected agencies to develop and submit to it the schedules of Treaty-related costs and savings. These schedules could be consolidated and compared with the legal limitation as part of the President's budget and furnished to the Congress, without establishing another special accounting and reporting system.

DOD agreed to chair an interagency task force to develop Treaty costs, cost savings, and inflation adjustment guidelines but anticipates that the task force would operate under the auspices of and submit recommendations to the Office of Management and Budget.

We believe that the establishment of an interagency task force chaired by DOD's would greatly facilitate the agencies' efforts in defining, identifying, and accounting for Treaty costs. We also believe that Defense's suggestion that the task force come under the auspices of and submit its recommendations to the Office of Management and Budget, which would coordinate agency efforts in consolidating and reporting Treaty costs, is an alternative that deserves further consideration by the task force after it is established.

CHAPTER 4

IMPACT OF TREATY LEGISLATION ON THE COMMISSION'S

BUDGETING AND ACCOUNTING SYSTEM

The Panama Canal Act of 1979 established the Panama Canal Commission as an appropriated funded agency to operate and maintain the Canal. This Commission replaced the Canal organization which was designed to be self-sustaining and consisted of (1) the Panama Canal Company, a wholly owned Government Corporation, and (2) the Canal Zone Government, an agency that received annual appropriations to finance its operations and which were repaid to the U.S. Treasury. The Act also increased our responsibilities in auditing the Commission's financial transactions and operations. In view of the changes brought about by the Act, there was a need for the Commission to make changes to the budgeting process and accounting system of the prior Canal organization.

CHANGE IN BUDGETING PROCESS

The PCC financed its operating and capital expenditures with revenues from tolls and supporting services. It was also authorized to borrow up to $40 million from the Treasury to cover both losses and capital needs. In contrast, the Commission is required to deposit all of its revenues into an account called the "Panama Canal Commission Fund" and to make expenditures pursuant to annual appropriations. The Act authorized the Treasury to establish and maintain a "Panama Canal Emergency Fund" to be used as a reserve source of funding should emergencies occur which would require expenditures over and above current appropriated fund availability. It authorized $40 million to be appropriated for deposit in the fund beginning with fiscal year 1980 and such additional amounts as may be specifically authorized by law for any fiscal year thereafter.

The Commission has submitted budgets for fiscal years 1980 and 1981 requesting appropriations for both operations and emergency funds; however, the appropriations enacted by the Congress did not provide for emergency funds.

GAO required to certify revenues in Commission budget

The Act requires the Comptroller General to certify the estimated revenues to be deposited in the Panama Canal Commission Fund at the time the budget requests for such fiscal year are submitted to the Congress. In accordance with this requirement, we have certified the estimated revenues for fiscal years 1980 and 1981. It was necessary for us to highly qualify these certifications, however, because the Act provides no criteria for us to use in certifying the revenues and because of the uncertainties in financial forecasting or the unanticipated events that may occur, particularly with respect to Canal traffic and toll revenue.

Our reviews consisted of reviewing the methods of compiling the estimates and forecasts, testing the computations used to arrive at the estimates, and such auditing procedures as we considered practicable and necessary in the circumstances to determine whether the estimates were reasonable.

NEW ACCOUNTING SYSTEM REQUIRED

The Commission has identified, initiated, or implemented changes to conform its accounting system to the requirements of the Act. It had a plan for completing most of the necessary changes to support an appropriated-fund agency by October 1, 1980, with some minor changes to the financial planning system to be completed by February 1981 to coincide with the start of a new annual budget cycle. Work has been started toward the implementation of a completely revised automated accounting system. The goal is to have the new system operational for the fiscal year 1983 accounting cycle. The current phase involves the definition of the conceptual framework for the new system. Once this phase is completed and a work schedule can be established for the later project phases of actual system development, a firm date for the implementation of the new accounting system will be established. However, several key issues require followup action or resolution before the new system can be fully implemented.

The Commission must now ensure that it complies with the Budgeting and Accounting Act of 1950 and the Anti-Deficiency Act. Essentially, the Anti-Deficiency Act stipulates that Federal Government agencies must implement a system to restrict the obligation and expenditures of funds to the amounts appropriated for the applicable fiscal period. The Budget and Accounting Act gives us the responsibility for approving executive agency accounting systems when deemed to be adequate and in conformity with the principles, standards, and related requirements prescribed by the Comptroller General.

Fund control

To satisfy the Anti-Deficiency Act's requirement regarding control of funds, the Commission has implemented an obligation and fund control concept that will result in administrative procedures to properly restrict obligations and expenditures to the amounts appropriated. This includes a new monthly financial statement that shows the fund availability and obligations actually incurred for the fiscal year. This statement is sufficiently detailed to provide for analysis and projection of obligations and budgeted funds and is intended to be one of the principal financial tools for fund control. Beginning with fiscal year 1981, the Commission will be required to report expenditures by fiscal year of funding so that appropriations for any given fiscal year are not exceeded. This reporting must show the liquidation of current and prior year obligations. The Commission planned to implement by October 1, 1980, a computerized method of recording and reporting expenditures and obligations to ensure that prior and current year appropriations will not be exceeded.

Issues requiring followup action or resolution

The Commission has identified a number of issues that remain unresolved or require further followup action before the new accounting system can be implemented.

The major issue concerns the manner of funding capital work performed by the Commission. The present tentative approach of treating the accrued capitalized cost as an obligation of capital funds and a reimbursement to the performer is not only questionable in principle but also poses practical problems of implementation. The Commission's position is that this problem needs to be addressed with a view toward a better approach which would either involve a major change in the accounting system or, preferably, the funding of such capital work from the operating fund instead of the capital fund. This latter approach would have to be incorporated into future appropriations requests and therefore could not be implemented earlier than fiscal year 1983. In the interim, the Commission is taking steps to minimize the problem.

Issues identified by the Commission which require followup are:

--Development of a new automated system for tracking and reporting undelivered orders and integration of the system into the overall accounting system; presently, undelivered orders are handled manually.

--Need for a procedure to record leave paid in the accounts in a manner which supports reporting by accountable organizations; reporting of leave paid is presently being accomplished outside the accounting system.

--Classification of funded entries and obligations to balance sheet accounts by the accountable organization; presently, these entries are accomplished outside the automated accounting system.

--Procedure for monitoring fund availability prior to obligating additional funds; implementation was desired by October 1, 1980.

--Changes to the automated financial planning system to support the appropriated agency form of the Commission; these consist of changes to computer program tables planned for implementation by February 1981 to coincide with the start of a new annual budget cycle.

GAO approval of new accounting system

The Commission plans to submit its new accounting system to us in the following two stages as required by our Policy and Procedures Manual.

1. Statement of principles and standards established to govern its accounting system.

2. Design of the accounting system.

The Commission's timeframe includes submitting the accounting principles and standards to us for approval at the completion of the conceptual definition phase by the end of 1980 and later requesting approval of its accounting system design for the new system prior to implementation.

During our annual financial audit, we will monitor the progress and assist the Commission in establishing its new accounting system. However, the Act provides that for fiscal year 1980 we take into account the problems inherent in converting the prior PCC accounting system to conform to the requirements of the Act and take no adverse action with respect to the Commission or violations of Section 3679 of the Revised Statutes (31 U.S.C. 665) as long as the Commission is in substantial compliance with the Act. Also, the Act provides that we shall make such recommendations as we consider appropriate to insure that full compliance with the financial controls provided for in the Accounting and Auditing Act of 1950 (31 U.S.C. 65 et seq.) are achieved promptly.

ACCOUNTING FOR PUBLIC SERVICE PAYMENTS TO PANAMA

The Treaty provides that the Commission will pay Panama $10 million a year in reimbursement for police and fire protection; maintenance, lighting, and cleaning of streets; traffic management; and garbage collection services in the Canal operating and housing areas.

It requires that the costs be "reexamined" every 3 years after the Treaty enters into force to determine whether adjustment to the annual payment should be made. A Senate understanding stipulates that the Commission deduct from or add to the payment for each year of the second 3-year period one-third of the excess or deficit between the payments and actual costs for the first 3 years. Any cost of services dispute between Panama and the Commission pursuant to the reexamination shall be resolved by an independent and binding audit conducted by an auditor mutually selected by both parties.

As of mid-March 1980, Panama submitted one invoice for one-twelfth of $10 million for the public services it currently provides. It did not provide a cost breakdown. The Commission has emphasized to Panama that it requires costs in sufficient detail to permit evaluating their reasonableness and to provide the basis for adjustments to the fixed annual payment provided under the Treaty.

The Commission has (1) suggested guidelines for the accounting treatment of individual cost elements proposed for use by Panama which require that they be reported separately for each of the services and (2) recommended that a detailed individual costing agreement be developed for each public service.

Panama does not believe it is obligated to provide the Commission with detailed monthly cost information to support the public service payments. Therefore, it has raised the matter to the diplomatic level to arrive at a concept which will provide a basis for the provision of these services. Panama's rationale is that there was general agreement between it and the Commission on the approach and content of the system to provide the audit trail for public service costs. Cost verification appears to be a very sensitive area, especially for Panama, and mechanisms are far from developed. However, the U.S. Embassy has not held formal discussions with Panama to resolve the issue related to public service payments. Consideration is now being given to assigning an Embassy person to help resolve future payment issues.

Section 1341(a) of the Act provides that we shall audit the $10-million public service payments to Panama annually and that any overpayment shall be refunded by Panama or set off against amounts payable by the United States to Panama under the Treaty as determined in accordance with Understanding 1 incorporated in the Resolution of Ratification of the Treaty. In prior congressional testimony, we recommended that Panama develop procedures to verify the actual costs incurred in providing the Treaty-specified public services.

Panama has expressed the goal of implementing an accounting system within 3 years so that costs can be properly supported. However, since the Act requires us to audit the payments annually, the first audit will be due at the end of fiscal year 1980. For us to conduct such an audit to determine if overpayments have been made, sufficient and proper data must be available at the time of the audit. We understand that Panama has hired a consultant to design a system that will enable it to uniformly account for the public service costs, but it is not known when such a system will be implemented.

