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REPORT TO THE CONGRESS

Audit Of Financial Statements
Of St. Lawrence Seaway
Development Corporation
Calendar Year 1969 B-125007

Department of Transportation

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~715-095~~

AUG 26, 1970

092558



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

The accompanying report presents the opinion of the General Accounting Office on the financial statements of the Saint Lawrence Seaway Development Corporation for the year ended December 31, 1969. The audit was made pursuant to the Government Corporation Control Act (31 U.S.C. 841) and the Department of Commerce and Related Agencies Appropriation Act, 1961 (74 Stat 101), which require the Comptroller General to make an annual audit of the Corporation and to submit a report thereon directly to the Congress.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Transportation, and the Administrator, Saint Lawrence Seaway Development Corporation.

A handwritten signature in cursive script, appearing to read "A. J. Keller".

Acting Comptroller General
of the United States

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Principal management officials of the Department of Transportation and the Saint Lawrence Seaway Development Corporation, calendar year 1969

D I G E S T

WHY THE AUDIT WAS MADE

By law, the Comptroller General is required to make an annual audit of the Saint Lawrence Seaway Development Corporation and to report directly to the Congress.

FINDINGS AND CONCLUSIONS

In the opinion of the General Accounting Office, the financial statements of the Saint Lawrence Seaway Development Corporation present fairly the financial position of the Corporation at December 31, 1969, and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws. (See p. 8.)

At the close of the 1964 navigation season, the Corporation found evidence of deep-seated concrete deterioration in the lock system. The Corporation estimated that it would cost about \$13.1 million over a 5-year period to rehabilitate the locks. The rehabilitation program was initiated in 1967. At the end of 1969, costs of the program amounted to about \$8.7 million, of which \$3.5 million was charged to current operations in 1969.

During 1969 the Corporation's normal expenses, exclusive of depreciation and extraordinary lock rehabilitation costs, exceeded its revenues by about \$2.3 million. The Corporation's indebtedness to the U.S. Government increased in 1969 by about \$7.5 million, composed of revenue bonds issued in the amount of \$4.4 million and interest payments deferred in the amount of \$3.1 million.

Because of the additional borrowings and the establishment of new maturity dates, at higher interest rates, on bonds of \$1 million, the average interest rate on outstanding bonds increased from 3.61 percent at the end of 1968 to 3.72 percent at the end of 1969.

In 1958 the Seaway tolls committee estimated that at the end of 1969 the total debt for the U.S. section of the Seaway would be \$127.9 million. The debt on December 31, 1969, was \$155.9 million--\$133.5 million in revenue bonds and \$22.4 million in deferred interest--or \$28 million higher than originally anticipated. (See p. 5.)

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendation or suggestions requiring action by the Congress.

INTRODUCTION

The General Accounting Office has made an audit of the financial statements of the Saint Lawrence Seaway Development Corporation for the year ended December 31, 1969. The scope of our audit and our opinion on the financial statements prepared by the Corporation appear on page 8 of the report.

The Saint Lawrence Seaway Development Corporation is a wholly owned Government corporation created and authorized by the act of May 13, 1954 (33 U.S.C. 981), as amended July 17, 1957, to construct, operate, and maintain a deep-water navigation works in the International Rapids section of the Saint Lawrence River and to perform necessary dredging in the Thousand Islands section of the River.

The Seaway system is a joint venture between Canada and the United States to provide for deep-water navigation in the Saint Lawrence River from Montreal to Lake Ontario by a series of locks and channels. The system consists of seven locks, of which four are in Canadian waters and three in international waters. The four Canadian locks and one of the locks in international waters are operated and maintained by the Saint Lawrence Seaway Authority of Canada. The remaining two locks, known as the Dwight D. Eisenhower and the Bertrand H. Snell locks, are operated and maintained by the Corporation. The system began operations in April 1959.

On January 29, 1959, the Corporation and the Authority entered into an agreement covering tolls on the Seaway system. The agreement provided for a division of toll revenues in a ratio of 29 percent to the Corporation and 71 percent to the Authority. These percentages were based on the ratio of the gross revenue which the two Seaway entities anticipated they would require to pay for operation and maintenance expenses, interest on borrowings, and amortization of investment.

