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REPORT TO THE CONGRESS 096867

~~96-0220~~



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES
GENERAL ACCOUNTING OFFICE

AUG 1 1975



Audit Of Financial Statements Of Saint Lawrence Seaway Development Corporation Calendar Year 1974

Department of Transportation

This report includes GAO's opinion that the financial statements of the Corporation present fairly its position as of December 31, 1974 and 1973, the results of its operations for the calendar years then ended, the source and application of its funds for the calendar year 1974, and other information necessary to keep the Congress informed.

The report is submitted as required by law and contains no recommendations or suggestions.

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AUG. 1, 1975



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

B-125007

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

This is our report on the audit of the Saint Lawrence
Seaway Development Corporation financial statements for the
year ended December 31, 1974. 72

The audit was made pursuant to the Government Corpora-
tion Control Act (31 U.S.C. 841) and the Department of Com-
merce and Related Agencies Appropriation Act, 1961 (74 Stat.
101), which require the Comptroller General to audit the
Corporation and to submit the audit report directly to the
Congress.

We are sending copies of this report to the Director,
Office of Management and Budget; the Secretary of Transpor-
tation; and the Administrator, Saint Lawrence Seaway Develop-
ment Corporation.

James A. Stacks
Comptroller General
of the United States

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I Principal officials of the Department of
 Transportation and the Saint Lawrence
 Seaway Development Corporation, calendar
 year 1974

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D I G E S T

In GAO's opinion the financial statements of the St. Lawrence Seaway Development Corporation present fairly its financial position at December 31, 1974 and 1973, the results of its operations for the years then ended, and the source and application of its funds for calendar year 1974, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States. (See p. 4.)

For calendar year 1974 the Corporation reported a net gain of \$0.3 million, compared with a net gain of \$2.6 million in 1973. Seaway toll revenues were \$5.8 million in 1974, compared to \$7.5 million reported in 1973. Cargo tonnage fell 23 percent from the previous year primarily because of labor unrest, a shipping accident, and the general downturn in economic conditions. (See p. 2.)

In October 1970 unpaid interest on the Corporation's bonds was forgiven and the bonds became noninterest bearing, as authorized by the Merchant Marine Act of 1970. The interest which would otherwise have been payable during 1974 was about \$4.9 million (approximate cost to the U.S. Treasury). (See p. 2.)

During calendar year 1974 the Corporation redeemed \$0.6 million in revenue bonds held by the U.S. Treasury. The Corporation, through December 31, 1974, redeemed \$13.3 million in outstanding revenue bonds and thereby reduced its bonded indebtedness to \$120.5 million. (See p. 2.)

The Congress authorized expenditures not to exceed \$846,000 for administrative expenses for fiscal year 1974. Actual administrative expenses totaled \$801,567--\$44,433 less than the statutory limitation. (See p. 2.)

*Seaway Costs
Audit reports
Financial records*

In December 1970 the Congress authorized the Corps of Engineers to determine a means of extending the navigation season of the Great Lakes and the Seaway and, in cooperation with the Corporation and other interests, to demonstrate the practicability of extending the season. The program is still in progress. (See p. 3.)

INTRODUCTION

The Saint Lawrence Seaway Development Corporation is a wholly owned Government enterprise created and authorized by the act of Congress of May 13, 1954 (68 Stat. 93; U.S.C. 981), as amended, to provide for the construction, operation, and development jointly by the United States and Canada of a 27-foot seaway between Lake Erie and Montreal.

The Corporation is authorized to consummate certain arrangements with the Saint Lawrence Seaway Authority of Canada relative to construction of the Seaway between Lake Erie and Montreal; to construct, maintain, and operate the United States Seaway facilities; to finance the United States share of the Seaway costs on a self-liquidating basis by the issuance of revenue bonds to the United States Treasury; and to establish with the Canadian Authority mutually satisfactory arrangements for the coordinated control and operation of the Seaway.

Additionally, the Corporation is authorized to establish tolls and to negotiate agreements on tolls and ship measurements with the Canadian Authority. A 1966 agreement between the Governments of the United States and Canada provided that 27 percent of the revenues be distributed to the Corporation and 73 percent to the Authority.

The Corporation submits an annual report on its activities for the calendar year to the Secretary of Transportation, who, in turn, submits it to the President for transmittal to the Congress.