CONCLUSION

As an appropriated-fund agency, the Commission has submitted budget requests for fiscal years 1980 and 1981 to the Congress for approval, and we have certified the revenues in these budgets as required by the Act.

The Commission has initiated or implemented required changes to its accounting system so that it can support an appropriated-fund agency, and it plans to implement a completely revised accounting system in the coming years. However, it has identified several issues that must be resolved before all the necessary changes can be completed and the new revised system submitted to us for approval. Action has been taken to follow up and resolve these issues.

Panama has not developed a system to report costs incurred in providing public services to the Canal's operating and housing areas. It has expressed the goal of implementing an accounting system so that such costs can be properly supported in 3 years. This needs to be done much sooner, however, because the Act requires that we audit the Commission's $10 million fixed payment to Panama for public services annually to determine if whether an adjustment should be made.

CHAPTER 5

SCOPE OF EXAMINATION

AND OPINION ON FINANCIAL STATEMENTS

We have examined the Panama Canal Company's balance sheet as of September 30, 1979, and its related statements of operations, changes in investment of the United States, and statement of changes in financial position for the fiscal year then ended.

Because the PCC was required to assume the net cost of the Canal Zone Government as an operating expense and because it acted as an agent for the CZG in advancing funds for its monthly operations, construction, and other activities and in collecting its revenue, we also examined the CZG's balance sheet as of September 30, 1979, and its related statements of operations and changes in investment of the United States for the fiscal year then ended.

We previously examined and reported on the Canal organization's financial statements for fiscal year 1978.

The financial statements (PCC schedules 1 through 5 and CZG schedules 6 through 11), including price level statements (PCC schedules 1A and 2A and CZG schedules 6A and 7A), were presented to us by Panama Canal Commission officials in June 1980 as the final PCC/CZG financial statements for fiscal year 1979. However, a subsequent adjustment was made to PCC's statements in October 1980 for the under-accrual of marine accidents, as discussed in chapter 2. While the price-level statements are unaudited, we have reviewed and concurred with the concepts and methods employed in their preparation. Also, our review of the distribution in fiscal year 1980 of assets and liabilities to the Panama Canal Commission, U.S. Treasury, and other Government agencies and to the Government of Panama as shown in PCC and CZG balance sheets was limited to verifying these amounts to supporting documents to determine whether they were mathematically correct and to observing some of the inventories of plant, property, and equipment transferred to Panama.

We made our examination pursuant to the Government Corporation Control Act (31 U.S.C. 841, et. seq.) in accordance with Comptroller General standards for financial and compliance audits, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. During our examination, we gave consideration to the financial audit work performed by the internal auditors. Because of the extent of coverage and adequacy of the internal auditors' work, we were able to limit the extent of our tests of the Canal organization's accounting records.

PANAMA CANAL COMPANY

In our opinion, the accompanying financial statements (schedules 1 through 5) present fairly the financial position of the Panama Canal Company at September 30, 1979, and the results of its operations, changes in the investment of the United States, and changes in financial position for the fiscal year then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

CANAL ZONE GOVERNMENT

In our opinion, the accompanying financial statements (schedules 6 through 11) present fairly the financial position of the Canal Zone Government at September 30, 1979, and the results of its operations and changes in the investment of the United States for the fiscal year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General which have been applied on a consistent basis.

FINANCIAL STATEMENTS

PANAMA CANAL COMPANY
Balance Sheet
September 30, 1978 and 1979

SCHEDULE 1

ASSETS	1978	1979	DISTRIBUTION IN FY 1980 (Note 1) Panama Canal Commission	U.S. Treasury and Other Govt. Agencies	Government of Panama
PROPERTY, PLANT AND EQUIPMENT:					
At cost...................................	$911,008,523	$941,928,091	$789,675,279	$ 2,875,772	$149,377,040
Less accumulated depreciation and valuation allowances (Notes 4 and 5).....	399,592,501	420,291,943	342,818,040	2,158,927	75,314,976
	511,416,022	521,636,148	446,857,239	716,845	74,062,064
CURRENT ASSETS:					
Cash (Note 6):					
Fund balance in U.S. Treasury checking account................................	67,693,167	60,240,323	2,000,000	58,240,323	-
Cash in commercial banks, on hand and in transit...........................	3,062,909	13,055,220	-	13,055,220	-
	70,756,076	73,295,543	2,000,000	71,295,543	-
Accounts receivable, less allowance for doubtful accounts of $9,691,892 and $798,359, respectively (Note 7)..........	14,127,201	20,566,574	20,566,574	-	-
Inventories:					
Materials and supplies, less allowance for obsolete and excess inventory of $340,651 and $527,984, respectively...	20,659,033	27,077,415	26,230,566	191,079	655,770
Merchandise, less allowance for loss on disposal of $30,000 in fiscal year 1979................................	9,708,768	375,741	375,741	-	-
	30,367,801	27,453,156	26,606,307	191,079	655,770
Other current assets......................	1,132,166	1,599,079	1,448,282	129,513	21,284
	116,383,244	122,914,352	50,621,163	71,616,135	677,054
OTHER ASSETS:					
Deferred charges:					
Retirement benefits to certain former employees............................	10,208,000	10,626,000	10,626,000	-	-
Other................................	1,478,201	966,975	966,975	-	-
	11,686,201	11,592,975	11,592,975	-	-
TOTAL ASSETS...............................	$639,485,467	$656,143,475	$509,071,377	$72,332,980	$ 74,739,118

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMPANY
Balance Sheet
September 30, 1978 and 1979

SCHEDULE 1

LIABILITIES	1978	1979	DISTRIBUTION IN FY 1980 (Note 1) Panama Canal Commission	U.S. Treasury and Other Govt. Agencies	Government of Panama
INVESTMENT OF THE UNITED STATES:					
Contributed capital:					
Interest-bearing (6.071% and 6.509%, respectively)	$318,905,576	$319,298,402	$184,029,892	$ 72,332,980	$62,935,530
Non-interest-bearing	18,051,630	18,051,630	6,248,042	-	11,803,588
Earned capital reinvested	187,391,154	194,312,348	200,597,470	(6,285,122)	-
	524,348,360	531,662,380	390,875,404	66,047,858	74,739,118
CURRENT LIABILITIES:					
Accounts payable:					
U.S. Government agencies	7,723,837	4,954,011	4,954,011	-	-
Other	6,057,655	3,456,595	3,456,595	-	-
	13,781,492	8,410,606	8,410,606	-	-
Accrued liabilities:					
Employees' leave	31,398,645	29,150,603	28,196,827	953,776	-
Salaries and wages	6,759,417	8,595,830	8,595,830	-	-
Retirement benefits to certain former employees	1,442,000	1,445,000	1,445,000	-	-
Employees' repatriation	2,156,000	2,239,000	2,239,000	-	-
Claims for damages to vessels (Note 9)	15,735,148	34,342,572	34,342,572	-	-
U.S. Treasury (Note 8)	10,577,525	10,676,933	5,515,087	5,161,846	-
Severance pay	-	1,206,000	1,206,000	-	-
Other	2,431,556	3,066,679	3,066,679	-	-
	70,500,291	90,722,617	84,606,995	6,115,622	-
Other current liabilities	1,253,202	1,406,752	1,406,752	-	-
	85,534,985	100,539,975	94,424,353	6,115,622	-
OTHER LIABILITIES AND RESERVES:					
Retirement benefits to certain former employees	8,766,000	9,181,000	9,181,000	-	-
Employees' repatriation	6,171,000	6,337,000	6,167,500	169,500	-
Lock overhauls	7,805,110	7,026,165	7,026,165	-	-
Casualty losses (Note 9)	1,092,369	920,801	920,801	-	-
Reserve for Canal Zone Government doubtful receivables (Note 7)	5,767,643	476,154	476,154	-	-
	29,602,122	23,941,120	23,771,620	169,500	-
TOTAL LIABILITIES	$639,485,467	$656,143,475	$509,071,377	$ 72,332,980	$74,739,118

PANAMA CANAL COMPANY
Statement of Operations and Earned Capital Reinvested
Fiscal Years Ended September 30, 1978 and 1979

	1978	1979
OPERATING REVENUES:		
Tolls	$195,735,234	$209,521,876
Other	135,274,201	148,597,932
Total operating revenues	331,009,435	358,119,808
OPERATING EXPENSES:		
Maintenance of channels and harbors	25,485,751	25,979,064
Navigation service and control	43,390,026	48,638,356
Locks operation	25,447,752	28,622,792
General repair, storehouse, engineering, and maintenance services	8,255,229	7,890,858
Marine terminal operations	22,789,971	25,678,325
Transportation and utilities	21,422,369	26,282,957
Retail and housing operations, including cost of goods sold of $30,814,659 and $34,349,675, respectively	54,702,063	60,886,463
General and administrative (Note 7)	49,349,766	42,758,676
Interest	19,360,736	20,781,896
Net cost of Canal Zone Government	23,340,387	25,399,583
Other (Note 9)	20,610,206	37,073,644
Total operating expenses	314,154,256	349,992,614
NET REVENUE BEFORE EXTRAORDINARY LOSSES DUE TO TREATY	16,855,179	8,127,194
Severance pay	-	(1,206,000)
NET REVENUE	16,855,179	6,921,194
EARNED CAPITAL REINVESTED:		
Unearned costs recovered from operations	(4,840,065)	-
Balance at beginning of year	175,376,040	187,391,154
Balance at end of year	$187,391,154	$194,312,348

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMPANY
Statement of Contributed Capital
Fiscal Years Ended September 30, 1978 and 1979

	Interest-bearing	Non-interest-bearing
Balance September 30, 1977..................	$318,905,112	$18,051,630
Plant reactivations and transfers, net.....	464	-
Balance September 30, 1978..................	318,905,576	18,051,630
Plant reactivations and transfers, net.....	392,826	-
Balance September 30, 1979..................	$319,298,402	$18,051,630

