SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Fiscal Year 1997
Annual Report

A Performance Based Corporation

Safety

Availability

Reliability

Trade Development

Management Accountability

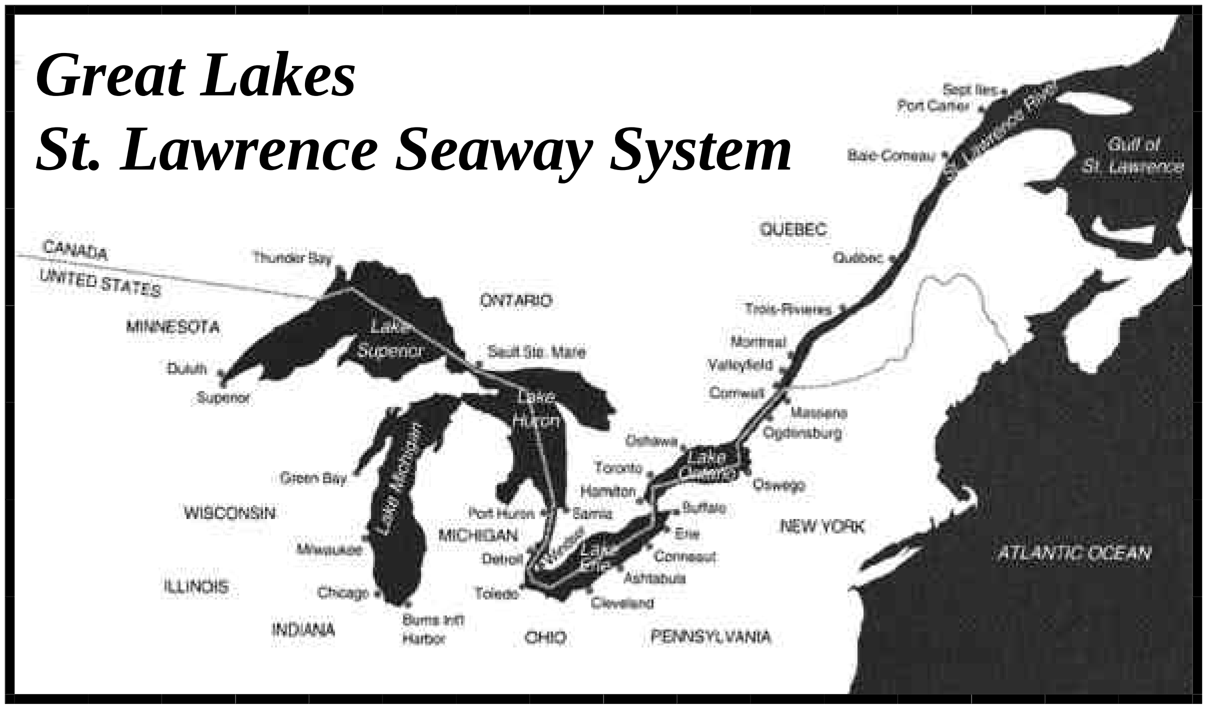
Customer Service

Cost Effectiveness

Performance

Index to Annual Report

The audit of the Saint Lawrence Seaway Development Corporation for the 12 months ended September 30, 1997, has been completed. The audit was performed by Brown & Company in accordance with the Chief Financial Officers Act of 1990 and the Comptroller General's Government Auditing Standards. This report is in two sections. The first section (pages 1-17) was prepared by the Corporation to provide information on its organization, missions, goals and objectives, and performance measures. The information contained in this first section was not subject to audit. The second section (pages 18-35) consists of 1997 audited financial statements with associated notes and the reports of Brown & Company on those statements.



Saint Lawrence Seaway Development Corporation

The Saint Lawrence Seaway Development Corporation (Corporation or SLSDC), a wholly owned government corporation, was created on May 13, 1954, with the enactment of Public Law 83-358 (68 stat. 92, 33 U.S.C. 981 et seq., as amended) to construct, operate, and maintain that part of the St. Lawrence Seaway between the Port of Montreal and Lake Erie, within the territorial limits of the United States.

The Seaway is a binational waterway and the Corporation coordinates its activities with its Canadian counterpart, The St. Lawrence Seaway Authority of Canada (Authority or SLSA), particularly with regard to rules and regulations, tolls, traffic control, navigation aids, safety, channel maintenance, operating dates, and related programs designed to fully develop the "fourth seacoast."

The mission of the Corporation is to provide a safe, efficient, competitive, and reliable waterway for the movement of goods to and from the Great Lakes region of North America and overseas markets. The Corporation encourages development of traffic through the Seaway System which contributes to the comprehensive economic and environmental development of the entire Great Lakes region.

Corporation headquarters staff offices are in Washington, D.C. Operations and operations personnel are located at the two United States locks in Massena, N.Y. As of September 30, 1997, the Corporation had 159 employees (156 full-time equivalent employees or FTEs).

The audit of the Saint Lawrence Seaway Development Corporation for the 12 months ended September 30, 1997, was performed by Brown & Company in accordance with the Chief Financial Officers Act of 1990 and the Comptroller General's Government Auditing Standards.

FY 1997 HIGHLIGHTS

During a visit to Massena, New York, Secretary Slater participated in events that included a ceremony to kick off a new Garrett A. Morgan Transportation and Technology Futures Program partnership and a Tech Prep School-to-Work Initiative (See page 16).