In March 1967, the Department of State announced an agreement with the Government of Canada, which provided for no increase in tolls for 4 years and for a change in the

distribution of revenues to 27 percent to the Corporation and 73 percent to the Authority.

The Corporation submits an annual report to the Secretary of Transportation covering its activities for each calendar year. This report is submitted to the President by the Secretary of Transportation.

COMMENTS ON SELECTED ACTIVITIES

EXTRAORDINARY REPAIRS TO THE LOCK SYSTEM

At the close of the 1964 navigation season, the Corporation found evidence of deep-seated concrete deterioration in the lock system. During the next 2 years, the Corporation conducted an extensive survey in coordination with the Corps of Engineers to determine the cause of the damage. Although the survey team tentatively concluded in July 1967 that the deterioration was primarily the result of frost damage, studies were still being conducted as of December 31, 1969, to determine the reasons for the concrete failure.

During 1967, the Corporation initiated the first phase of a 5-year rehabilitation program for the Eisenhower and Snell locks. The Corporation estimated that the total cost of the rehabilitation program would amount to about \$13.1 million.

As of December 31, 1969, the cost of work-in-place and related costs of the rehabilitation program amounted to about \$8.7 million. Of this amount the Corporation charged \$3.5 million to current operations in 1969.

INDEBTEDNESS TO THE U.S. GOVERNMENT

During 1969 the Corporation's normal expenses, exclusive of depreciation, exceeded its revenues by about \$2.3 million. In addition, the Corporation incurred extraordinary lock rehabilitation costs of about \$3.5 million. The Corporation's indebtedness to the U.S. Government increased in 1969 by \$7.5 million, composed of revenue bonds of \$4.4 million and deferred interest payments of \$3.1 million, as discussed below.

Increase in revenue bonds outstanding

Section 5 of the act of May 13, 1954, as amended July 17, 1957 (33 U.S.C. 981), provides that the Corporation may issue revenue bonds payable from corporate revenues, with due dates not in excess of 50 years, to the Secretary of the Treasury. The act provides also that the total face amount of all such bonds issued may not exceed \$140 million.

During 1969, revenue bonds outstanding increased to \$133.5 million at December 31, 1969, because of the issuance of bonds of \$4.4 million to the Secretary of the Treasury to provide funds for payment of rehabilitation costs.

Increase in deferred interest

During 1969, deferred interest payable on revenue bonds increased from \$19.3 million at December 31, 1968, to \$22.4 million at December 31, 1969. The interest rates on bonds outstanding during 1969 ranged from 3 percent to 6.1 percent, with an average interest rate at year-end of 3.72 percent compared with an average interest rate at year-end of 3.61 percent on bonds outstanding in 1968. The increase of 0.11 percent in the average interest rate during 1969 was due to (1) the increase in the interest rate to 5-3/8 percent on \$2 million worth of 2-7/8- and 3-1/8-percent bonds for which the maturity dates were extended from December 31, 1968, to December 31, 2005, and (2) borrowings of \$4.4 million at interest rates ranging from 5-3/4 percent to 6-1/8 percent to finance the cost of rehabilitation work on the locks.

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In 1958 the Seaway tolls committee estimated that, at the end of 1969, the Corporation would have paid all current interest charges and would have reduced its debt to about \$127.9 million. At December 31, 1969, the debt of the Corporation was about \$155.9 million--\$133.5 million in revenue bonds and \$22.4 million in deferred interest--or about \$28 million higher than anticipated at the time the Seaway tolls were initially established in 1958.

TRAFFIC

According to the Authority, almost 41 million tons of cargo transited the Seaway between Montreal and Lake Ontario during 1969 compared with 48 million tons in 1968. Of these 41 million tons, bulk cargo accounted for 34 million and general cargo for 7 million tons compared with 40 million and 8 million tons, respectively, in 1968. Iron ore shipments--11.6 million tons--continued to dominate traffic. Wheat shipments--4.9 million tons--were the second most

dominant item, followed by iron and steel shipments--4.3 million tons. The decrease in cargo tonnage during 1969 resulted in a decrease in toll revenue to the Corporation of approximately \$920,000. The reduction in cargo tonnage resulted primarily from a decrease in iron ore shipments from the Quebec-Labrador mines which suffered a lengthy strike during the shipping season.