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMPANY
Statement of Changes in Financial Position
Fiscal Years Ended September 30, 1978 and 1979

	1978	1979
SOURCE OF FUNDS:		
From Operations:		
Revenue	$331,009,435	$358,119,808
Less operating expenses:		
Net cost of Canal Zone Government	23,340,387	25,399,583
Interest on net direct investment	19,360,736	20,781,896
Annuity to Republic of Panama	518,718	518,718
Other expenses	270,934,415	303,292,417
Total operating expenses	314,154,256	349,992,614
Net revenue before extraordinary losses	16,855,179	8,127,194
Add transactions not requiring outlay of funds:		
Deferred payments to U.S. Treasury (Note 3)	(4,840,065)	-
Depreciation	18,542,929	19,282,097
Provision for Canal lock overhauls	1,729,000	2,015,000
Provision for casualty losses	7,171,653	22,476,531
Assumption of liability to Canal Zone Government for doubtful accounts receivable, net of amounts written off	589,367	578,947
Amortization and adjustment of deferred items	1,124,054	627,035
Other	-	(3,612,204)
Total funds from operations	41,172,117	49,494,600
Add funds from sources other than operations	168,068	238,798
Net change in working capital other than cash	13,131,815	11,013,349
Total sources before Treaty effect	54,472,000	60,746,747
Deduct:		
Extraordinary losses due to Treaty	-	1,206,000
Sources of funds, net	$ 54,472,000	$ 59,540,747
APPLICATION OF FUNDS:		
Canal lock overhaul expenditures	$ 2,086,560	$ 2,793,945
Casualty losses	6,830,271	22,648,098
Capital expenditures	21,481,193	31,559,236
Increase in cash	23,613,362	2,539,468
Other	460,614	-
Total	$ 54,472,000	$ 59,540,747

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMPANY
Statement of Property, Plant and Equipment
September 30 1978 and 1979

	1978		1979	
	Cost	Depreciation and Valuation Allowances	Cost	Depreciation and Valuation Allowances
Titles and treaty rights..................	$ 14,728,889	$ 1,933,167	$ 14,728,889	$ 2,301,389
Interest during construction..............	50,892,311	50,892,311	50,892,311	50,892,311
Canal excavation, fills, and embankments..	334,371,265	42,861,150	339,664,591	51,250,068
Canal structures and equipment............	211,661,897	125,488,918	227,304,023	128,617,413
Supporting and general facilities.........	223,524,282	122,688,234	237,138,325	131,537,609
Minor items of plant and equipment........	10,268,165	10,268,165	10,268,165	10,268,165
Facilities held for future use............	5,401,992	5,314,758	5,374,710	5,279,190
Plant additions in progress...............	20,013,924	-	16,411,279	-
Suspended construction projects...........	40,145,798	40,145,798	40,145,798	40,145,798
Total..................................	$911,008,523	$399,592,501	$941,928,091	$420,291,943

The accompanying notes are an integral part of this statement.

DISTRIBUTION IN FY 1980 (Note 1)

COST			DEPRECIATION AND VALUATION ALLOWANCES		
Panama Canal Commission	U.S. Treasury and Other Govt. Agencies	Government of Panama	Panama Canal Commission	U.S. Treasury and Other Govt. Agencies	Government of Panama
$ 14,728,889	$ -	$ -	$ 2,301,389	$ -	$ -
50,892,311	-	-	50,892,311	-	-
329,118,984	-	10,545,607	49,079,400	-	2,170,668
200,718,353	-	26,585,670	115,787,825	-	12,829,588
124,602,153	2,853,981	109,682,191	71,473,824	2,147,720	57,916,065
10,268,165	-	-	10,268,165	-	-
2,954,264	21,791	2,398,655	2,869,328	11,207	2,398,655
16,246,362	-	164,917	-	-	-
40,145,798	-	-	40,145,798	-	-
$789,675,279	$2,875,772	$149,377,040	$342,818,040	$2,158,927	$75,314,976

PANAMA CANAL COMPANY

Notes to Financial Statements

1. Treaty Impact.

On September 7, 1977 the United States of America and the Government of Panama signed the Panama Canal Treaty of 1977, hereafter referred to as the Treaty, and a Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal. These Treaties have been ratified by both countries and enter into force on October 1, 1979. The Treaty terminates the prior treaties pertaining to the Panama Canal. On September 27, 1979, the United States Congress passed the Panama Canal Act of 1979 (Public Law No. 96-70), hereafter referred to as the Act, to provide legislation necessary or desirable for the implementation of the Treaty and the operation and maintenance of the Panama Canal under the Treaty.

The Treaty provides for the Government of Panama to assume complete sovereignty over the Canal Zone, and to gradually assume control of the operation and defense of the Panama Canal over the period 1979 through 1999. The Treaty also provides for the establishment of the Panama Canal Commission on October 1, 1979 to assume certain operational responsibilities that previously were the responsibilities of the Panama Canal Company.

Section 1501 of the Act requires all property and other assets of the Panama Canal Company to revert to the United States on October 1, 1979 and the United States to assume all of the Panama Canal Company's outstanding liabilities at September 30, 1979. Under this section, the Commission is entitled to use such property, facilities, and records of the Panama Canal Company as are necessary to carry out its function. Section 1502 of the Act allows the transfer of United States property and facilities in the Republic of Panama between departments and agencies of the United States, with or without reimbursement, as may be mutually agreed upon. Section 1504 of the Act requires the United States to transfer property and facilities to the Government of Panama pursuant to the Treaty. The balance sheet therefore reflects assets under the stewardship control of the Panama Canal Company as of September 30, 1979 and the distribution of the assets and liabilities to the Government of Panama, the Panama Canal Commission, and other U.S. Government agencies effective October 1, 1979, in compliance with the Act and the Treaty. The following schedule shows the assets which were transferred free of charge to the Government of Panama, in accordance with the Treaty, resulting in a loss of equity of $74.7 million.

	Millions of dollars
Property, plant and equipment:	
At cost	$149.4
Less accumulated depreciation and valuation allowances	75.3
Net book value	74.1
Inventories	.6
Equity loss	$ 74.7

When the Treaty terminates on December 31, 1999, all of the assets of the Panama Canal Commission will have been transferred to the Government of Panama based upon the prescriptions of the Treaty and the Act. The effects of these long range requirements are not considered in the financial statements.

The extraordinary loss associated with severance pay obligations to Company employees terminated as a result of the Treaty is presented as a reduction of earned capital reinvested because the Act does not prescribe an accounting therefor in the interest-bearing investment account.

2. Summary of Significant Accounting Policies.

a. Cost recovery. 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. 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.

Under Section 62 of Title 2 of the Canal Zone Code, certain payments to the U.S. Treasury for the cost of interest, a portion of the annuity, and net costs of the Canal Zone Government included in costs of operation are required to be made annually to the extent earned, and if not earned shall be made from subsequent earnings. The amount for recovery from subsequent earnings is transferred from "Earned Capital" to an account within the "Other Assets" classification. To the extent subsequent annual revenue realized exceeds annual costs incurred, the amount of unearned costs recovered is charged back to "Earned Capital" and equivalent payment made to the U.S. Treasury.

b. 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 cost of funds used during construction are not capitalized. The cost of minor items of property, plant and equipment is charged to expense.

c. Depreciation. Depreciation is provided using a straight-line method applied on a composite basis. This method provides straight-line depreciation plus additional annual depreciation, identified as composite, to provide for premature plant retirements.

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

e. 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.

f. Retirement benefits. Employer payments to the contributory Civil Service Retirement System covering substantially all employees are charged to expense. 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 benefits under a separate annuity plan. The amounts of the payments made under this annuity plan are recorded as a current-year expense. The liability of the Company for future annuity payments to these former employees or their eligible widows is reflected in the balance sheet as "Retirement Benefits to Certain Former Employees" and an equal amount is recorded as a Deferred Charge.

g. Deferred costs. The incremental costs of major systems and engineering studies, and extraordinary maintenance costs, except for lock overhauls, are deferred until completion and then amortized on a straight-line basis over periods not exceeding five years.

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

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

3. Unearned Costs.

Beginning in fiscal year 1976, the Company exercised its right under Section 62 of Title 2 of the Canal Zone Code to defer payment of certain liabilities to the extent not earned from current operations (see Note 2). These liabilities are interest on the net direct investment of the U.S. Government in the Company, the cost of the annuity payment to Panama pursuant to Treaty, and the net costs of the Canal Zone Government operations.

The withholding of payments to the U.S. Treasury requires the Company to regard the unearned cost as deferred charges to be recovered from future earnings. This is in conformity with generally accepted accounting principles as applied to a rate-regulated enterprise and is consistent with the Company's treatment of other costs to be recovered from future operations through the rate-making process.

The Company withheld from the U.S. Treasury $9.3 million, an amount equaling the loss in fiscal year 1976 and the transition quarter. Earnings in fiscal year 1977 permitted the Company to pay $4.5 million. The remaining balance of $4.8 million was paid during fiscal year 1978. At the end of fiscal years 1978 and 1979, there were no unearned costs recorded on the books of the Company.

4. Plant Valuation Allowances.

Valuation allowances have been established as follows: (a) $14.5 million at September 30, 1978 and 1979, 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 September 30, 1978 and 1979, to offset interest costs imputed for the original construction period; and (c) $65.3 million at September 30, 1978 and $65.8 million at September 30, 1979, 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.

5. Depreciation as Percent of Average Cost of Plant.

The provisions for depreciation, expressed as percentages of average cost of depreciable plant exclusive of valuation allowances, were 2.41% for fiscal year 1978 and 2.42% for fiscal year 1979.

6. Cash.

The large cash balances are maintained to satisfy solvency requirements as defined in Section 66.6, Office of Management and Budget Circular A-34, Instructions on Budget Execution, under which the incurring of obligations in excess of budgetary resources is a violation of the Antideficiency Act. All cash exceeding current operating requirements is kept on deposit with the U.S. Treasury.