COMMENTS ON SELECTED ACTIVITIES

RESULTS OF 1974 OPERATIONS

For calendar year 1974 the Corporation reported a net gain of \$0.3 million, compared with a 1973 net gain of \$2.6 million. The decrease in the gain was primarily due to less revenues.

Seaway toll revenues declined from \$7,541,456 in 1973 to \$5,768,970 in 1974. This decrease represented a 23-percent fall in cargo tonnage below the previous year.

INDEBTEDNESS TO THE U.S. GOVERNMENT

The Corporation was authorized to borrow \$140 million from the U.S. Treasury under interest-bearing revenue bonds and to redeem such borrowings at the Corporation's option. The Corporation's unpaid accrued interest, as well as all future interest on the bonded debt, was forgiven in October 1970 when the Congress passed the Merchant Marine Act of 1970 (33 U.S.C. 985). The interest which would otherwise have been payable during 1974 was about \$4.9 million (approximate cost to the U.S. Treasury).

Through December 31, 1974, the Corporation had borrowed \$133.8 million and had available further borrowing authority of \$6.2 million. At that date the Corporation had redeemed \$13.3 million of its outstanding revenue bonds and reduced its debt to \$120.5 million. The repayments included \$0.6 million paid in 1974 and \$12.7 million paid in previous years.

ADMINISTRATIVE EXPENSE LIMITATION

Authorized expenditures were not to exceed \$846,000 for administrative expenses for fiscal year 1974. Actual expenses were \$801,567--\$44,433 less than the statutory limitation.

TRAFFIC

The cargo transit for the Seaway between Montreal and Lake Erie in 1974 amounted to 44.1 million tons, compared with 57.6 million tons handled in 1973. The 1974 tonnage consisted of bulk cargo weighing 39.6 million tons (a decrease of 12.2 million tons from 1973) and general cargo weighing 4.5 million tons (a decrease of 1.3 million tons from 1973).

A Corporation official attributed the decrease in cargo tonnage to a number of factors including Canadian labor unrest, an accident which closed the Welland Canal for two weeks, and the general downturn in economic conditions.

NAVIGATION SEASON EXTENSION

The River and Harbor Act of 1970 (84 Stat. 1818, 1820) authorized the Corps of Engineers to determine the means of extending the navigation season of the Great Lakes and the Seaway and authorized \$9.5 million to be appropriated to the Corps to demonstrate the practicability of an extension. The act provided for the Corps to conduct the demonstration program in cooperation with the Departments of Transportation, the Interior, and Commerce--specifically including the Coast Guard, the Corporation, the Maritime Administration, and the Environmental Protection Agency--and other public or private interests. The act also provided for the Secretary of Commerce to study the possibility of providing reasonable insurance rates for shippers and vessels using the Great Lakes and the Seaway beyond the current navigation season, which is about 250 days.

The Secretary of Transportation announced that the initial goal of the program was to explore the possibility of extending the navigation season by at least 1 month.

The Corps allocated and transferred \$1,294,000 of appropriated funds to the Corporation through calendar year 1974. As of December 31, 1974, \$388,096 of these funds remained unexpended.

As in 1973 the Corporation's major 1974 season extension activities involved installing a gate in the Ogdensburg-Prescott ice boom. This gate provides a means of navigation through the boom without disrupting the ice cover established by the boom for the benefit of downstream electric power entities.

The Corporation also continued to monitor and collect ice cover information.

SCOPE OF EXAMINATION

We examined the Corporation's statement of financial condition at December 31, 1974 and 1973, and the related statements of revenues and expenses for the calendar years then ended and of source and application of funds for the calendar year 1974 in accordance with generally accepted auditing standards. We included such tests of accounting records and such other auditing procedures as was considered necessary. The audit was conducted at the Corporation's office in Massena, New York.

By agreement between the Authority and the Corporation, the billing and collection of tolls are the responsibility of the Authority, which accounts to the Corporation for the Corporation's share of the toll revenues.

OPINION ON FINANCIAL STATEMENTS

The financial statements and the notes to the financial statements were prepared by the Corporation for inclusion in its annual report for calendar year 1974. Our opinion, so far as it relates to Seaway toll revenues, is based primarily on the examination and the report of the Auditor General of Canada.

Pursuant to the Merchant Marine Act, as of October 21, 1970, unpaid interest on the Corporation's bonds was forgiven and the bonds became noninterest bearing. The interest which would otherwise have been payable during 1974 was about \$4.9 million (approximate cost to the U.S. Treasury).