The "C. Columbus," a 472-foot German owned passenger liner transited the Great Lakes/ St. Lawrence Seaway System, marking the first transit through the system of a foreign flag passenger liner since 1975 (See page 17).

Secretary Slater receives AIS briefing at the Seaway Corporation's Vessel Traffic Control Center in Massena, New York (See page 15).

Acting Administrator David G. Sanders speaks to Jefferson Elementary students (See page 16).

Seaway Corporation personnel assisted Jefferson Elementary in assembling a new playground (See page 16).

Financial Highlights for FY 1997

The financial statements have been prepared to report the financial position and results of operations of the Corporation, pursuant to the requirements of the Chief Financial Officers Act of 1990.

Corporation Financing

Until 1987, the Corporation was a self-sustaining entity and financed its operations and investment in plant and equipment by charging tolls to users of the two U.S. Seaway locks. Toll rates were established jointly with and collected by The St. Lawrence Seaway Authority, with the U.S. share remitted to the Corporation. The Water Resources Development Act of 1986, Public Law 99-662, which created the Harbor Maintenance Trust Fund, made a significant change to Corporation financing. This Act required the U.S. Treasury to rebate the portion of Seaway tolls paid by users for transiting the U.S. locks. Subsequent legislation, effective October 1, 1994, waived the billing and collection process of the U.S. tolls for commercial vessels.

The Corporation's annual appropriations finance 84% of operations, maintenance, and plant and equipment expenditures. The remaining 16% is financed from financial reserves and other revenues, principally investment income and concession revenues.

Operating Revenues

Operating revenues, excluding imputed financing, totaled $9,294K in 1997, compared to $9,847K in 1996, a decrease of $553K or 6%.

Appropriations expended remained nearly the same, decreasing $215K, from $8,950K in 1996 to $8,736K in 1997. Appropriations expended represents the amount for the Harbor Maintenance Trust Fund expended for operating purposes. Other revenues, principally from concession operations, decreased $338K, from $897K in 1996 to $558K in 1997. The decrease is primarily due to the atypical transfer of $361K in reimbursable authority from the U.S. Coast Guard for the transfer of Great Lakes Pilotage personnel and functions in 1996. The Pilotage function was included in the Corporation's authority (appropriations expended) in 1997.

Operating Expenses

Overall operating expenses, excluding depreciation and imputed expenses, remained nearly the same, decreasing $128K or 1% from $10,829K in 1996 to $10,702K in 1997. Personal services and benefits increased $199K or 2% from $8,801K in 1996 to $9,000K in 1997. Other costs decreased $327K or 16% from $2,029K in 1996 to $1,702K in 1997, a significant decrease in discretionary expenses.

The Corporation continues to control spending, financing cost-of-living adjustments along with associated benefits and step increases, yet still netting a decrease in operating expenditures in 1997.

Imputed Financing/Expenses

Effective fiscal year 1997, the Corporation was required to recognize and record the cost of pension and post-retirement benefits during employees' active years of service, based on cost factors provided by the Office of Personnel Management (OPM). These costs are recorded as an expense paid by another entity (OPM) offset by an imputed financing source to the receiving entity (the Corporation).

Interest Income

Interest on deposits in minority banks remained constant, totaling $671K in 1997 and $670K in 1996, the result of consistent levels of investment at steady rates of return.

Assets

The Corporation's financial position continues to remain sound with total assets of $103,664K. A key asset of the Corporation is time deposits in minority banks, totaling $12,526K at year-end. In 1997, a $1,619K decrease in short-term deposits, offset by a $1,767K increase in long-term deposits, netted an increase of $148K overall.

These deposits comprise the major portion of the Corporation's $13.5 million unobligated balance or financial reserve, including $3.2 million of unused borrowing authority. The reserve is maintained to finance emergency or extraordinary expenditures to ensure safe and uninterrupted use of the Seaway, a policy affirmed by Congress in the Appropriation Committee reports. The funds on deposit in minority banks were principally built up from toll income in excess of cash outlays prior to April 1, 1987, when the Corporation was a self-sustaining entity, and are invested in insured deposits consistent with Executive Order 11625 (October 13, 1971).

Construction Program

Acquisition of plant, property and equipment totaled $599K and $1,587K in 1996 and 1997 respectively.

The primary capital expenditures in 1996 were $212K for paving and drainage improvements and $100K for the sand/salt storage building. The paving and drainage improvements included removing and replacing damaged pavement and overlaying paved surfaces to increase strength. The contract also provided for improved drainage and for modifying drainage structures at access roads and parking areas at Eisenhower and Snell Locks and at the Maintenance Facility. The sand/salt storage facility was constructed to contain the sand and salt utilized to melt ice and snow from Corporation roadways and parking areas. By protecting the sand/salt pile from the elements, the salt will not leach from the pile into the groundwater below. This will prevent contamination of the groundwater as well as decrease the quantities of salt that will need to be purchased.

In 1997, the largest capital expenditures were $750K for a marine workboat and $383K for stiffleg derrick improvements. A 50-foot workboat was procured to replace a 45-foot workboat and a 70-foot tug, reducing the Corporation's fleet and representing future savings in operations and maintenance costs. The new workboat will perform the following key tasks - exact positioning of ice markers, perform hydrographic sweep surveys, service and maintain permanent navigational aid lights, provide tug-type assistance, and ferry personnel or equipment. All of these functions ensure the safe and efficient transit of vessels through the Seaway System. Stiffleg derrick improvements included the design, purchase and installation of equipment to upgrade the operating and safety characteristics of four stiffleg derricks. Stiffleg derricks are necessary to install and remove stoplogs (dam sections) that enable the locks to be dewatered for scheduled maintenance or to perform emergency repairs.