The Act requires all unexpended amounts in the Panama Canal Company Fund at September 30, 1979 to be covered into the Treasury of the United States in an account to be known as the Panama Canal Commission Fund. The amount of $71.3 million was deposited into the Panama Canal Commission Fund in October 1979 and March 1980 to fulfill this requirement. The remaining cash of $2.0 million was retained in trust to settle patients' funds, unliquidated estates, and other deposits in trust with the Company.

7. Accounts Receivable.

The accounts receivable include doubtful Canal Zone Government receivables, for which the Panama Canal Company is a guarantor. Doubtful Canal Zone Government receivables amounted to $5.8 million at September 30, 1978, of which $5.4 million was for doubtful receivables from the Government of Panama and $0.4 million from others. Doubtful accounts receivable at September 30, 1979 from others amounted to $0.5 million. Corresponding amounts are recorded in the allowance for doubtful accounts. Other liabilities and reserves include a liability to the Canal Zone Government equal to these receivables. The allowance for doubtful accounts decreased by $8.9 million since September 30, 1978, primarily because $3.2 million Company receivables and $5.9 million Canal Zone Government receivables from the Government of Panama, which were included in the allowance for doubtful accounts, were considered collectible and $0.7 million receivable from the MV TAIRONA was written off as part of the settlement of a marine accident claim. The $9.1 million allowance for doubtful accounts receivable from the Government of Panama was reversed and credited to general and administrative expenses in fiscal year 1979.

Action to reverse the allowance was taken based on diplomatic notes of the Embassy of the United States and the Ministry of Foreign Relations of the Republic of Panama, signed on March 25, 1980, which recognize the debt owed by the Government of Panama and established an agreement by the Government of Panama to pay the amount within a designated time period. Payment may be made in cash or by offset by the Panama Canal Commission against the amounts due the Government of Panama under Articles III and XIII of the Treaty.

8. Accrued Liabilities - U.S. Treasury.

Accrued liabilities - U.S. Treasury at September 30, 1979 consist of $7.7 million and $3.0 million for a total of $10.7 million withheld from the U.S. Treasury to cover Canal Zone Government employees' leave accrual and repatriation liabilities, respectively, until these amounts are appropriated. This withholding excludes leave liability of $1.2 million assumed by the Canal Zone Government from the predecessor agency and $2.2 million repatriation liability incurred but not accrued prior to 1966. The total leave liability of $8.9 million and total repatriation liability of $5.2 million is shown in the Canal Zone Government balance sheet.

9. Reserve for Casualty Losses.

The reserve for casualty losses at September 30, 1979, of $0.9 million, includes a zero balance for marine accidents and $0.9 million for other. The balance of the reserve for marine accidents on October 1, 1978 was $0.3 million augmented by monthly accruals of $0.5 million for each of the first three months and $0.9 million for each of the remaining months for a total of $10.3 million. The cost for marine accidents during fiscal year 1979 amounted to $16.0 million, necessitating an additional charge to expense of $5.7 million in late fiscal year 1979 in order to sustain an appropriate balance in the reserve account. The final result was a reserve balance of zero for marine accidents at fiscal year end. Subsequent to the publication of the financial statements, it was discovered that the estimated liabilities for marine accidents were understated by $6.6 million. This required an additional charge of that amount to expenses for the year to maintain the zero balance in the reserve. This increased the total cost of marine accidents during fiscal year 1979 to $22.6 million. In view of the deficiency of the accrual this year, a special study will be made to consider future reserve accrual requirements for the Panama Canal Commission.

The revised estimate of marine accident liabilities outstanding at September 30, 1979 is based on a case-by-case review by legal counsel of previous estimates. The new estimates reflect the results of interviews with witnesses and consultations with various experts in the field of marine accidents, coupled with extensive legal research conducted in preparation for trial or settlement of the claims.

10. Contingent Liabilities and Commitments.

The estimated maximum liability, in addition to liabilities taken into the accounts, which could result from pending claims and lawsuits is $16.3 million at September 30, 1979. In the opinion of management and Company counsel, these pending claims and lawsuits will be resolved with no material adverse effect on the financial condition of the corporation.

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to $18.3 million at September 30, 1979. Of this amount, $0.9 million in unfilled purchase orders were prepaid. In addition, the Panama Canal Company is liable for an indeterminable amount with respect to death and disability payments under the Federal Employees' Compensation Act.

The Company held as custodian negotiable securities of a kind acceptable by the United States Government in the face amount of $7.1 million at September 30, 1979 to guarantee payment by third parties of their obligations.

Effective May 9, 1969, the Company entered into a 25-year contract with the Instituto de Recursos Hidraulicos y Electrificacion, an autonomous agency of the Republic of Panama, for the purchase of electric power to be produced by that agency. Since this contract was terminated by mutual agreement effective midnight, September 30, 1979, the Company has no contingent liability.

11. Borrowing Authority.

The Company has authority to borrow funds from the U.S. Treasury not to exceed $40 million outstanding at any time at interest rates to be determined by the Secretary of the Treasury. At September 30, 1979 none of this amount had been borrowed.

PANAMA CANAL COMPANY
General Price-Level Balance Sheet
September 30, 1979
(Unaudited)

ASSETS	TOTAL		DISTRIBUTION IN FY 1980: Panama Canal Commission		DISTRIBUTION IN FY 1980: U.S. Treasury and other Government Agencies		DISTRIBUTION IN FY 1980: Government of Panama	
	Historical Dollars	General Price-Level Dollars	Historical Dollars	General Price-Level Dollars	Historical Dollars	General Price-Level Dollars	Historical Dollars	General Price-Level Dollars
	(Thousands of Dollars)		(Thousands of Dollars)		(Thousands of Dollars)		(Thousands of Dollars)	
PROPERTY, PLANT AND EQUIPMENT:								
At cost	$941,928	$2,546,548	$789,675	$2,149,007	$ 2,876	$ 6,100	$149,377	$391,441
Less accumulated depreciation and valuation allowances	420,292	1,190,597	342,818	973,477	2,159	4,852	75,315	212,268
	521,636	1,355,951	446,857	1,175,530	717	1,248	74,062	179,173
CURRENT ASSETS:								
Cash:								
Fund balance in U.S. Treasury checking account	60,241	60,241	2,000	2,000	58,241	58,241	-	-
Cash in commercial banks, on hand and in transit	13,055	13,055	-	-	13,055	13,055	-	-
	73,296	73,296	2,000	2,000	71,296	71,296	-	-
Accounts receivable - net	20,566	20,566	20,566	20,566	-	-	-	-
Inventories:								
Materials and supplies - net	27,077	27,943	26,231	27,070	191	197	655	676
Merchandise held for resale	376	376	376	376	-	-	-	-
	27,453	28,319	26,607	27,446	191	197	655	676
Other current assets	1,599	1,599	1,448	1,448	129	129	22	22
	122,914	123,780	50,621	51,460	71,616	71,622	677	698
OTHER ASSETS:								
Deferred charges:								
Retirement benefits to certain former employees	10,626	10,626	10,626	10,626	-	-	-	-
Other	967	1,170	967	1,170	-	-	-	-
	11,593	11,796	11,593	11,796	-	-	-	-
TOTAL ASSETS	$656,143	$1,491,527	$509,071	$1,238,786	$72,333	$72,870	$74,739	$179,871

The accompanying notes summarize the methods employed in the preparation of this statement.

PANAMA CANAL COMPANY
General Price-Level Balance Sheet
September 30, 1979
(Unaudited)

	TOTAL		DISTRIBUTION IN FY 1980: Panama Canal Commission		U.S. Treasury and other Government Agencies		Government of Panama	
LIABILITIES	Historical Dollars (Thousands of Dollars)	General Price-Level Dollars	Historical Dollars (Thousands of Dollars)	General Price-Level Dollars	Historical Dollars (Thousands of Dollars)	General Price-Level Dollars	Historical Dollars (Thousands of Dollars)	General Price-Level Dollars
INVESTMENT OF THE UNITED STATES:								
Contributed capital:								
Interest-bearing	$319,298	$ 949,267	$184,030	$ 727,258	$ 72,333	$ 72,870	$62,935	$149,139
Non-interest-bearing	18,052	45,651	6,248	14,919	-	-	11,804	30,732
Earned capital reinvested	194,312	367,092	200,597	373,377	(6,285)	(6,285)	-	-
	531,662	1,362,010	390,875	1,115,554	66,048	66,585	74,739	179,871
CURRENT LIABILITIES:								
Accounts payable:								
U.S. Government agencies	4,954	4,954	4,954	4,954	-	-	-	-
Other	3,457	3,457	3,457	3,457	-	-	-	-
	8,411	8,411	8,411	8,411	-	-	-	-
Accrued liabilities:								
Employees' leave	29,151	29,151	28,197	28,197	954	954	-	-
Salaries and wages	8,596	8,596	8,596	8,596	-	-	-	-
Retirement benefits to certain former employees	1,445	1,445	1,445	1,445	-	-	-	-
Claims for damages to vessels	34,342	34,342	34,342	34,342	-	-	-	-
U.S. Treasury	10,677	10,677	5,515	5,515	5,162	5,162	-	-
Severance pay	1,206	1,206	1,206	1,206	-	-	-	-
Other	6,712	6,712	6,712	6,712	-	-	-	-
	92,129	92,129	86,013	86,013	6,116	6,116	-	-
	100,540	100,540	94,424	94,424	6,116	6,116	-	-
OTHER LIABILITIES AND RESERVES:								
Retirement benefits to certain former employees	9,181	9,181	9,181	9,181	-	-	-	-
Employees' repatriation	6,337	6,337	6,168	6,168	169	169	-	-
Lock overhauls	7,026	11,657	7,026	11,657	-	-	-	-
Casualty losses	921	1,326	921	1,326	-	-	-	-
Reserve for Canal Zone Government doubtful receivables	476	476	476	476	-	-	-	-
	23,941	28,977	23,772	28,808	169	169	169	169
TOTAL LIABILITIES	$656,143	$1,491,527	$509,071	$1,238,786	$ 72,333	$72,870	$74,739	$179,871

The accompanying notes summarize the methods employed in the preparation of this statement.