SCOPE OF EXAMINATION

Our examination of the Corporation's statement of financial condition as of December 31, 1969, and the related statements of revenues and expenses and of source and application of funds for the year then ended was made in accordance with generally accepted auditing standards and included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. 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 revenue.

OPINION ON THE FINANCIAL STATEMENTS

The financial statements and the notes to the financial statements in this report are the same as those prepared by the Saint Lawrence Seaway Development Corporation for inclusion in its annual report for the calendar year 1969. Our opinion, as far as it relates to Seaway toll revenues, is based upon the examination and the report of the Auditor General of Canada.

In our opinion, the accompanying financial statements (schedules 1 through 8) present fairly the financial position of the Saint Lawrence Seaway Development Corporation at December 31, 1969, and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

FINANCIAL STATEMENTS

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AS OF DECEMBER 31, 1969 AND 1968

A S S E T S

	<u>1969</u>	<u>1968</u>
PLANT, PROPERTY, AND EQUIPMENT:		
Plant in service, at cost (schedule 5 and note 1)	\$131,247,006	\$131,019,163
Less accumulated depreciation (note 2)	<u>15,308,740</u>	<u>13,654,559</u>
Net plant in service	115,938,266	117,364,604
Work in progress	<u>11,796</u>	<u>116,734</u>
Total plant, property, and equipment	<u>115,950,062</u>	<u>117,481,338</u>
INVESTMENT IN AND LOANS TO SEAWAY INTERNATIONAL BRIDGE COMPANY:		
Promissory notes	15,810	15,810
Debenture bonds--due December 31, 2012	<u>7,440</u>	<u>7,440</u>
Total investment in and loans to Seaway International Bridge Co.	<u>23,250</u>	<u>23,250</u>
CURRENT ASSETS:		
Cash	271,507	256,085
U.S. securities (par) (note 3)	1,131,445	-
Tolls and other receivables, net (note 4)	124,942	139,434
Inventories, at cost	<u>155,416</u>	<u>172,582</u>
Total current assets	<u>1,683,310</u>	<u>568,101</u>
Total assets	<u>\$117,656,622</u>	<u>\$118,072,689</u>

The notes on pages 19 and 20 are an integral part of this statement.

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

	<u>1969</u>	<u>1968</u>
INVESTMENT OF THE U.S. GOVERNMENT:		
Revenue bonds outstanding (authorized \$140,000,000)	\$133,476,050	\$129,076,050
Deferred interest during construction (note 6)	6,706,437	6,706,437
Deferred interest during operations (note 6)	<u>15,723,061</u>	<u>12,545,512</u>
Total bond and interest debt	155,905,548	148,327,999
Deficit (note 5)	<u>-38,596,555</u>	<u>-31,146,398</u>
Net investment of U.S. Government	<u>117,308,993</u>	<u>117,181,601</u>
CURRENT LIABILITIES:		
Accounts payable	53,536	678,606
Accrued liabilities and deferred in- come	<u>294,093</u>	<u>212,482</u>
Total current liabilities (note 7)	<u>347,629</u>	<u>891,088</u>
Total investment and liabilities	<u>\$117,656,622</u>	<u>\$118,072,689</u>

SCHEDULE 2

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

FOR THE CALENDAR YEARS 1969 AND 1968

	<u>1969</u>	<u>1968</u>
REVENUES:		
Seaway tolls	\$5,839,473	\$6,759,267
Other	<u>74,502</u>	<u>56,699</u>
Total revenues	<u>5,913,975</u>	<u>6,815,966</u>
EXPENSES:		
Operation and maintenance (schedule 6)	1,716,484	1,580,873
General administration (schedule 7)	529,437	509,103
Interest on investment of U.S. Government	5,927,550	5,488,101
Allowance for doubtful accounts (note 4)	-	27,513
Depreciation (note 2)	<u>1,704,515</u>	<u>1,681,265</u>
Total expenses	<u>9,877,986</u>	<u>9,286,855</u>
Net loss(-) for the year before lock rehabilitation charges	-3,964,011	-2,470,889
Lock rehabilitation charges (schedule 8 and note 5)	<u>-3,486,146</u>	<u>-4,302,322</u>
Net loss(-)	<u>-\$7,450,157</u>	<u>-\$6,773,211</u>

