United States General Accounting Office

GAO

Report to the Congress

September 1989

FINANCIAL AUDIT

Saint Lawrence Seaway Development Corporation's 1988 Financial Statements

139867

GAO/AFMD-89-101

GAO

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

Comptroller General of the United States

B-125007

September 29, 1989

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

This report presents our opinion on the Saint Lawrence Seaway Development Corporation's financial statements as of December 31, 1988. Reports on the Corporation's internal accounting controls and on its compliance with laws and regulations are also provided.

The Corporation was created by the Act of May 13, 1954 (Public Law 83-358) and is a wholly owned government corporation within the U.S. Department of Transportation. It was created to develop, operate, and maintain with Canada a seaway between Montreal and Lake Erie, chiefly by operating two locks on the Saint Lawrence River.

We are required to conduct an audit of the Corporation at least once every 3 years under the provisions of the Government Corporation Control Act (31 U.S.C. 9105). To help fulfill our responsibility, we contracted with an independent certified public accounting firm to conduct a financial audit of the Corporation for the year ended December 31, 1988. We determined the scope of the audit work, monitored its progress at all key points, reviewed the working papers of the certified public accountants, Arthur Andersen & Co., and performed other procedures as we deemed necessary. Our audit was conducted in accordance with generally accepted government auditing standards.

In our opinion, and consistent with the opinion of Arthur Andersen & Co., the Saint Lawrence Seaway Development Corporation's financial statements present fairly, in all material respects, its financial position as of December 31, 1988, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles. The 1987 financial statements, which are presented for comparative purposes, have not been audited and thus an opinion is not expressed on them.

Seaway tolls are primarily collected by the Canadian Seaway Authority and a share remitted to the Corporation for the two U.S. locks of the seven-lock seaway system. Since our prior report, GAO/AFMD-86-5 (dated January 15, 1986), the Water Resources Development Act of 1986 was passed. It requires the Corporation to remit the U.S. share of revenues derived from the collection of charges and tolls to the Harbor Maintenance Trust Fund established in the U.S. Treasury. Annual appropriations from the trust fund are used to meet operating and maintenance expenses of the Corporation. The act further requires the Secretary of the Treasury to rebate from the trust fund charges and tolls paid with respect to commercial vessels.

The report by Arthur Andersen & Co. on internal accounting controls disclosed no condition believed to be a material weakness. The auditors' report on compliance with laws and regulations disclosed nothing to indicate that the Corporation had not complied with such applicable laws and regulations which could have a material effect on the financial statements. We concur with these reports.

During the course of the audit, Arthur Andersen & Co. also identified several matters which, although not material to the financial statements, will be communicated for the Corporation's consideration in a separate management letter.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Secretary of Transportation, the Administrator of the Saint Lawrence Seaway Development Corporation, and the Auditor General of Canada.

Charles A. Bowsher
Comptroller General
of the United States

Contents

Letter		1
Auditors' Opinion		6
Auditors' Report on Internal Accounting Controls		7
Auditors' Report on Compliance With Laws and Regulations		9
Financial Statements		10
	Statement of Financial Position	10
	Statement of Changes in Invested Capital	11
	Statement of Operations and Changes in Cumulative Results of Operations	12
	Statement of Cash Flows	13
	Notes to the Financial Statements	14

Auditors' Opinion

ARTHUR ANDERSEN & CO.
WASHINGTON, D. C.

To the Comptroller General of the United States
and the Administrator of the Saint Lawrence
Seaway Development Corporation:

We have audited the accompanying statement of financial position of the SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION (a wholly owned U. S. government corporation) as of December 31, 1988, and the related statements of operations and changes in cumulative results of operations, changes in invested capital and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Saint Lawrence Seaway Development Corporation for the year ended December 31, 1987, were not audited by us and, accordingly, we do not express an opinion on them.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the U. S. General Accounting Office Government Auditing Standards (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saint Lawrence Seaway Development Corporation as of December 31, 1988, and the results of its operations and its cash flows for the year ended in conformity with generally accepted accounting principles.