PANAMA CANAL COMPANY
General Price-Level Income Statement
For the Year Ended September 30, 1979
(Unaudited)

	Historical Dollars	General Price-Level Dollars
	(Thousands of dollars)	
Operating revenues	$358,119	$369,580
Operating expenses:		
Cost of goods sold	36,750	37,926
Interest	20,782	21,447*
Operating expense	204,129	210,662
Administrative expense	43,649	45,046
Net cost of Canal Zone Government	25,400	29,358
Depreciation	19,282	48,770
	349,992	393,209
NET REVENUE OR (LOSS) BEFORE EXTRAORDINARY LOSSES DUE TO TREATY	8,127	(23,629)
Severance pay	(1,206)	(1,206)
Operating revenue or (loss)	6,921	(24,835)
General price-level gain or (loss)	-	(3,203)
NET REVENUE (LOSS)	$ 6,921	$(28,038)

The accompanying notes summarize the methods employed in the preparation of this statement.

*Reflects only actual interest paid and no imputed costs of equity capital.

PANAMA CANAL COMPANY
Notes to Price-Level Financial Statements

1. Methods employed in the preparation of the general price-level financial statements:

a. Historical dollars are restated in terms of purchasing power at the end of fiscal year 1979. The change in the value of money has been measured by using the gross national product implicit price deflators provided by the U.S. Department of Commerce.

b. The restatement of revenues and expenses, except for depreciation, reflects the change in purchasing power of the dollar during the current fiscal year. The restatement of depreciation expenses for the year is based upon the investment in property, plant and equipment revalued to reflect their ages. Property, plant and equipment and the investment of the United States are restated from July 1, 1951, the date of reorganization of the enterprise, although the major proportion of the plant facilities, e.g., the Canal itself and the locks, were placed in service in 1914.

c. The net change in valuation of assets and liabilities, normally an increase during a period of inflation, is credited to the investment.

d. Generally accepted accounting principles have been followed except to reflect the change in the purchasing power of the dollar.

2. Price-level-adjusted cost of property, plant and equipment does not purport to be replacement cost.

SCHEDULE 6

CANAL ZONE GOVERNMENT
Balance Sheet
September 30, 1978 and 1979

ASSETS	1978	1979	DISTRIBUTION IN FY 1980 (Note 1) Panama Canal Commission	U.S. Treasury and Other Govt. Agencies	Government of Panama
PROPERTY, PLANT AND EQUIPMENT:					
At cost..................................	$115,090,099	$116,420,175	$47,295,735	$50,860,905	$18,263,535
Less accumulated depreciation and valuation allowances (Notes 3 and 4)....	54,398,545	56,726,892	31,948,247	16,662,214	8,116,431
	60,691,554	59,693,283	15,347,488	34,198,691	10,147,104
CURRENT ASSETS:					
Fund balances and cash (Note 10):					
Fund balance in U.S. Treasury.........	5,925,207	5,149,912	1,395,216	3,754,696	-
Cash on hand..........................	220,908	35,385	-	35,385	-
	6,146,115	5,185,297	1,395,216	3,790,081	-
U.S. Treasury securities (at par)........	730,000	-	-	-	-
Accounts receivable (Note 5):					
Panama Canal Company..................	5,767,643	476,154	476,154	-	-
Other.................................	4,252,093	7,867,925	7,867,925	-	-
	10,019,736	8,344,079	8,344,079	-	-
Inventories (at average cost)............	1,222,316	1,136,551	38,317	1,098,234	-
Other current assets.....................	14,351	646,968	643,918	3,050	-
Total current assets.................	18,132,518	15,312,895	10,421,530	4,891,365	-
SUMS DUE FROM FUTURE APPROPRIATIONS (Note 6)................................	14,890,701	15,031,109	6,427,087	8,604,022	-
TOTAL ASSETS.............................	$ 93,714,773	$ 90,037,287	$32,196,105	$47,694,078	$10,147,104

The accompanying notes are an integral part of this statement.

CANAL ZONE GOVERNMENT
Balance Sheet
September 30, 1978 and 1979

LIABILITIES	1978	1979	DISTRIBUTION IN FY 1980 (Note 1) Panama Canal Commission	U.S. Treasury and Other Govt. Agencies	Government of Panama
INVESTMENT OF THE UNITED STATES:					
Invested capital (Note 3)	$61,913,870	$60,829,834	$15,385,805	$35,296,925	$10,147,104
Unobligated capital fund (Note 10)	1,823,030	1,095,256	-	1,095,256	-
Obligated funds (Note 10)	1,688,920	1,230,912	-	1,230,912	-
	65,425,820	63,156,002	15,385,805	37,623,093	10,147,104
Consolidated effect on capital due to Treaty related nonproperty transfers	-	-	(1,466,963)	1,466,963	-
	65,425,820	63,156,002	13,918,842	39,090,056	10,147,104
CURRENT LIABILITIES:					
Accounts payable:					
U.S. Government agencies	10,308,666	9,416,897	9,416,897	-	-
Postal money orders payable	929,855	989,053	989,053	-	-
Less deposits with U.S. Postal Service.	582,212	606,163	606,163	-	-
	347,643	382,890	382,890	-	-
Other	411,605	49,729	49,729	-	-
	11,067,914	9,849,516	9,849,516	-	-
Accrued liabilities:					
Employees' leave	9,066,701	8,862,109	3,813,837	5,048,272	-
Salaries and wages	2,271,283	1,987,050	1,987,050	-	-
Retirement benefits to certain former employees	113,000	117,000	117,000	-	-
Employees' repatriation	1,602,000	788,000	788,000	-	-
Other	59,055	13,610	13,610	-	-
	13,112,039	11,767,769	6,719,497	5,048,272	-
	24,179,953	21,617,285	16,569,013	5,048,272	-
OTHER LIABILITIES:					
Retirement benefits to certain former employees	758,000	795,000	795,000	-	-
Employees' repatriation	3,351,000	4,469,000	913,250	3,555,750	-
	4,109,000	5,264,000	1,708,250	3,555,750	-
TOTAL LIABILITIES	$93,714,773	$90,037,287	$32,196,105	$47,694,078	$10,147,104

The accompanying notes are an integral part of this statement.

CANAL ZONE GOVERNMENT
Statement of Operations
Fiscal Year ended September 30, 1978

	Funded Costs	Accrued Depreciation	Other Non-Fund Charges and Credits	Total	Recoveries	Net Cost of Operations Borne by Panama Canal Company
CIVIL FUNCTIONS:						
Office of director	$ 574,243	$ 287	$ 19,715	$ 594,245	$ -	$ 594,245
Customs and immigration	1,498,822	197	(40,624)	1,458,395	2,996	1,455,399
Postal service	2,697,500	15,246	94,999	2,807,745	1,847,337	960,408
Police protection	8,853,650	89,720	93,874	9,037,244	40,784	8,996,460
Fire protection	3,577,403	75,868	59,674	3,712,945	4,638,861	(925,916)
Judicial system	374,281	194	7,966	382,441	164,762	217,679
Education	22,464,742	665,217	145,397	23,275,356	26,641,967	(3,366,611)
Public areas and facilities	4,141,580	913,107	-	5,054,687	-	5,054,687
Internal security	346,564	446	16,918	363,928	-	363,928
Civil defense	62,803	7,698	3,971	74,472	-	74,472
Licenses and other fees	280,801	2,640	6,565	290,006	914,433	(624,427)
Total Civil Functions	44,872,389	1,770,620	408,455	47,051,464	34,251,140	12,800,324
HEALTH AND SANITATION:						
Office of director	403,924	61	11,717	415,702	7,129	408,573
Hospitals and medical services:						
Gorgas hospital and clinics	17,314,988	473,256	314,904	18,103,148	20,491,662	(2,388,514)
Coco Solo hospital and clinic	4,907,971	113,687	150,349	5,172,007	5,592,702	(420,695)
Canal Zone mental health center	3,331,038	41,289	119,337	3,491,664	3,932,222	(440,558)
Palo Seco hospital	473,577	5,027	11,421	490,025	480,030	9,995
Other public health services:						
Sanitation	1,106,606	4,661	44,851	1,156,118	9,193	1,146,925
Garbage collection	333,001	-	-	333,001	-	333,001
Preventive medicine and quarantine	874,640	461	20,617	895,718	46,849	848,869
School health unit	210,438	-	-	210,438	-	210,438
Veterinarian services	576,696	2,885	19,770	599,351	275,592	323,759
Cemeteries	235,429	607	-	236,036	104,328	131,708
Dental clinics	395,104	3,510	(455)	398,159	266,650	131,509
Care of dead	123,320	7,227	(128)	130,419	93,508	36,911
Total Health and Sanitation	30,286,732	652,671	692,383	31,631,786	31,299,865	331,921
GENERAL EXPENSES:						
Office of the Governor	286,009	-	(664)	285,345	-	285,345
Recruitment and repatriation	755,890	-	-	755,890	-	755,890
Employees' home leave travel	640,485	-	-	640,485	-	640,485
Transportation of employees' vehicles	104,457	-	-	104,457	-	104,457
Government buildings and sites	830,204	119,033	-	949,237	86,565	862,672
Relief payments to former employees and their widows	116,973	-	-	116,973	-	116,973
Net increase in accrued liability for employees' repatriation	-	-	603,000	603,000	-	603,000
Miscellaneous charges and credits	1,922,595	126,941	(80,561)	1,968,975	(4,870,345)	6,839,320
Total General Expenses	4,656,613	245,974	521,775	5,424,362	(4,783,780)	10,208,142
TOTAL	$79,815,734	$2,669,265	$1,622,613	$84,107,612	$60,767,225	$23,340,387