Significant Future Costs

Since operations and maintenance represent the bulk of the Corporation's expenditures, an Operations and Maintenance Five-Year Plan has been developed for 1998 through 2002. The objective of developing a comprehensive five-year plan for capital improvements, operations and maintenance activities is to improve the Corporation's ability to invest in projects critical to maintaining our infrastructure and operational efficiency. The perspective offered by viewing and evaluating resource requirements over a long term is particularly vital in this era of funding reductions. The current five-year plan projects $5,300K in capital expenditures.

The Corporation maintains stoplogs and bulkheads, for both Eisenhower and Snell Locks, which are used to form temporary dams when it is necessary to dewater a lock or portions thereof for scheduled or emergency maintenance. A comprehensive testing and repair program is planned for 1998 to assure the structural integrity of the stoplogs and bulkheads. This safety-related project was recommended by the U.S. Army Corps of Engineers and is consistent with their regulation, which requires similar programs be conducted for closure structures at all Corps locks and dams. The estimated cost for this project is $1 million.

Also in 1998, $320K is budgeted for customizing and installing the Marine Navigation Information System (INNAV) developed by the Canadian Coast Guard, which is capable of acquiring, processing, displaying and distributing information relating to vessel navigation. Also included is further development of the Automatic Information System (AIS), which utilizes differential global positioning (DGPS) to monitor vessel movements. When fully operational, this program will enhance safe and efficient vessel transits.

Paving and drainage improvements are planned for $288K in 1999. This is an ongoing project to improve the structural integrity and surface and drainage characteristics of Corporation roadways as well as parking and work areas. In addition, $200K is budgeted for modifications to the Vessel Traffic Control building.

Two 20-ton hydraulic cranes are scheduled to be replaced in 2000 for an estimated $550K. Our existing 20-ton cranes are heavily used for fendering and winter maintenance and are aging. They will be 15 years old at the time of replacement.

A compressor replacement is scheduled in 2001 for $250K. Modifications to Snell Lock are planned in 2002 to allow its use as a drydock to handle scheduled drydock maintenance of our tugs, barge, workboats and gatelifter. Several commercial drydock facilities have been closed in recent years, requiring increasingly longer transport times (usually to Canada) during the navigation season, and higher costs for contract repairs. Having a drydock facility at Snell and using in-house labor could save an estimated $40K per year, as well as having all vessels available in Massena during the navigation season to handle emergencies. This project is estimated at $530K.

Significant Organization Changes

David G. Sanders Named Acting Administrator

In July 1997, David G. Sanders, Deputy Administrator of the Saint Lawrence Seaway Development Corporation since January 1996, was appointed the agency's Acting Administrator by U.S. Secretary of Transportation Rodney E. Slater to succeed Gail C. McDonald who resigned on May 1.

Sanders has served with the Seaway Corporation since January 1992. He joined the agency as Chief of Staff and served as Acting Administrator from April 1995 to January 1996, following the resignation of former Administrator Stan Parris.

Most recently, Sanders has been leading the effort to establish the Seaway Corporation as a Performance Based Organization. He has also been a key member of the U.S./Canadian Seaway Working Group that is examining new ways for improving the binational operation of the Seaway.

Sanders has developed a strong reputation for working to contain Seaway costs. As a member of the Seaway's Joint Tolls Advisory Board, he was instrumental in Seaway toll negotiations resulting in no increase for the 1994, 1995, 1996, and 1997 navigation seasons.

Court Rulings Regarding the Transfer of Pilotage Functions

In a December 11, 1995 final rule, then DOT Secretary Federico Peña transferred delegation of Great Lakes pilotage functions from the U.S. Coast Guard to the Saint Lawrence Seaway Development Corporation (SLSDC). The transfer was the subject of a series of rulemakings with considerable public comment.

Many members of the Great Lakes community supported the transfer delegation, while two of the three Great Lakes pilot associations opposed the transfer and sued Secretary Peña to overturn the final rule. On April 22, 1996, the U.S. Court found in favor of the Secretary in summary judgement on all counts. The pilot associations appealed that decision.

On November 12, 1997, the U.S. Court of Appeals for the District of Columbia Circuit, in a narrowly drafted decision found that the Secretary of Transportation lacks the authority under 49 U.S.C. 322(b) to delegate Great Lakes pilotage powers and duties directly to the SLSDC. The court held that under 46 U.S.C. 2104 (a) the Secretary may either retain direct authority over Great Lakes pilotage powers and duties or delegate these functions to the U.S. Coast Guard.

In 1998, Great Lakes pilotage functions will be transferred out of the SLSDC, either to the U.S. Coast Guard or the Office of the Secretary of Transportation. No other elements of Great Lakes Pilotage will be changing. All other pilotage regulations and operations are unaffected by this transfer.

Customer Service Initiatives

Seaway Tolls

SLSDC Acting Administrator Sanders and then SLSA President Glendon Stewart reached an agreement on the Seaway Tariff of Tolls June 24, 1997. SLSA agreed to a 2.5 percent across the board increase that would take effect on August 1,1997, and run through the end of the 1998 navigation season. The SLSA also agreed to end the practice of collecting lockage fees at the Welland Canal beginning at the start of the 1998 navigation season, and would increase cargo tolls and GRT fees by twelve cents per ton to offset the lockage fee revenue.