Washington, D. C.,
April 19, 1989.

Arthur Andersen & Co.

Auditors' Report on Internal Accounting Controls

ARTHUR ANDERSEN & CO.
WASHINGTON, D. C.

To the Comptroller General of the United States
and the Administrator of the Saint Lawrence
Seaway Development Corporation:

We have audited the financial statements of the SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION (the "Corporation") for the year ended December 31, 1988, and have issued our report thereon dated April 19, 1989. Our audit was made in accordance with generally accepted auditing standards and the standards for financial audits contained in the U. S. General Accounting Office Government Auditing Standards (1988 Revision). As part of our audit, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. For the purpose of our report, we have classified the significant internal accounting controls into the following categories.

- Revenue
- Treasury
- Expenditure-Payroll
- Expenditure-Purchasing
- Fixed Assets
- Financial Reporting

Our study included all of the control categories listed above, except that we did not evaluate the accounting controls over treasury, fixed assets and financial reporting transactions because we determined it would be more efficient to substantively test these records.

The Corporation's management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system taken as a whole or on any of the categories described above. However, during our audit we did not become aware of any conditions that we believe to be a material weakness.

During the course of our audit, we identified a number of other weaknesses in internal accounting controls which will be reported in a separate Management Letter dated April 19, 1989. Although we did not consider these weaknesses to be material to the financial statements, they nonetheless merit management's attention.

This report is intended solely for the use of the U. S. General Accounting Office and the Saint Lawrence Seaway Development Corporation. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the addressees, is a matter of public record.

Washington, D. C.,
April 19, 1989.

Arthur Andersen & Co.

Auditors' Report on Compliance With Laws and Regulations

ARTHUR ANDERSEN & CO.

WASHINGTON, D. C.

To the Comptroller General of the United States
and the Administrator of the Saint Lawrence
Seaway Development Corporation:

We have audited the financial statements of the SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION (the "Corporation") for the year ended December 31, 1988, and have issued our report thereon dated April 19, 1989. Our audit was made in accordance with generally accepted auditing standards and the standards for financial audits contained in the U.S. General Accounting Office Government Auditing Standards (1988 Revision), and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Corporation's management is responsible for compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the Corporation's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of the Corporation.

The results of our tests indicate that, for the items tested, the Corporation complied with those provisions of laws and regulations, noncompliance with which could have a material effect on the financial statements. Nothing came to our attention that caused us to believe that, for the items not tested, the Corporation was not in compliance with laws or regulations, noncompliance with which could have a material effect on the Corporation's financial statements.

This report is intended solely for the use of the U. S. General Accounting Office and the Saint Lawrence Seaway Development Corporation. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the addressees, is a matter of public record.

Washington, D.C.,
April 19, 1989.

Arthur Andersen & Co.