In our opinion, the accompanying financial statements present fairly the financial position of the Corporation at December 31, 1974 and 1973, the results of its operations for the calendar years then ended, and the source and application of its funds for the calendar year 1974, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
COMPARATIVE STATEMENT OF FINANCIAL CONDITION
AS OF DECEMBER 31, 1974 AND 1973

A S S E T S

	<u>1974</u>	<u>1973</u>
PLANT, PROPERTY, AND EQUIPMENT:		
Plant in service, at cost (sch. 5 and note 1)	\$126,236,670	\$125,621,823
Less accumulated depreciation (note 2)	<u>22,570,738</u>	<u>20,943,330</u>
Net plant in service	103,665,932	104,678,493
Work in progress	<u>205,549</u>	<u>142,305</u>
Total plant, property, and equipment	<u>103,871,481</u>	<u>104,820,798</u>
INVESTMENT IN SEAWAY INTERNATIONAL BRIDGE COMPANY:		
Debenture bonds--due December 31, 2012	<u>7,440</u>	<u>7,440</u>
CURRENT ASSETS:		
Cash (note 3 and note 5)	3,646,306	2,913,025
Time deposits in, and cash in transit to, minority banks (note 4)	740,000	600,000
Tolls and other receivables (net)	432,245	395,522
Inventories, at cost	<u>202,431</u>	<u>192,220</u>
Total current assets	<u>5,020,982</u>	<u>4,100,767</u>
Total assets	<u>\$108,899,903</u>	<u>\$108,929,005</u>

I N V E S T M E N T A N D L I A B I L I T I E S

INVESTMENT OF THE U.S. GOVERNMENT:		
Revenue bonds outstanding (authorized \$140,000,000 unissued \$6,200,000)	\$120,476,050	\$121,076,050
Deficit (note 6)	<u>-12,654,335</u>	<u>-12,997,014</u>
Net investment of U.S. Government	<u>107,821,715</u>	<u>108,079,036</u>
CURRENT LIABILITIES:		
Accounts payable	12,920	15,796
Accrued liabilities and deferred income (note 5)	<u>1,065,268</u>	<u>834,173</u>
Total current liabilities (note 7)	<u>1,078,188</u>	<u>849,969</u>
Total investment and liabilities	<u>\$108,899,903</u>	<u>\$108,929,005</u>

The notes on pages 12 and 13 are an integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
FOR THE CALENDAR YEARS 1974 AND 1973

	<u>1974</u>	<u>1973</u>
REVENUES:		
Seaway tolls	\$5,768,970	\$7,541,456
Other	<u>212,554</u>	<u>197,955</u>
Total revenues	<u>5,981,524</u>	<u>7,739,411</u>
EXPENSES:		
Operations (sch. 6)	3,122,191	2,757,993
General administration (sch. 7)	827,191	722,623
Depreciation (note 2)	<u>1,689,463</u>	<u>1,674,471</u>
Total expenses	<u>5,638,845</u>	<u>5,155,087</u>
Net gain	<u>\$ 342,679</u>	<u>\$2,584,324</u>

The notes on pages 12 and 13 are an integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATIONCOMPARATIVE STATEMENT OF DEFICITAS OF DECEMBER 31, 1974 AND 1973

	<u>1974</u>	<u>1973</u>
Deficit at beginning of year	\$12,997,014	\$15,581,338
Gain for the year	<u>342,679</u>	<u>2,584,324</u>
Deficit at end of year	<u>\$12,654,335</u>	<u>\$12,997,014</u>

The notes on pages 12 and 13 are an integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR CALENDAR YEAR 1974

	<u>1974</u>
SOURCE:	
Revenues:	
Seaway tolls	\$5,768,970
Other	212,554
Proceeds from property disposals	<u>12,675</u>
	<u>\$5,994,199</u>
APPLICATION:	
Acquisition of assets	\$ 752,821
Operations and administrative expenses	3,949,382
Retirement of revenue bonds (U.S. Treasury)	600,000
Increase in working capital	<u>691,996</u>
	<u>\$5,994,199</u>

The notes on pages 12 and 13 are an integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
COMPARATIVE STATEMENT OF PLANT, PROPERTY, AND EQUIPMENT
AS OF DECEMBER 31, 1974 AND 1973