CANAL ZONE GOVERNMENT
Statement of Operations
Fiscal Year Ended September 30, 1979

	Operating Expenses					
	Funded Costs	Accrued Depreciation	Other Non-Fund Charges and Credits	Total	Recoveries	Net Cost of Operations Borne by Panama Canal Company
CIVIL FUNCTIONS:						
Office of director......................	$ 573,126	$ 287	$ 9,355	$ 582,768	$ -	$ 582,768
Customs and immigration................	1,356,356	197	28,568	1,385,121	2,954	1,382,167
Postal service..........................	2,910,512	15,391	(12,756)	2,913,147	2,189,299	723,848
Police protection.......................	9,247,556	91,604	109,974	9,449,134	49,753	9,399,381
Fire protection.........................	3,830,891	82,711	70,625	3,984,227	4,976,818	(992,591)
Judicial system.........................	430,062	194	(1,808)	428,448	148,103	280,345
Education...............................	23,559,139	625,939	94,066	24,279,144	26,542,740	(2,263,596)
Public areas and facilities.............	4,344,345	909,219	-	5,253,564	-	5,253,564
Internal security.......................	371,541	446	(8,381)	363,606	-	363,606
Civil defense...........................	56,424	7,557	(2,558)	61,423	-	61,423
Licenses and other fees.................	389,828	1,672	249	391,749	905,281	(513,532)
Total Civil Functions.................	47,069,780	1,735,217	287,334	49,092,331	34,814,948	14,277,383
HEALTH AND SANITATION:						
Office of director......................	390,227	60	3,674	393,961	8,869	385,092
Hospitals and medical services:						
Gorgas hospital and clinics...........	18,872,896	494,078	105,673	19,472,647	21,107,799	(1,635,152)
Coco Solo hospital and clinics........	5,147,925	124,353	46,076	5,318,354	5,794,306	(475,952)
Canal Zone mental health center.......	3,588,280	54,257	20,443	3,662,980	4,340,465	(677,485)
Palo Seco hospital....................	475,362	4,626	17,047	497,035	495,178	1,857
Other public health services:						
Sanitation............................	1,143,473	4,777	31,861	1,180,111	10,413	1,169,698
Garbage collection....................	372,960	-	-	372,960	-	372,960
Preventive medicine and quarantine....	876,494	588	25,102	902,184	49,327	852,857
School health unit....................	201,305	-	-	201,305	-	201,305
Veterinarian services.................	609,416	2,677	(22,199)	589,894	272,300	317,594
Cemeteries (Note 11)..................	222,424	51	-	222,475	112,273	110,202
Dental clinics........................	476,606	3,423	5,540	485,569	286,158	199,411
Care of dead..........................	127,064	7,227	1,655	135,946	103,285	32,661
Total Health and Sanitation (Note 11)	32,504,432	696,117	234,872	33,435,421	32,580,373	855,048
GENERAL EXPENSES:						
Office of the Governor..................	296,210	-	11,942	308,152	-	308,152
Recruitment and repatriation............	965,699	-	-	965,699	-	965,699
Employees' home leave travel............	676,370	-	-	676,370	-	676,370
Transportation of employees' vehicles...	165,081	-	-	165,081	-	165,081
Government buildings and sites..........	880,490	170,456	-	1,050,946	106,964	943,982
Relief payments to former employees and their widows........................	120,591	-	-	120,591	-	120,591
Net increase in accrued liability for employees' repatriation................	-	-	304,000	304,000	-	304,000
Miscellaneous charges and credits.......	2,572,652	131,939	(545,398)	2,159,193	(4,624,084)	6,783,277
Total General Expenses................	5,677,093	302,395	(229,456)	5,750,032	(4,517,120)	10,267,152
Total (Note 11)...........................	$85,251,305	$2,733,729	$ 292,750	$88,277,784	$62,878,201	$25,399,583

The accompanying notes are an integral part of this statement.

CANAL ZONE GOVERNMENT

Statement of Changes in the Investment of the United States

Fiscal Year Ended September 30, 1978

	Invested capital	Operating funds	Capital funds	Total investment
Investment at September 30, 1977	$61,891,552	$ 264,389	$3,276,949	$ 65,432,890
Appropriation by the Congress for fiscal year 1978	-	71,067,000	2,130,000	73,197,000
Investment at October 1, 1977	61,891,552	71,331,389	5,406,949	138,629,890
Increases of investment:				
Reimbursements from other U.S. Government agencies applied to operations (Note 6)	-	12,600,000	-	12,600,000
Decreases of investment:				
Funded costs	-	79,815,734	-	79,815,734
Unobligated operating funds withdrawn by U.S. Treasury	-	3,227,136	-	3,227,136
Depreciation	2,669,265	-	-	2,669,265
Miscellaneous plant adjustments	91,935	-	-	91,935
	2,761,200	83,042,870	-	85,804,070
Transfer between funds:				
Capital expenditures	2,543,442	-	(2,543,442)	-
Increase in inventories	240,076	(240,076)	-	-
	2,783,518	(240,076)	(2,543,442)	-
Investment at September 30, 1978	$61,913,870	$ 648,443	$2,863,507	$ 65,425,820

Investment by Commitment of Funds

	Invested capital	Operating funds	Capital funds	Total investment
Unobligated funds	$ -	$ -	$1,823,030	$ 1,823,030
Obligated funds	-	648,443	1,040,477	1,688,920
Invested capital:				
Property, plant and equipment (Note 2)	60,691,554	-	-	60,691,554
Inventories	1,222,316	-	-	1,222,316
	$61,913,870	$ 648,443	$2,863,507	$65,425,820

The accompanying notes are an integral part of this statement.

CANAL ZONE GOVERNMENT
Statement of Changes in the Investment of the United States
Fiscal Year Ended September 30, 1979

	Invested Capital	Operating Funds	Capital Funds	Total Investment
Investment at September 30, 1978........................	$61,913,870	$ 648,443	$2,863,506	$ 65,425,819
Appropriation by the Congress for fiscal year 1979.	-	80,168,000	849,000	81,017,000
Investment at October 1, 1978.	61,913,870	80,816,443	3,712,506	146,442,819
Increases of investment:				
Reimbursements from other U.S. Government agencies applied to operations (Note 7)..................	-	13,600,000	-	13,600,000
Decreases of investment:				
Funded costs (Note 11).......	-	85,561,534	-	85,561,534
Unobligated operating funds withdrawn by U.S. Treasury.	-	8,364,517	-	8,364,517
Depreciation................	2,733,729	-	-	2,733,729
Miscellaneous plant adjustments.....................	227,037	-	-	227,037
	2,960,766	93,926,051	-	96,886,817
Transfer between funds:				
Capital expenditures........	1,962,494	-	(1,962,494)	-
Increase in inventories.....	(85,764)	85,764	-	-
	1,876,730	85,764	(1,962,494)	-
Investment at September 30, 1979........................	$60,829,834	$ 576,156	$1,750,012	$ 63,156,002

Investment by Commitment of Funds

	Invested Capital	Operating Funds	Capital Funds	Total Investment
Unobligated funds (Note 10)...	$ -	$ -	$1,095,256	$ 1,095,256
Obligated funds (Note 10).....	-	576,156	654,756	1,230,912
Invested capital:				
Property, plant and equipment (Notes 1 and 3).......	59,693,283	-	-	59,693,283
Inventories.................	1,136,551	-	-	1,136,551
	$60,829,834	$ 576,156	$1,750,012	$ 63,156,002

The accompanying notes are an integral part of this statement.

CANAL ZONE GOVERNMENT
Statement of Property, Plant, and Equipment
September 30, 1978 and 1979