Financial Statements

Statement of Financial Position

AS OF DECEMBER 31, 1988 AND 1987

	1988	1987 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash	$ 188,737	$ 377,691
Unexpended appropriations (Note 7)	9,491,792	8,995,857
Time deposits in minority banks (Note 3)	10,777,545	10,009,000
Tolls and other receivables (Note 4)	1,686,659	1,356,994
Inventories (Note 2)	323,851	323,604
Total current assets	22,468,584	21,063,146
PLANT, PROPERTY, AND EQUIPMENT:		
Plant in service (Note 5)	140,796,613	138,908,291
Less accumulated depreciation	47,267,640	45,217,368
Net plant in service	93,528,973	93,690,923
Work in progress	1,603,031	1,182,864
Total plant, property, and equipment	95,132,004	94,873,787
OTHER ASSETS:		
Lock spare parts	531,988	414,733
Investment in Seaway International Bridge Corporation, Ltd. (Note 6)	7,440	7,440
Total other assets	539,428	422,173
Total assets	$118,140,016	$116,359,106
LIABILITIES AND EQUITY OF THE U.S. GOVERNMENT		
CURRENT LIABILITIES:		
Amount payable to the U.S. Treasury	$ 976,383	$ 1,053,824
Accounts payable	697,769	459,619
Accrued leave	380,519	389,390
Accrued payroll	220,907	200,600
Other	29,182	2,165
Deferred revenue	3,000	162,486
Total current liabilities	2,307,760	2,268,084
EQUITY OF THE U.S. GOVERNMENT:		
Invested capital	109,499,472	109,237,755
Unexpended appropriations (Note 7):		
Obligated	703,152	648,832
Unobligated	8,788,640	8,347,025
Cumulative results of operations	(3,159,008)	(4,142,590)
Total equity of the U.S. Government	115,832,256	114,091,022
Total liabilities and equity of the U.S. Government	$118,140,016	$116,359,106

The accompanying notes are an integral part of these statements.

Statement of Changes in Invested Capital

FOR THE YEARS ENDED DECEMBER 31, 1988 AND 1987

	1988	1987 (Unaudited)
Invested capital at the beginning of the year	$109,237,755	$109,976,000
Appropriations for plant, property and equipment	2,389,150	1,321,317
Appropriations for depreciation on plant in service	(2,127,433)	(2,059,562)
Invested capital at the end of the year	$109,499,472	$109,237,755

Statement of Operations and Changes in Cumulative Results of Operations

FOR THE YEARS ENDED DECEMBER 31, 1988 AND 1987

	1988	1987 (Unaudited)
REVENUES		
Appropriations expended:		
Operations	$ 8,211,990	$ 4,488,826
Lock rehabilitation	—	1,971,759
Depreciation on plant in service	2,127,433	2,059,562
Other (Note 8)	1,178,345	977,105
Total revenues	11,517,768	9,497,252
EXPENSES		
Administrative expenses	1,720,829	1,742,170
Operations:		
Locks and marine	1,779,652	1,663,218
Maintenance and engineering	2,487,283	2,647,746
General and development	2,418,989	1,949,985
Depreciation on plant in service	2,127,433	2,059,562
Lock rehabilitation charges	—	1,973,330
Total expenses	10,534,186	12,036,011
Net income (loss)	983,582	(2,538,759)
Cumulative results of operations at the beginning of the year (Note 9)	(4,142,590)	(1,603,831)
Cumulative results of operations at the end of the year	($3,159,008)	($4,142,590)

The accompanying notes are an integral part of these statements.

Statement of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 1988 AND 1987

	1988	1987 (Unaudited)
Cash flows from operating activities:		
Net income (loss)	$ 983,582	($ 2,538,759)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,127,433	2,059,562
Gain on property disposals	(9,686)	(41,849)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(329,665)	2,293,070
(Increase) in inventories	(247)	(64,072)
(Increase) in other assets	(117,255)	(47,317)
Increase in accounts payable	160,709	1,007,353
Increase in accrued liabilities	38,453	88,342
(Decrease) increase in deferred revenue	(159,486)	(1,809,273)
Total adjustments	1,710,256	3,485,816
Net cash provided by operating activities	2,693,838	947,057
Cash flows from investing activities:		
Proceeds from property disposals	13,186	42,703
Acquisition of plant, property and equipment	(2,389,150)	(1,321,317)
Net cash used in investing activities	(2,375,964)	(1,278,614)
Cash flows from financing activities:		
Net (increase) in time deposits	(768,545)	(1,079,000)
Appropriations for plant, property and equipment	2,389,150	1,321,317
Appropriations for depreciation on plant in service	(2,127,433)	(2,059,562)
Net cash used in financing activities	(506,828)	(1,817,245)
Net (decrease) in cash	(188,954)	(2,148,802)
Cash at beginning of year	377,691	2,526,493
Cash at end of year	$ 188,737	$ 377,691

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

1. **The Corporation**
The Saint Lawrence Seaway Development Corporation (the "Corporation"), a wholly-owned government corporation within the Department of Transportation, was created by the Wiley-Dondero Act of May 13, 1954 (68 Stat. 92, 33 U.S.C. 981) as amended. The Corporation is responsible for the development, seasonal operation and maintenance of the portion of the St. Lawrence Seaway (the "Seaway") between Montreal and Lake Erie, and within the territorial limits of the United States.