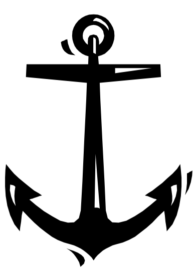
Transport Canada delayed implementation of the June 24 tolls agreement resulting in a decision between the Seaway entities to defer any further consideration of changes to the Tariff of Tolls for the remainder of the 1997 navigation season. This action marked 1997 as the fourth consecutive year with tolls frozen at the 1993 Tariff level. A second proposal for the 1998 season was developed by SLSDC and was still under review by SLSA at fiscal year end.

Great Lakes/St. Lawrence Seaway System Handbook and Directory Available

The Corporation and the St. Lawrence Seaway Authority coordinated on the development of a new publication titled Great Lakes/St. Lawrence Seaway System Handbook and Directory 1997/98. The 130-page publication contains six main sections profiling the System: major commodity movements; U.S. and Canadian ports; the structural System, significant agencies and their services; directories highlighting vessel owners and operators, tug services, stevedore firms, vessel agents and brokers, shipbuilding and repair services; and a general listing of marine services and shipping contacts throughout the Great Lakes/Seaway region. The handbook has been distributed to customers and stakeholders in the U.S. and overseas.

Seaway Corporation Launches Website

In FY 1997, the Seaway Corporation launched its website on the worldwide web in an effort to better serve our customers. The Seaway Corporation website address is: **http://www.dot.gov/slsdc.**



Two U.S. Ports Earn Seaway Pacesetter Award

The Corporation honored two U.S. Great Lakes/Seaway ports in 1997 for increased international tonnage during the 1996 navigation season with its Seaway Port Pacesetter Award.

Ports receiving the award were the Seaway Port Authority of Duluth and Cleveland Cuyahoga County Port Authority. The Port of Duluth has earned the Seaway Pacesetter Award in each of the past four years.

SLSDC Offers Vessel Information Through Nightcast Program

Since the mid-1980's, the Corporation has been offering users with the subscription-based service, Seaway Nightcast. The daily telex service details inbound (westbound) ocean vessel movements through the U.S. locks in Massena, N.Y., to assist in matching cargoes and vessels for the outbound voyage.

The information transmitted after midnight each day, covers vessel activity for the previous 24-hour period. Details include vessel passage by name, intended ports of call within the Great Lakes, a coded identification of the vessel agent, and known details of the outbound voyage. By relaying such information upon entry of the vessel into the Seaway System, potential users have several days to contact the shipping agent concerning export movements.

Performance Indicators for CY 1997

1997 Cargo Tonnage, Vessel Transits, and Lock Availability

Total tonnage through the Montreal /Lake Ontario section of the Seaway in CY 1997 was 36.9 million tons, -3 percent (1.2 million tons) below the CY 1996 total. CY 1997 vessel transits increased over CY 1996 by 4 percent (102 transits) to a total 2,809 transits for the season.

Seaway total grain tonnage increased 10 percent over 1996 due to a significant Canadian grain movement that reflected a recovery from the past two seasons with drought problems and as new markets were developed to replace the significant exports to Russia from previous years. U.S. grains were down 23 percent due to weak overseas demand, a strong U.S. dollar, and for the second year, depleted elevator stocks in Great Lakes at the beginning of the season delayed movement until the Fall harvest period.

Despite less demand for import iron and steel due to a flat automobile market, and domestic mills operating at capacity, iron and steel tonnage reached 4.9 million tons, which was 14 percent below the 1996 level. Iron ore tonnage was down by 13 percent reflecting higher inventories at season opening and some shifting of ore mine sources from Canada to the upper lakes by U.S. steel mills.

In CY 1997, the U.S. portion of the St. Lawrence Seaway was open for 269 days (April 2 through December 26), and available for vessel transiting 98 percent of the time, the same percentage as 1996 and the prior five year average.

Five Year Performance Indicators
(CY 1993 - 1997)

Calendar Year	Cargo Tons *(millions of metric tons)*	Vessel Transits
1993	32.0	2,305
1994	38.4	2,857
1995	38.7	2,777
1996	38.1	2,707
1997	36.9	2,809
5-year average	36.8	2,691

Lockage Downtime/Availability in Hours

Cause of Delay	1993	1994	1995	1996	1997	5 Year Average
Weather, Poor Visibility	125.7	82.5	75.5	137.2	64.6	97.1
Weather, High Wind/Ice	0	18.5	13.0	6.2	0.6	7.7
Water Level/Flow	124.5	0.0	0.0	0.0	17.2	28.3
Vessel Incident	66.7	17.7	32.6	38.3	31.2	37.3
Civil Interference	1.5	0.3	0.4	1.4	2.8	1.3
Lock Equipment Malfunction	6.7	44.7	16.3	4.5	15.6	17.6
Total Delay	325.1	163.7	137.8	187.6	132.0	189.2
Equivalent Days	13.5	6.8	5.7	7.8	5.5	7.9
Duration of Season (days)**	270	268	276	273	270	271
Percent System Availability	**95%**	**97%**	**98%**	**97%**	**98%**	**97%**