	1978		1979		DISTRIBUTION IN FY 1980 (Note 1)					
					COST			DEPRECIATION AND VALUATION ALLOWANCES		
	Cost	Depreciation and Valuation Allowances	Cost	Depreciation and Valuation Allowances	Panama Canal Commission	U.S. Treasury and other Government Agencies	Government of Panama	Panama Canal Commission	U.S. Treasury and other Government Agencies	Government of Panama
CIVIL FUNCTION FACILITIES:										
Customs and Immigration....	$ 9,825	$ 442	$ 9,825	$ 639	$ 9,825	$ -	$ -	$ 639	$ -	$ -
Postal Division...........	486,076	193,290	475,596	206,807	22,058	135,766	317,772	9,753	71,375	125,679
Police Division...........	1,789,361	608,795	1,821,883	650,097	1,817,651	-	4,232	649,060	-	1,037
Fire Division.............	1,357,629	527,235	1,469,720	579,873	1,376,528	-	93,192	507,687	-	72,186
Fire Hydrant System........	278,005	191,859	287,667	198,300	275,017	2,123	10,527	193,717	639	3,944
Magistrates' Courts........	5,765	631	1,166	826	1,166	-	-	826	-	-
Division of Schools........	26,327,261	8,688,229	26,547,119	9,133,948	894,202	25,228,560	424,357	433,473	8,492,173	203,352
Roads, Streets, Sidewalks..	23,310,688	12,635,031	23,649,180	13,099,927	17,396,908	404,949	5,847,323	11,675,666	118,494	1,305,767
Sewer System	7,674,494	4,146,124	7,698,999	4,310,979	5,963,249	480,592	1,255,158	3,558,687	163,031	589,261
Permanent Townsites........	7,741,830	5,129,871	7,741,830	5,278,804	6,839,630	3,108	899,092	4,827,468	1,012	450,324
Experimental Gardens.......	5,801	2,291	5,801	2,436	-	-	5,801	-	-	2,436
Street Lighting System.....	2,738,143	1,230,976	2,900,896	1,323,002	1,070,953	116,476	1,713,467	746,396	60,966	515,640
Libraries - Museum.........	8,400	3,308	8,400	3,926	8,400	-	-	3,926	-	-
Internal Security..........	8,128	6,706	8,128	7,151	8,128	-	-	7,151	-	-
License Section............	24,065	17,730	22,836	18,173	22,836	-	-	18,173	-	-
Civil Affairs Director's Office..................	1,031,624	323,816	1,052,725	344,155	621,573	131,744	299,408	227,637	35,796	80,722
Total Civil Function Facilities............	72,797,095	33,706,334	73,701,771	35,159,043	36,328,124	26,503,318	10,870,329	22,860,259	8,943,436	3,355,348
HEALTH AND SANITATION FACILITIES:										
Gorgas Hospital - Clinics..	15,713,792	4,710,017	16,684,268	5,106,632	107,936	16,576,332	-	83,347	5,023,285	-
Coco Solo Hospital - Clinics.................	3,989,192	1,586,110	4,194,442	1,688,544	21,661	4,172,781	-	19,900	1,668,644	-
Canal Zone Mental Health...	2,208,735	481,781	2,223,097	535,045	-	2,223,097	-	-	535,045	-
Palo Seco Hospital.........	217,633	146,879	225,958	164,137	-	-	225,958	-	-	164,137
Division of Public Health..	7,123	1,755	7,387	2,184	7,387	-	-	2,184	-	-
Sanitation Division........	111,056	60,962	111,056	65,740	107,345	3,711	-	62,029	3,711	-
Division of Veterinary Medicin	137,789	103,297	138,617	105,050	-	138,617	-	-	105,050	-
Dental and Care of Dead....	434,189	160,534	432,235	169,299		432,235	-	-	169.229	-
Office of Health Director..	4,270	3,588	4,270	3,700	2,260	2,010	-	1,788	1,912	-
Total Health and Sanitation Facilities	22,823,779	7,254,923	24,021,330	7,840,261	246,589	23,548,783	225,958	169,248	7,506,876	164,137
GENERAL FACILITIES:										
Civil Defense..............	209,628	65,984	209,628	73,057	204,160	5,468	-	71,053	2,004	-
Government Buildings.......	8,043,686	4,261,593	8,426,068	4,555,832	3,518,604	297,275	4,610,189	2,288,094	209,898	2,057,840
Total General Facilities	8,253,314	4,327,577	8,635,696	4,628,889	3,722,764	302,743	4,610,189	2,359,147	211,902	2,057,840
MINOR ITEMS OF PLANT AND EQUIPMENT................	6,359,822	6,359,822	6,359,822	6,359,822	6,359,822	-	-	6,359,822	-	-
FACILITIES HELD FOR FUTURE USE.......................	2,794,741	2,749,888	2,779,170	2,738,877	240,064	-	2,539,106	199,771	-	2,539,106
PLANT ADDITIONS IN PROGRESS.	2,061,348	-	922,386	-	398,372	506,061	17,953	-	-	-
TOTAL......................	$115,090,099	$54,398,544	$116,420,175	$56,726,892	$47,295,735	$50,860,905	$18,263,535	$31,948,247	$16,662,214	$8,116,431

The accompanying notes are an integral part of this statement.

CANAL ZONE GOVERNMENT

Notes to Financial Statements

1. Treaty Impact.

On September 7, 1977 the United States of America and the Government of Panama signed the Panama Canal Treaty of 1977, hereafter referred to as the Treaty, and a Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal. These Treaties have been ratified by both countries and enter into force on October 1, 1979. The Treaty terminates the prior treaties pertaining to the Panama Canal. On September 27, 1979, the United States Congress passed the Panama Canal Act of 1979 (Public Law No. 96-70), hereafter referred to as the Act, to provide legislation necessary or desirable for the implementation of the Treaty and the operation and maintenance of the Panama Canal under the Treaty.

The Treaty provides for the Government of Panama to assume complete sovereignty over the Canal Zone, and to gradually assume control of the operation and defense of the Panama Canal over the period 1979 through 1999. The Treaty also provides for the establishment of the Panama Canal Commission on October 1, 1979 to assume certain operational responsibilities that previously were the responsibilities of the Canal Zone Government.

Section 1502 of the Act allows the transfer of United States property and facilities in the Republic of Panama between departments and agencies of the United States, with or without reimbursement, as may be mutually agreed upon. Section 1504 of the Act requires the United States to transfer property and facilities to the Government of Panama pursuant to the Treaty. The balance sheet therefore reflects assets under the stewardship control of the Canal Zone Government as of September 30, 1979 and the distribution of the assets and liabilities to the Government of Panama, the Panama Canal Commission, and other U.S. Government agencies effective October 1, 1979, in compliance with the Act and the Treaty. The following schedule shows the assets which were transferred free of charge to the Government of Panama, in accordance with the Treaty, resulting in a loss of equity of $10.1 million.

	Millions of dollars
Property, plant and equipment:	
At cost	$18.2
Less accumulated depreciation and valuation allowances	8.1
Equity loss	$10.1

When the Treaty terminates on December 31, 1999, all of the assets of the Panama Canal Commission will have been transferred to the Government of Panama based upon the prescriptions of the Treaty and the Act. The effects of these long range requirements are not considered in the financial statements.

2. 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. This method provides straight-line depreciation plus additional annual depreciation, identified as composite, to provide for premature plant retirements.

c. Retirement benefits. Employer payments to the contributory Civil Service Retirement System covering substantially all employees are charged to expense. The Canal Zone Government 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 benefits under a separate annuity plan. The amounts of the payments made under this annuity plan are recorded as a current-year expense. The liability of the Canal Zone Government for future annuity payments to these former employees or their eligible widows is reflected in the balance sheet as "Retirement Benefits to Certain Former Employees" and an equal amount is recorded in "Sums Due from Future Appropriations".

3. Plant Valuation Allowances.

Valuation allowances have been established at $1.8 million at September 30, 1978 and 1979, 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 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. Depreciation as Percent of Average Cost of Plant.

The provisions for depreciation, expressed as percentages of average cost of depreciable plant exclusive of valuation allowances, were 2.38% for fiscal year 1978 and 2.40% for fiscal year 1979.

5. Accounts Receivable.

The doubtful Canal Zone Government accounts receivable were assumed by the Panama Canal Company as guarantor at June 30, 1973, and recorded in its accounts. At September 30, 1978, the stated value of doubtful receivables was $5.8 million, of which $5.4 million was due from the Government of Panama and $0.4 million from others. Doubtful accounts receivable at September 30, 1979 from others amounted to $0.5 million. The allowance for doubtful Canal Zone Government accounts receivable decreased $5.3 million during fiscal year 1979 primarily because $5.9 million receivable from the Government of Panama was removed from the allowance of the Panama Canal Company.

Action to remove the allowance for doubtful accounts receivable from the Government of Panama was taken based on diplomatic notes of the Embassy of the United States and the Ministry of Foreign Relations of the Republic of Panama, signed on March 25, 1980, which recognize the debt owed by the Government of Panama and establish an agreement by the Government of Panama to pay the amount within a designated time period. Payment may be made in cash or by offset by the Panama Canal Commission against amounts due the Government of Panama under Articles III and XIII Treaty.

6. Sums Due from Future Appropriations.

Sums due from future appropriations consist of the unfunded portions of the employees' leave, repatriation and retirement benefits to former employees who do not qualify under the U.S. Civil Service Retirement System. Annual variation in the sums due from future appropriations results from changes in these liabilities.

7. Reimbursements Applied to Operations.

Reimbursements received from other U.S. Government agencies for Canal Zone Government services amounting to $12.6 million in fiscal year 1978 and $13.6 million in fiscal year 1979 were utilized during the year to partially finance operations, as authorized in the Department of Transportation and Related Agencies Appropriations Bill, Public Law No. 95-85 for fiscal year 1978 and Public Law No. 95-335 for fiscal year 1979.

8. Contingent Liabilities and Commitments.

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to $1.2 million at September 30, 1979. 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 $2.7 million at September 30, 1979.

9. 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.

10. Unexpended Appropriations.

The Act requires the Canal Zone Government to return its unexpended appropriated funds at September 30, 1979, into the U.S. Treasury. The undelivered orders and other obligations of the Canal Zone Government at September 30, 1979, will be paid by the Panama Canal Commission with its fiscal year 1980 appropriated funds. The $35 thousand cash on hand was deposited into the general fund of the U.S. Treasury in October 1979 and the fund balance in U.S. Treasury for obligations was returned by special letter to the U.S. Treasury which accompanied the annual "Statement of Unexpended Balances of Appropriations and Funds (Treasury) Request for Transfers and Restorations (31 U.S.C. 701) and Analysis of Appropriation and Fund Balances (Administrative Agencies)."

11. Disinterment/Reinterment Cost.

On July 25, 1979, the Supplemental Appropriations Act (Public Law No. 96-38) was passed. Included in this Act are funds for the disinterment and reinterment of remains fo U.S. citizens in Canal Zone cemeteries. This Act excludes the cemetery moves from the net cost of Canal Zone Government. Therefore, costs of $0.3 million are not reimbursable to the U.S. Government by the Panama Canal Company and are not included in the net costs of operations. The funded costs in the statement of changes in investment of the United States (Schedule 10) will not agree with the funded costs reported in the statement of operations (Schedule 8) by $0.3 million disinterment/reinterment costs.