Plant in service	1974		1973	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land in fee \$	911,026 \$	- \$	911,026 \$	- \$
Land rights and reloca- tions	5,637,979	651,195	5,637,979	591,996
Locks	64,719,076	11,653,439	64,344,466	10,872,685
Roads and bridges	8,638,717	2,695,326	8,631,552	2,522,552
Channels and canals	36,146,207	4,160,207	36,146,207	3,780,671
Public use facilities	542,112	158,303	541,424	147,460
Navigation aids	1,433,251	251,099	1,333,136	239,464
Buildings, grounds, and utili- ties	4,082,652	1,217,765	4,042,094	1,136,112
Permanent operating equipment	<u>4,125,650</u>	<u>1,783,404</u>	<u>4,033,939</u>	<u>1,652,390</u>
Total	<u>\$126,236,670</u>	<u>\$22,570,738</u>	<u>\$125,621,823</u>	<u>\$20,943,330</u>

The notes on pages 12 and 13 are an integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATIONCOMPARISON OF OPERATIONS EXPENSESFOR THE CALENDAR YEARS 1974 AND 1973

	<u>1974</u>	<u>1973</u>
Development and general operating expense	\$ 925,265	\$ 905,970
Operation of locks, canals, and traffic control	1,046,287	856,062
Maintenance of navigation aids	81,352	79,764
Maintenance of plant and equipment	<u>1,069,287</u>	<u>916,197</u>
Total	<u>\$3,122,191</u>	<u>\$2,757,993</u>

The notes on pages 12 and 13 are in integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
COMPARISON OF ADMINISTRATIVE EXPENSES
FOR THE CALENDAR YEARS 1974 AND 1973

<u>Type of expense</u>	<u>1974</u>	<u>1973</u>
Personnel compensation	\$575,296	\$532,397
Personnel benefits	47,037	41,669
Travel and transportation	26,941	35,509
Rents, communications, and utilities	70,441	46,696
Printing and reproduction	11,361	9,673
Other services	74,011	33,583
Supplies and materials	<u>22,104</u>	<u>23,096</u>
Total	<u>\$827,191</u>	<u>\$722,623</u>

The notes on pages 12 and 13 are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Plant, property, and equipment are stated at cost of acquisition or construction. Indirect costs incurred prior to the opening of the Seaway on April 25, 1959, have been allocated to the related permanent features of the Seaway.
2. The straight-line method of depreciation is used and is computed on balances in plant in service. Accumulated reserves are accounted for on a composite basis by groups of assets. The cost of plant retired, including the cost of removal, less salvage is charged against the reserves. Neither depreciation nor amortization allowances have been provided for lands in fee.
3. To preserve the Corporation's borrowing authority to meet future emergency cash requirements, revenues have been retained to provide working capital during the winter non-navigation season. These revenues are deposited in the Corporation's account with the U.S. Treasury.
4. To support the President's Minority Bank Deposit Program, the Corporation deposited official funds in a number of minority banks throughout the United States. It's hoped that such funds will expand opportunities for minority business enterprises. All deposits are insured by the Federal Deposit Insurance Corporation.
5. The Congress authorized the Corps of Engineers to determine the means of extending the navigation season of the Great Lakes and the Seaway and to demonstrate the practicability of extending the season (River and Harbor Act of 1970, 84 Stat. 1818, 1820). A portion of the funds appropriated to the Corps is allocated to the Corporation as one of the participating agencies in the Demonstration Program.

At December 31, 1974, \$388,096 of appropriated funds received under this program remained unexpended and was included in accrued liabilities and reflected in cash.

6. The deficit of \$12,654,335 is the net accumulation since the opening of the Seaway in 1959 and reflects the excess of expenses over revenues, including some \$22,570,738 in accumulated depreciation.
7. On April 11, 1975, the St. Regis Indian Tribe of New York State made a claim against the Corporation for \$3.03 million. A legal opinion on the validity of the claim has not been formulated by the Corporation's General Counsel.

In addition to the current liabilities at December 31, 1974, there were undelivered orders and contracts amounting to \$418,082 which included \$129,354 for the Demonstration Program.

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF TRANSPORTATION AND THE
SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
CALENDAR YEAR 1974

Effective date
of appointment

DEPARTMENT OF TRANSPORTATION

SECRETARY OF TRANSPORTATION:

William T. Coleman, Jr.

March 1975

Claude S. Brinegar

February 1973

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

ADMINISTRATOR:

David W. Oberlin

August 1969

ASSISTANT ADMINISTRATOR:

William H. Kennedy

October 1973

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