**Based on availability of U.S. locks only.

Lockage Equipment Malfunction by Type in Hours

Calendar Year	1993	1994	1995	1996	1997	5 Year Average
Electrical						
— Fender Boom	0.0	1.7	10.5	0.7	2.9	3.2
— Gates	4.7	9.3	2.7	1.2	1.7	3.9
— Valves	0.0	0.0	0.0	0.4	0.0	0.1
— Lock Equipment	0.0	0.0	0.0	0.4	0.8	0.2
Subtotal	4.7	11.0	13.2	2.7	5.4	7.4
Mechanical						
— Fender Boom	0.0	2.3	0.0	1.8	0.0	0.8
— Gates	2.0	31.4	3.1	0.0	0.0	7.3
— Valves	0.0	0.0	0.0	0.0	0.0	0.0
— Lock Equipment	0.0	0.0	0.0	0.0	0.3	0.1
Subtotal	2.0	33.7	3.1	1.8	0.3	8.2
Grand Total	**6.7**	**44.7**	**16.3**	**4.5**	**5.7**	**15.6**

Calendar Year 1997 Selected Commodity Summary
Montreal-Lake Ontario Section

Agricultural Products:	Metric Tons	Percent of Total
Wheat	8,719,701	23.6%
Corn	429,417	1.2%
Oats	14,956	0.0%
Barley	688,623	1.9%
Soybeans	2,152,559	5.8%
Flaxseed	462,489	1.3%
Other Grains	880,479	2.4%
Other Agricultural	142,807	0.4%
Total	13,491,031	36.6%
Mine Products:		
Iron Ore	10,121,109	27.4%
Coal	534,507	1.4%
Coke	775,129	2.1%
Stone	400,703	1.1%
Salt	1,227,534	3.3%
Other Mine	1,617,663	4.4%
Total	14,676,645	39.8%
Processed Products:		
Iron and Steel	4,879,709	13.2%
Fuel Oil	795,854	2.2%
Other Petroleum	308,814	0.8%
Chemicals	454,874	1.2%
Other Processed	2,249,803	6.1%
Total	8,689,054	23.5%
Misc. Cargo:		
Forest Products	11,761	0.0%
Animal Products	32,732	0.1%
Total	44,493	0.1%
GRAND TOTAL	36,901,223	100.0%

Seaway Reform Measures

Performance Based Organization

During FY 1997, the SLSDC worked closely with the DOT Deputy Secretary's Office, the Office of the General Counsel, and NPR staff, to revise the 1996 PBO legislative package that was resubmitted to the Congress on May 5, 1997.

The Acting Administrator immediately initiated a second year of outreach programs with all employees, the AFGE national union in D.C., and congressional appropriations and authorizing committees in the Senate and the House.

The Corporation also worked closely with the GAO PBO study team that was preparing a congressionally mandated review of the PBO initiative, with specific analysis of the SLSDC PBO candidacy. The report effort began in November 1996 and was submitted to the Congress and issued publicly on May 15, 1997. The GAO report raised issues of congressional oversight and the budget policy shift from discretionary to mandatory funding; however it also states that "if Congress is interested in testing the PBO concept, SLSDC would be a low-risk pilot because it has a small budget, businesslike operations, and already has some flexibilities that would be available to a PBO."

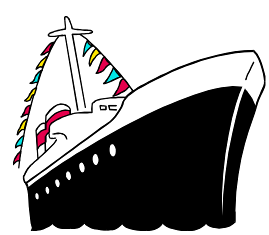
A hearing on the SLSDC PBO initiative was held on July 8 before the Government Management, Information, and Technology Subcommittee of the House Committee on Government Reform and Oversight. In addition to the Acting Administrator, witnesses included representatives from OMB, GAO, the National Academy of Public Administration, other PBO candidates from the Defense Commissary Agency and the Patent/Trademark Office, and the union President of the SLSDC AFGE Local 1968 in Massena, NY.

The FY 1998 Appropriations Conference Committee approved SLSDC funding at the proposed level of the PBO financial plan developed in 1996.

U.S./Canadian Seaway Working Group

During 1997, the Seaway Working Group continued discussions initiated in 1996 with the focus on the Montreal vessel inspection program, an automatic vessel identification and tracking program (discussed below), and the binational Seaway agency model.

Discussion on the binational Seaway agency model was forestalled by Transport Canada; pending further action to implement commercialization of the SLSA through the Seaway "User Group."



Shipping Safety and Environmental Protection

Corporation Received "Hammer Award" By Transportation's Deputy Secretary

Transportation Deputy Secretary Mortimer L. Downey presented Vice President Gore's "Hammer Award" to the SLSDC and the U.S. Coast Guard (USCG) for their joint seaway ocean vessel inspection program. The Hammer Award is the Vice President's special recognition for significant contributions in support of the principles of putting customers first, cutting red tape, empowering employees and "getting back to basics."

Deputy Secretary Downey presented the awards during a ceremony at the U.S. Eisenhower Lock in Massena to the SLSDC and the USCG. Certificates were also presented to Corporation and Coast Guard employees who were either members of the vessel inspection team or were instrumental in developing the program.

The Seaway Corporation and U.S. Coast Guard "reinvented" the traditional vessel inspection process by allowing personnel from the two agencies to conduct a standardized version of the Coast Guard's port state control inspections and ballast exchange screenings at the U.S. Snell Lock in Massena. The program has been successful in minimizing delays to vessels awaiting complete port state control inspections at their first U.S. port of call.