2. **Summary of Significant Accounting Policies**
Basis of Accounting — Assets, liabilities, equity, revenues and expenses are recognized on the accrual basis of accounting following generally accepted accounting principles.
Inventories — Supplies which are consumed in operations are valued at the lower of cost or market with cost being determined using the weighted-average method.
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 permanent features of the Seaway. Assets with useful lives of two years or more and at a cost of $5,000 or more and improvements or betterments are capitalized. Repairs and maintenance costs are expensed. The straight-line method of depreciation is used and is computed on balances in plant in service. The cost of plant retired and the accumulated depreciation are removed from the accounts on disposal. Gains or losses on disposals are credited or charged to operations.
Seaway Tolls — The Water Resource Development Act of 1986 (P.L. 99-962) requires the Corporation to turn over U.S. Seaway tolls charged on commercial vessels to the Harbor Maintenance Trust Fund. Annual appropriations from the Trust Fund are used to meet operation and maintenance expenses. The Act further requires the U.S. Treasury to rebate the tolls to the shippers from the Trust Fund. U.S. Seaway tolls for rebate totaled $10,114,541 and $9,520,269 in 1988 and 1987, respectively.
Statement of cash flows — In 1988, the Corporation, as required by generally accepted accounting principles, has presented a statement of cash flows in place of a statement of changes in financial position and has elected to present such a cash flows statement for each of the two years in the period ended December 31, 1988.

For purposes of the statement of cash flows, the Corporation considers cash accounts maintained with commercial banks and all cash held by the U.S. Treasury to be cash and cash equivalents. The Corporation has restated its December 31, 1987 presentation for comparative purposes.

3. **Time Deposits in Minority Banks**
The Corporation maintains insured deposits in a number of minority banks throughout the United States to help expand opportunities for minority business enterprises. These deposits comprise the major portion of the Corporation's unapportioned balance of revolving fund retained for emergency situations.

4. **Tolls and Other Receivables**
The Corporation has not provided for an allowance on receivables because prior losses have been insignificant and a large percent of receivables is guaranteed by security deposits. Receivables as of December 31, 1988 and 1987 are as follows:

	1988	1987 (Unaudited)
U.S. Seaway tolls	$ 971,406	$ 987,122
Due from Harbor Maintenance Trust Fund	205,283	—
Interest due on deposits in minority banks	255,257	199,165
Due from concession contracts	126,416	78,153
Reimbursable work in progress	90,001	62,845
Other	38,296	29,709
Total	$1,686,659	$1,356,994

5. **Plant in Service**
Plant in service as of December 31, 1988 and 1987 is as follows:

		1988		1987 (Unaudited)	
Plant in Service	Estimated Service Life	Accumulated Cost	Depreciation	Accumulated Cost	Depreciation
Lands in fee	N/A	$ 867,526	N/A	$ 871,026	N/A
Land rights & relocations	95 yrs	5,639,064	$ 1,480,137	5,639,064	$ 1,420,927
Locks & guidewalls	40-100 yrs.	72,313,926	23,514,241	70,950,258	22,592,334
Roads & bridges	50 yrs.	8,752,099	5,121,701	8,690,490	4,946,659
Channels & canals	95 yrs.	36,534,747	9,529,760	36,534,747	9,146,145
Public use facilities	50 yrs	762,767	328,807	727,888	313,552
Navigation aids	10-40 yrs	2,247,212	1,001,096	2,115,462	935,322
Buildings, grounds & utilities	50 yrs.	6,826,778	1,995,667	6,717,368	1,859,131
Permanent operating equipment	7-40 yrs	6,852,494	4,296,231	6,661,988	4,003,298
Total		$140,796,613	$47,267,640	$138,908,291	$45,217,368