The notes on pages 19 and 20 are an integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

COMPARATIVE STATEMENT OF DEFICIT
AS OF DECEMBER 31, 1969 AND 1968

	<u>1969</u>	<u>1968</u>
Deficit at beginning of year	\$31,146,398	\$24,373,187
Deficit for the year	3,964,011	2,470,889
Lock rehabilitation charges for the year	<u>3,486,146</u>	<u>4,302,322</u>
Total deficit at end of year	<u>\$38,596,555</u>	<u>\$31,146,398</u>

The notes on pages 19 and 20 are an integral part of this statement.

SCHEDULE 4

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR CALENDAR YEAR 1969

SOURCE:

Borrowings from U.S. Treasury	\$ 4,400,000
Revenues:	
Seaway tolls	5,839,473
Other	74,502
Proceeds from property disposals	<u>3,772</u>
	<u>\$10,317,747</u>

APPLICATION:

Acquisition of assets	\$ 177,012
Operating expenses	2,245,921
Rehabilitation of locks	3,486,146
Interest payments to U.S. Treasury	2,750,000
Increase in working capital	<u>1,658,668</u>
	<u>\$10,317,747</u>

The notes on pages 19 and 20 are an integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

COMPARATIVE STATEMENT OF PLANT, PROPERTY, AND EQUIPMENT

AS OF DECEMBER 31, 1969 AND 1968

<u>Plant in service</u>	<u>1969</u>		<u>1968</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Lands in fee	\$ 962,843	\$ -	\$ 962,783	\$ -
Land rights and relocations	5,956,284	375,254	5,956,284	312,713
Locks	67,334,358	8,238,636	67,304,987	7,453,136
Roads and bridges	9,119,157	1,936,862	9,119,157	1,754,479
Channels and canals	38,016,187	2,395,042	38,016,187	1,995,872
Public use facilities	570,355	110,367	570,355	98,960
Navigation aids	1,409,582	222,851	1,283,025	181,577
Buildings, grounds, and utilities	4,233,161	860,848	4,167,826	776,185
Permanent operating equipment	<u>3,645,079</u>	<u>1,168,880</u>	<u>3,638,559</u>	<u>1,081,637</u>
Total	<u>\$131,247,006</u>	<u>\$15,308,740</u>	<u>\$131,019,163</u>	<u>\$13,654,559</u>

The notes on pages 19 and 20 are an integral part of this statement.

SCHEDULE 6

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

COMPARISON OF OPERATION AND MAINTENANCE EXPENSES

FOR THE CALENDAR YEARS 1969 AND 1968

<u>Type of expenses</u>	<u>1969</u>	<u>1968</u>
Supervision and general operating expense	\$ 378,630	\$ 292,767
Operation of locks and canals and traffic control	533,488	484,048
Maintenance of navigation aids	63,482	54,035
Maintenance of plant and equipment	<u>740,884</u>	<u>750,023</u>
Total	<u>\$1,716,484</u>	<u>\$1,580,873</u>

The notes on pages 19 and 20 are an integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

COMPARISON OF ADMINISTRATIVE EXPENSES
FOR THE CALENDAR YEARS 1969 AND 1968

<u>Type of expense</u>	<u>1969</u>	<u>1968</u>
Personnel compensation	\$348,970	\$330,126
Personnel benefits	24,068	24,104
Benefits paid to former personnel	4,386	-
Travel and transportation	26,971	47,009
Rents, communications, and utilities	25,173	25,367
Printing and reproduction	21,775	32,599
Other services	69,468	43,012
Supplies and materials	<u>8,626</u>	<u>6,886</u>
Total	<u>\$529,437</u>	<u>\$509,103</u>

The notes on pages 19 and 20 are an integral part of this statement.