Enhanced Vessel Inspections

In March 1997, the Seaway Corporation and the U.S. Coast Guard entered into an agreement to perform Enhanced Seaway Inspections (ESI) in Montreal. These inspections are carried out jointly by SLSDC and SLSA inspectors, on behalf of the USCG.

This program requires that all foreign flag vessels entering the St. Lawrence/ Great Lakes system be inspected upon its first transit of the navigation season. This inspection would enable the vessel to safely transit to its port of destination where any remaining port state control items would be inspected by Coast Guard officials.

The ballast water exchange program continues to be an important function of the inspection program. These inspections are carried out concurrently with the ESI inspections in Montreal by Corporation personnel and at Snell Lock in Massena by USCG personnel.

These programs support the Oil Pollution Act of 1990 and the Non-Indigenous Aquatic Nuisance Prevention and Control Act of 1990.

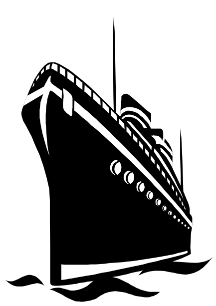
Since 1993, when the majority of inspections were shifted to Montreal, the Corporation inspection team has completed approximately 500 port state control inspections. Also during that time, an additional 740 inspections and ballast exchange screenings have been conducted jointly by Corporation and Coast Guard personnel in Massena.

Seaway Automatic Identification System

Three vessel traffic centers, (VTCs) namely St. Lambert Lock in Montreal, Quebec, Eisenhower Lock in Massena, N.Y., and the Welland Canal in St. Catharines, Ontario, were established as focal points for communications with vessels using the St. Lawrence Seaway System. The Automatic Identification System (AIS) is a global positioning technology-based system that will automatically identify and track all vessels throughout the Seaway.

Major benefits of implementing the AIS are: reduction of vessel transit time; expedited pilotage dispatching; enhanced navigation safety in all weather conditions; improved vessel traffic management between the VTC and the vessel operator; improved emergency response time that minimizes the risk of environmental problems, loss of life and property damage.

The SLSDC, in cooperation with the SLSA plans to implement the AIS in 1999, with participation and cost sharing from maritime industry partners.



SLSDC Participates in Emergency Simulation

In September 1997, the Corporation conducted a hazardous materials emergency response exercise in Alexandria Bay, New York. The exercise theme was based on a tanker vessel loaded with hazardous chemical cargo gone aground, with injured crewmembers and internal ship damage resulting in cargo leakage. The simulation was well attended by U.S. and Canadian, federal, state, and local organizations.

Since 1989, the Corporation has participated in or sponsored annual simulation exercises as part of its Emergency Response Plan. The annual program is essential to maintaining awareness of emergency situations, swift response requirements, and problem resolution by SLSDC and local agencies.

Emergency Exercises/ Simulations 1991-1997

1991	terrorist vessel capture/oil spill exercise (Waddington, New York)
1992	tour boat grounding exercise (Louisville, New York)
1993	chemical spill/injury exercise (Alexandria Bay, New York)
1994	tabletop exercise (Thousand Islands Bridge, New York)
1995	chemical spill exercise (Hogansburg, New York)
1996	participated in “CANUSLAK” exercise (Cornwall, Ontario)
1997	chemical spill exercise (Alexandria Bay, New York)

EDUCATION INITIATIVES

Transportation Secretary Participates In Massena Event To Kick-Off Tech Prep Program

Transportation Secretary Rodney E. Slater participated in a ceremony to kick off a new Garrett A. Morgan Transportation and Technology Futures Program partnership and a Tech Prep School-to-Work Initiative with Massena Central High School and Clarkson University School of Business. A ceremony was held in Massena to sign the Partnership Agreement. This program will help prepare high school juniors and seniors for post school employment. As part of the agreement, the Corporation will provide "shadowing" opportunities for students at Corporation facilities, as well as case studies based on actual business problems. SLSDC will donate surplus office and telecommunications equipment for program use. Students will become familiar with the transportation related opportunities in order to make more informed career choices.

This partnership between the Tech Prep Program and the Garrett A. Morgan Transportation and Technology Futures Program will also focus on preparing students for transportation careers. The Garrett A. Morgan Technology and Transportation Futures Program has three goals:

- To build a bridge between America's youth and the transportation community;
- To support the development of improved educational technology that provides better ways for people to acquire new skills; and
- To ensure that America's transportation workforce for the 21st century is technologically literate and internationally competitive.

The Tech Prep Program goals are:

- To provide experiential learning activities that will identify and strengthen students' technical and non-technical skills;
- To create an environment that will provide practical career preparation and "real world" expectations; and
- To prepare Massena High School students for the workforce of the future.

These goals will be integrated into the new partnership between these two programs.

Seaway Corporation Enters Educational Partnership with Jefferson Elementary School

In September 1997, the Saint Lawrence Seaway Development Corporation signed a partnership agreement with Jefferson Elementary School as part of the Department of Transportation’s Adopt-A-School initiative encouraging government agencies to take an active role in the education of our nation’s youth.

As part of the partnership agreement, the Seaway Corporation is providing Jefferson Elementary students with the following educational opportunities: tutoring; mentoring and job shadowing;

tours of Seaway facilities; speakers with specific technical expertise for presentations to students about the Seaway's missions, responsibilities, and experiences; and recognition awards for outstanding academic achievement.

The Seaway Corporation also assisted Jefferson Elementary in assembling a new playground and has donated surplus computer equipment to the school.