Plant in service includes costs of certain features of the Seaway International Bridge Corporation, Ltd., discussed in Note 6. These features include land rights and relocation costs incurred in removing the old bridges which were a hindrance to navigation and in building the superstructure of the South Channel Bridge. The gross amounts of $3,897,379 in land rights and relocations, and $4,853,320 in roads and bridges, have been depreciated accordingly.

6. **Investment in Seaway International Bridge Corporation, Ltd.**
The investment in the Seaway International Bridge Corporation, Ltd., a wholly-owned subsidiary of the St. Lawrence Seaway Authority of Canada, consists of debenture bonds. The net annual income from the Bridge, after all operating expenses, is distributed as a bridge user charge, first to the St. Lawrence Seaway Authority to offset the amortization of the cost of the North Channel Bridge together with interest, then to the Saint Lawrence Seaway Development Corporation to offset the amortization of the Racquette River Bridge, and the balance, if any, is then divided equally between both parties. Any revenue received by the Corporation is returned to the U.S. Treasury as miscellaneous receipts. No revenue from the Bridge Corporation has been received since 1961.

7. **Unexpended Appropriations**
The Corporation receives annual appropriations based upon the Federal Government's September 30 fiscal year. Unexpended appropriations represent fiscal year 1989 spending authority which remains available from appropriated funds as of December 31, 1988.

8. **Other Revenues**
Other revenues for the years ending December 31, 1988 and 1987 consist of the following:

	1988	1987 (Unaudited)
Interest on deposits in minority banks	$ 708,201	$594,437
Concession operations	278,217	207,640
Rental of Administration Building	65,868	63,594
Miscellaneous (Net)	126,059	111,434
Total	$1,178,345	$977,105

Miscellaneous revenues include shippers' payments for damages which are reported net of direct materials and direct labor costs, which in 1988 and 1987 amounted to $15,268 and $9,302, respectively.

9. **Cumulative Results of Operations**
The 1987 beginning balance of cumulative results of operations has been adjusted to: (1) reclassify to capital assets transformers expensed in 1984 for $371,355, less depreciation of $51,589, (2) adjust revenue from 1987 to 1986 for $28,241, and (3) record loss of $30,705 on asset disposed of in 1986.

10. **Pensions**
The majority of Corporation employees were covered by the Civil Service Retirement System (CSRS) during 1988 and 1987. Total Corporation (employer) matching contributions (7 percent of pay) to CSRS for all employees were $242,078 and $269,303 for the years ended December 31, 1988 and 1987, respectively. For employees hired since December 31, 1983, the Corporation also contributed the employer's matching amount for Social Security. Employer contributions to Social Security amounted to $115,759 and $91,621 for 1988 and 1987, respectively.

On January 1, 1987, the new Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983 were automatically covered by FERS and Social Security while employees hired prior to January 1, 1984 may elect to either join FERS and Social Security or remain in CSRS. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which the Corporation will automatically contribute 1 percent of pay and then match any employee contribution up to an additional 4 percent of pay. For the years ended December 31, 1988 and 1987, total Corporation (employer) contributions to FERS were $166,033 and $127,875, respectively.

Data regarding the Civil Service Retirement System's actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are maintained by the Office of Personnel Management and are not allocated to individual departments and agencies.

11. **Contingencies and Commitments**
As of December 31, 1988, there were no claims pending against the Corporation. Commitments are reflected in the accompanying Statement of Financial Position as obligated appropriations. As of December 31, 1988 and 1987, commitments related to fiscal years 1988 and 1987 and still outstanding are $49,990 and $338,420, respectively. These commitments were paid subsequently with "other revenues." ■

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.