SCHEDULE 8

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

SUMMARY OF LOCK REHABILITATION COST

AS OF DECEMBER 31, 1969

	<u>Cost for</u>		
	<u>Calendar</u>	<u>Calendar</u>	<u>Total cost</u>
	<u>year 1968</u>	<u>year 1969</u>	<u>to date</u>
DWIGHT D. EISENHOWER LOCK:			
Highway tunnel modification	\$ 563,338	\$ -	\$ 592,422
Intake manifold repair	791,361	-	1,072,487
Chamber face repair, monolith N-54	210,142	-	221,393
Culvert crack repair	1,522,042	-	1,652,036
Installation and removal of lock cover	258,861	213,211	759,366
Lock chamber face, culvert wall chamber side and ports repair	46,153	1,298,809	1,344,962
Culvert wall, landside repair	6,605	63,968	70,573
Floor and ceiling repair	-	159,791	159,791
Post tensioning-downstream gate monolith and modification studies	-	41,979	41,979
Engineering and design	34,367	9,216	149,761
Supervision, inspection and administration	307,516	106,865	466,218
Total, Dwight D. Eisenhower Lock	<u>3,740,385</u>	<u>1,893,839</u>	<u>6,530,988</u>
BERTRAND H. SNELL LOCK:			
Installation and removal of lock cover	243,037	155,309	398,346
Culvert crack repair	212,438	1,218,596	1,431,034
Lower sill repair	-	2,641	2,641
Engineering and design	40,120	8,920	49,040
Supervision, inspection and administration	20,076	127,758	147,834
Total, Bertrand H. Snell Lock	<u>515,671</u>	<u>1,513,224</u>	<u>2,028,895</u>
OTHER:			
Core drilling, photography, instrumentation studies, construction facilities, and other related costs	46,266	79,083	165,893
Total, lock rehabilitation cost	<u>\$4,302,322</u>	<u>\$3,486,146</u>	8,725,776
ESTIMATED BALANCE OF WORK REMAINING			<u>4,379,224</u>
Total estimated cost of lock rehabilitation work as shown in fiscal year 1971 budget			<u>\$13,105,000</u>

The notes on pages 19 and 20 are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Plant, property, and equipment are stated at cost of acquisition or construction. Interest and other 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 emergency cash requirements in the future, \$1,131,445 in revenues were retained to provide working capital during the winter non-navigation season. These revenues are invested in U.S. Treasury bills until needed.
4. Included in tolls and other receivables at December 31, 1969, is \$29,897 incurred in 1959, due the Corporation from a bankrupt debtor. Agreements provide for ship-owners to pay this amount on a pay-as-you-go basis. Collection of this account is being handled for the Corporation by the Saint Lawrence Seaway Authority of Canada in accordance with the 1959 Memorandum of Agreement respecting the Tariff of Tolls. Due to the age of this receivable, a provision for doubtful accounts has been established for the full amount.
5. During calendar year 1967, the Corporation undertook an emergency rehabilitation program to repair deterioration which had occurred in the lock structures and in the vehicular tunnel. These costs, although of an extraordinary nature, are properly considered as a maintenance expense and the calendar year 1967 deferred charges of \$937,308, the 1968 rehabilitation costs of \$4,302,322 and the 1969 rehabilitation costs of \$3,486,146 are written off to the deficit. This extraordinary expense is shown separately on the statement of revenues and expenses following the line item of annual net gain or loss.

6. In accordance with Section 5 of the Act of May 13, 1954, as amended July 17, 1957 (33 U.S.C. 985), the interest payments on the revenue bonds may be deferred with the approval of the Secretary of the Treasury, but such deferred payments shall themselves bear interest after June 30, 1960. Deferred interest is not chargeable against the borrowing authority limitation of \$140 million.

7. Not included in the current liabilities at December 31, 1969, are undelivered orders and contracts amounting to \$41,796. The Corps of Engineers, the Corporation's Construction Agent for the lock rehabilitation program, has reported undelivered orders amounting to \$7,769, which are also not included in the current liabilities. At this date, there are no outstanding claims pending against the Corporation.

APPENDIX

PRINCIPAL MANAGEMENT OFFICIALS OF THE
 DEPARTMENT OF TRANSPORTATION AND
 SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
 CALENDAR YEAR 1969

Effective date
of appointment

DEPARTMENT OF TRANSPORTATION

SECRETARY OF TRANSPORTATION

John A. Volpe

Jan. 1969

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

ADMINISTRATOR

David W. Oberlin

Aug. 1969

ASSISTANT ADMINISTRATOR

Brendon T. Jose

June 1964