DEVELOPING SEAWAY TRADE

Seaway Corporation Hosts First Domestic Trade Mission

The Seaway Corporation conducted a Seaway System-wide domestic trade mission at 15 major Great Lakes Seaway ports. The purpose of this mission was to promote trade development, to update port communities on new Seaway developments, to provide information on maritime benefits of Seaway ports and industrial/agricultural resources near the ports.

At each stop, the Acting Administrator delivered remarks that focused on the following messages:

- The Seaway is safer, more reliable and more competitive because of recent SLSDC initiatives.
- The administration supports the plans to convert the SLSDC to a Performance Based Organization (PBO).
- The efforts to enhance binational cooperation with Canada are producing results.
- The aging Great Lakes fleet needs to be replaced with new Seaway-sized ships and ship retrofits.

Attendance at the Seaway domestic trade mission programs and events included 300 executives from companies that currently use the Seaway, potential users, and elected officials or their representatives. Overall media coverage of the 15 programs was exceptional and the feedback from audiences was complimentary.

Cruise Ship "C. Columbus" Transited the Great Lakes/St. Lawrence Seaway System

The "C. Columbus," a 472-foot German owned passenger liner transited the Great Lakes/St. Lawrence Seaway System, marking the first transit through the system of a foreign flag passenger liner since 1975. The "C. Columbus" is the first modern passenger vessel to be constructed to Seaway-sized specifications. The vessel has been equipped with state-of-the-art technology and passenger amenities.

The vessel is scheduled to make two additional Great Lakes cruises while in the system during 1997. Due to intense interest, plans for additional cruises are already being considered for the 1998 navigation season.
The success of the 1997 operation considerably enhanced the tourist industry throughout Great Lakes port communities.

Corporation's Statement on Internal Accounting and Administrative Control Systems

Pursuant to Section 306 of the Chief Financial Officers Act of 1990, the Corporation is required to provide a statement on internal accounting and administrative control systems consistent with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. An evaluation of the system of internal accounting and administrative control of the Corporation in effect during the year ended September 30, 1997 was performed in accordance with "Guidelines for Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government", issued by the Director of the Office of Management and Budget, in consultation with the Comptroller General, as required by the FMFIA, and accordingly included an evaluation of whether the system of internal accounting and administrative control of the Corporation was in compliance with the standards prescribed by the Comptroller General.

The objectives of the system of internal accounting and administrative control of the Corporation are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. Estimates and judgments are required to assess the expected benefits and related costs of control procedures. Furthermore, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, Congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to the risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

A material weakness or non-conformance is a specific instance of non-compliance with the Integrity Act. Such weakness would significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest. Each material non-conformance in a financial system merits the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee; prevents the primary agency financial system from achieving central control over agency financial transactions and resource balances; and/or prevents conformance of financial systems with financial information standards and/or financial system functional standards.

The results of the evaluations described in the second paragraph, assurances given by appropriate Corporation officials, and other information provided indicate that the system of internal accounting and administrative control of the Corporation in effect during the year ended September 30, 1997, taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved within the limits described in the preceding paragraph. The evaluation did not disclose any material weaknesses or non-conformances in the internal accounting and administrative control system in FY 1997 and prior years.

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS

To the Administrator of the
Saint Lawrence Seaway Development Corporation

We have audited the accompanying statements of financial position of the Saint Lawrence Seaway Development Corporation (the Corporation), a wholly-owned U.S. Government corporation, as of September 30, 1997 and 1996, and the related statements of operations and changes in cumulative results of operations, cash flows, and changes in equity of the U.S. Government for the years then ended, and the statement of budgetary resources and actual expenses 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 audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinion.

As described in Note 2 these financial statements were prepared in accordance with generally accepted accounting principles as set forth for federal government corporations which constitutes a comprehensive basis of accounting other than generally accepted accounting principles.

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 September 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 1998, on our consideration of the Saint Lawrence Seaway Development Corporation's internal control structure and a report dated January 30, 1998, on its compliance with laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the principal financial statements described above. We have reviewed the financial information presented in management's overview of the Corporation and the supplemental financial and management information for consistency with the financial statements and notes. The information presented in the overview and supplemental financial and management information is provided for the purposes of additional analysis. Such information has not been audited by us and, accordingly, we do not express an opinion on this information.

Brown & Company

January 30, 1998
Arlington, Virginia

CERTIFIED PUBLIC ACCOUNTANTS
AND MANAGEMENT CONSULTANTS

BROWN & COMPANY CPAS, PLLC

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Administrator of the
Saint Lawrence Seaway Development Corporation

We have audited the financial statements of the Saint Lawrence Seaway Development Corporation (the Corporation) as of and for the year ended September 30, 1997, and have issued our report thereon dated January 30, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure 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 as set forth for federal government corporations. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Corporation for the year ended September 30, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

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This report is intended for the information of the management of the Saint Lawrence Seaway Development Corporation. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Brown & Company

January 30, 1998
Arlington, Virginia

CERTIFIED PUBLIC ACCOUNTANTS
AND MANAGEMENT CONSULTANTS

BROWN & COMPANY CPAS, PLLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

To the Administrator of the
Saint Lawrence Seaway Development Corporation

We have audited the financial statements of the Saint Lawrence Seaway Development Corporation (the Corporation) as of and for the year ended September 30, 1997, and have issued our report thereon dated January 30, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Corporation is the responsibility of the Corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Corporation's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. In planning and performing our tests of compliance, we considered the implementation guidance issued by OMB on September 9, 1997, relating to the Federal Financial Management Improvement Act (FFMIA) of 1996. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial statements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the management of the Saint Lawrence Seaway Development Corporation. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Brown & Company