SCHEDULE 6A

CANAL ZONE GOVERNMENT
General Price-Level Balance Sheet
September 30, 1979
(Unaudited)

ASSETS	TOTAL		DISTRIBUTION IN FY 1980					
			Panama Canal Commission		U.S. Treasury and other Government Agencies		Government of Panama	
	Historical Dollars	General Price-Level Dollars	Historical Dollars	General Price-Level Dollars	Historical Dollars	General Price-Level Dollars	Historical Dollars	General Price-Level Dollars
	(Thousands of Dollars)		(Thousands of Dollars)		(Thousands of Dollars)		(Thousands of Dollars)	
PROPERTY, PLANT AND EQUIPMENT:								
At cost	$116,420	$282,660	$47,296	$122,538	$50,861	$118,790	$18,263	$41,332
Less accumulated depreciation and valuation allowances	56,727	150,478	31,949	87,724	16,662	41,368	8,116	21,386
	59,693	132,182	15,347	34,814	34,199	77,422	10,147	19,946
CURRENT ASSETS:								
Fund balances and cash:								
Fund balance in U.S. Treasury	5,150	5,150	1,395	1,395	3,755	3,755	-	-
Cash on hand	35	35	-	-	35	35	-	-
	5,185	5,185	1,395	1,395	3,790	3,790	-	-
Accounts receivable:								
Panama Canal Company	476	476	476	476	-	-	-	-
Other	7,868	7,868	7,868	7,868	-	-	-	-
	8,344	8,344	8,344	8,344	-	-	-	-
Inventories (at average cost)	1,137	1,137	39	39	1,098	1,098	-	-
Other current assets	647	647	644	644	3	3	-	-
	15,313	15,313	10,422	10,422	4,891	4,891	-	-
SUMS DUE FROM FUTURE APPROPRIATIONS	15,031	15,031	6,427	6,427	8,604	8,604	-	-
TOTAL ASSETS	$ 90,037	$162,526	$32,196	$ 51,663	$47,694	$ 90,917	$10,147	$19,946

The accompanying notes summarize the methods employed in the preparation of this statement.

SCHEDULE 6A

CANAL ZONE GOVERNMENT
General Price-Level Balance Sheet
September 30, 1979
(Unaudited)

LIABILITIES	TOTAL		DISTRIBUTION IN FY 1980: Panama Canal Commission		U.S. Treasury and other Government Agencies		Government of Panama	
	Historical Dollars	General Price-Level Dollars	Historical Dollars	General Price-Level Dollars	Historical Dollars	General Price-Level Dollars	Historical Dollars	General Price-Level Dollars
	(Thousands of Dollars)		(Thousands of Dollars)		(Thousands of Dollars)		(Thousands of Dollars)	
INVESTMENT OF THE UNITED STATES:								
Invested capital	$60,830	$133,319	$15,386	$34,853	$35,297	$ 78,520	$10,147	$19,946
Unobligated capital	1,095	1,095	-	-	1,095	1,095	-	-
Obligated funds	1,231	1,231	-	-	1,231	1,231	-	-
	63,156	135,645	15,386	34,853	37,623	80,846	10,147	19,946
Consolidated effect on capital due to Treaty related nonproperty transfers	-	-	(1,467)	(1,467)	1,467	1,467	-	-
	63,156	135,645	13,919	33,386	39,090	82,313	10,147	19,946
CURRENT LIABILITIES:								
Accounts payable:								
U.S. Government agencies	9,417	9,417	9,417	9,417	-	-	-	-
Postal money orders payable	989	989	989	989	-	-	-	-
Less deposits with U.S. Postal Service	606	606	606	606	-	-	-	-
	383	383	383	383	-	-	-	-
Other	49	49	49	49	-	-	-	-
	9,849	9,849	9,849	9,849	-	-	-	-
Accrued liabilities:								
Employees' leave	8,862	8,862	3,814	3,814	5,048	5,048	-	-
Salaries and wages	1,987	1,987	1,987	1,987	-	-	-	-
Other	919	919	919	919	-	-	-	-
	11,768	11,768	6,720	6,720	5,048	5,048	-	-
	21,617	21,617	16,569	16,569	5,048	5,048	-	-
OTHER LIABILITIES:								
Retirement benefits to certain former employees	795	795	795	795	-	-	-	-
Employees' repatriation	4,469	4,469	913	913	3,556	3,556	-	-
	5,264	5,264	1,708	1,708	3,556	3,556	-	-
TOTAL LIABILITIES	$90,037	$162,526	$32,196	$51,663	$47,694	$ 90,917	$10,147	$19,946

The accompanying notes summarize the methods employed in the preparation of this statement.

CANAL ZONE GOVERNMENT
General Price-Level Income Statement
for the Year Ended September 30, 1979
(Unaudited)

	Historical Dollars	General Price-Level Dollars
	(Thousands of dollars)	
Recoveries............................	$ 62,878	$ 64,890
Operating expenses:		
Funded costs..........................	85,251	87,979
Other non-fund charges and credits....	293	302
Depreciation..........................	2,734	6,066
	88,278	94,347
Operating revenue or (loss).............	(25,400)	(29,457)
General price-level (loss) gain.........	-	99
Net cost of Canal Zone Government.....	$(25,400)	$(29,358)

The accompanying notes summarize the methods employed in the preparation of this statement.

CANAL ZONE GOVERNMENT
Notes to Price-Level Financial Statements

1. Methods employed in the preparation of the general price-level financial statements:

a. Historical dollars are restated in terms of purchasing power at the end of fiscal year 1979. The change in the value of money has been measured by using the gross national product implicit price deflators provided by the U.S. Department of Commerce.

b. The restatement of revenues and expenses, except for depreciation, reflects the change in purchasing power of the dollar during the current fiscal year. The restatement of depreciation expenses for the year is based upon the investment in property, plant and equipment revalued to reflect their ages. Property, plant and equipment and the investment of the United States are restated from July 1, 1951, the date of reorganization of the enterprise.

c. The net change in valuation of assets and liabilities, normally an increase during a period of inflation, is credited to the investment.

d. Generally accepted accounting principles have been followed except to reflect the change in the purchasing power of the dollar.

2. Price-level-adjusted cost of property, plant and equipment does not purport to be replacement cost.

NET BOOK VALUE OF MAJOR PLANT ITEMS
TRANSFERRED TO THE DEPARTMENT OF DEFENSE AND
GOVERNMENT OF PANAMA ON OCTOBER 1, 1979

Canal Zone Government	Transfers to DOD	Transfers to Panama
Postal buildings and equipment	$ 64,391.11	$192,092.94
Police building		3,195.36
Fire station		21,005.98
Fire hydrants and sewer systems	319,044.92	672,479.73
Schools	16,736,436.84	216,004.98
Roads, streets and sidewalks	286,455.49	4,562,874.37
Permanent townsites	2,096.54	448,767.62
Street lighting systems	55,509.97	1,197,826.54
Civil Affairs - recreational facilities	95,947.23	218,685.81
Palo Seco Hospital		61,820.71
Gorgas Hospital buildings and equipment	11,553,046.76	
Coco Solo Hospital buildings and equipment	2,504,136.88	
Canal Zone Mental Health Center buildings and equipment	1,688,051.26	
Veterinary Medicine buildings and equipment	33,566.03	
Gorgas and Coco Solo dental and morgue buildings and equipment	263,104.68	
Civil Defense buildings and equipment	3,464.14	
Miscellaneous Government buildings	87,378.08	2,552.349.96
Plant additions in process	506,060.94	
	34,198,690.87	10,147,104.00
PANAMA CANAL COMPANY		
Channels, harbors and basins	$ 1,537.29	$14,139,038.02
Dredging navigational lighthouses		8,089.34
Launch landing, launches and equipment		173,457.44
Vessel repair building and equipment		824,183.05
Maintenance building		13,966.61
Thatcher Ferry Bridge		12,910,691.04
Marine bunkering buildings and equipment		4,193,587.61
Employee housing	48,440.66	34,984,976.65*
Balboa Cafeteria, Theatre, Bowling Alley, and other services buildings and equipment	330,135.29	2,742,101.43
Panama Railroad		2,298,231.65
Motor vehicles	164,298.10	312,422.70
Power systems	27,293.56	314,863.99
Communications systems		162,709.72
Water systems	67,180.37	125,418.82
Grounds maintenance equipment	28,383.22	
Miscellaneous Company buildings	49,576.87	858,325.83
	716,845.36	74,062,063.90
Total	$34,915,536.23	$84,209,167.90

*GAO note: Under a separate agreement with Panama, the United States retains the right to use housing "free of charge" valued at $30.6 million for U.S. citizen employees during the life of the Treaty.

INVESTMENT OF U.S. GOVERNMENT IN CANAL ORGANIZATION AFTER TRANSFER OF ASSETS TO GOVERNMENT OF PANAMA AND DOD ON OCTOBER 1, 1979 (Book Value)

Panama Canal Company Contributed Capital

	Interest Bearing	Non-Interest Bearing	Earned Capital Reinvested	Canal Zone Government	Total
Per PCC/CZG 9/30/79 Balance Sheets	$319,298,402	$18,051,630	$194,312,348	$63,156,002	$594,818,382
Less: Net Assets Transferred effective 10/01/79:					
To Government of Panama (note a)	62,935,530	11,803,588		10,147,104	84,886,222
To DOD (note b)	1,037,437			35,299,975	36,337,412
Cash to U.S. Treasury	71,295,543			3,790,081	75,085,624
Totals	135,268,510	11,803,588		49,237,160	196,309,258
Add: Liability decrease due to employee transfers (note c)			6,285,122		6,285,122
U.S. Investment in Commission on 10/01/79	$184,029,892	$ 6,248,042	$200,597,470	$13,918,842	$404,794,246

a/Includes property, plant, and equipment valued at $84.2 million and inventory and other assets of $0.68 million.

b/Includes property, plant, and equipment of $34.9 million and inventories and other assets of $1.4 million.

c/Increase in U.S. earned capital reinvested due to decrease in liability for accrued leave and repatriation for employees that transferred to other agencies on 10/01/79.

SCHEDULE OF EXTIMATED ADDITIONAL TREATY RELATED COSTS AND SAVINGS

	Amount
DOD implementation requirements	$757.0
DOD nonappropriated-fund employees' retirements	2.0
DOD relocation of remains of U.S. citizens	1.5
	760.5
Consular services	3.7
PCC potential liability for interest on retirement benefits transferred	2.0
Expense on joint committees	3.8
CZG relocation of remains of U.S. citizens	1.7
Foreign Military Sales reserve	5.0
	776.7
Less:	
Annuity payments to Panama	-36.0
Operation costs of air navigation control and savings	-75.0
	-111.0
Total (FY 1979-99) (note a)	$ 665.7

a/Does not include the $205 million in personnel retirement costs which was included in the March 1979 estimates presented to the Congress but which was deducted and charged to tolls.

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