January 30, 1998
Arlington, Virginia

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Statements of Financial Position
As of September 30, 1997 and 1996

	1997	1996
ASSETS		
CURRENT ASSETS:		
Cash:		
Held by U.S. Treasury	**$909,610**	$1,572,668
Held in banks and on hand	**21,579**	19,933
Short-term time deposits in minority banks (Note 3)	**9,289,000**	10,908,000
Accounts receivable (Note 4)	**149,894**	131,145
Inventories (Note 2)	**274,748**	279,535
Total current assets	**10,644,831**	12,911,281
NON-CURRENT ASSETS:		
Long-term time deposits in minority banks (Note 3)	**3,237,000**	1,470,000
Total non-current assets	**3,237,000**	1,470,000
PLANT, PROPERTY, AND EQUIPMENT:		
Plant in service (Note 5)	**153,131,407**	151,848,676
Less: Accumulated depreciation	**(66,151,990)**	(63,912,347)
Net plant in service	**86,979,417**	87,936,329
Work in progress	**453,871**	301,898
Total plant, property, and equipment	**87,433,288**	88,238,227
OTHER ASSETS:		
Lock spare parts (Note 2)	**700,989**	777,276
Less: Accumulated depreciation	**(137,339)**	(109,748)
Net lock spare parts	**563,650**	667,528
Investment in Seaway International Bridge Corp., Ltd. (Note 6)	**7,440**	7,440
Total other assets	**571,090**	674,968
DEFERRED CHARGES:		
Workman's compensation benefits (Note 2)	**1,777,648**	1,397,215
Total deferred charges	**1,777,648**	1,397,215
TOTAL ASSETS	**$103,663,857**	$104,691,691

The accompanying notes are an integral part of these statements.

Statements of Financial Position
As of September 30, 1997 and 1996 *(continued)*

	1997	1996
LIABILITIES AND EQUITY OF THE U.S. GOVERNMENT		
CURRENT LIABILITIES:		
Accounts payable	**$807,019**	$691,490
Accrued annual leave (Note 2)	**705,833**	691,154
Accrued payroll costs	**396,643**	372,782
Total current liabilities	**1,909,495**	1,755,426
ACTUARIAL LIABILITIES:		
Workman's compensation benefits (Note 2)	**1,777,648**	1,397,215
Total actuarial liabilities	**1,777,648**	1,397,215
Total liabilities	**3,687,143**	3,152,641
EQUITY OF THE U.S. GOVERNMENT:		
Invested capital	**102,227,792**	103,053,327
Cumulative results of operations	**(2,251,078)**	(1,514,277)
Total equity of the U.S. Government	**99,976,714**	101,539,050
TOTAL LIABILITIES AND EQUITY OF THE U.S. GOVERNMENT	**$103,663,857**	$104,691,691

The accompanying notes are an integral part of these statements.

Statements of Operations and Changes in Cumulative Results of Operations for the Years Ended September 30, 1997 and 1996

	1997	1996
OPERATING REVENUES:		
Appropriations expended	**$8,735,546**	$8,950,396
Inputed financing (Note 9)	**678,672**	-
Other (Note 7)	**558,182**	896,582
Total operating revenues	**9,972,400**	9,846,978
OPERATING EXPENSES (NOTE 8 and 9):		
Lock and marine operations	**2,118,862**	2,163,386
Maintenance and engineering	**3,151,608**	3,005,909
General and development	**2,573,827**	2,724,978
Administrative expenses	**2,857,341**	2,935,060
Depreciation	**2,412,285**	1,775,583
Imputed expenses (Note 9)	**678,672**	-
Total operating expenses	**13,792,595**	12,604,916
Operating loss	**(3,820,195)**	(2,757,938)
OTHER FINANCING SOURCES:		
Interest on deposits in minority banks	**671,109**	669,976
Transfer from invested capital for depreciation	**2,412,285**	1,775,583
Total other financing sources	**3,083,394**	2,445,559
OPERATING REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) OPERATING EXPENSES	**(736,801)**	(312,379)
Beginning cumulative results of operations	**(1,514,277)**	(1,201,898)
ENDING CUMULATIVE RESULTS OF OPERATIONS	**($2,251,078)**	($1,514,277)

The accompanying notes are an integral part of these statements.

Statements of Cash Flows
for the Years Ended September 30, 1997 and 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating revenues and other financing sources over (under) operating expenses	**($736,801)**	($312,379)
Adjustments to reconcile operating revenues and other financing sources over (under) operating expenses to net cash provided by (used in) operating activities:		
Depreciation	**2,412,285**	1,775,583
Transfer from invested capital for depreciation	**(2,412,285)**	(1,775,583)
Net gain on property disposals	**(25,130)**	(8,778)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	**(18,749)**	6,573
Decrease in inventories	**4,787**	12,701
Decrease in other current assets	**-**	3,600
Decrease (increase) in other assets	**76,287**	(118,730)
Increase (decrease) in accounts payable	**115,529**	(50,933)
Increase in accrued liabilities	**38,540**	155,824
Net cash used in operating activities	**(545,537)**	(312,122)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from property disposals	**32,125**	28,000
Acquisition of plant, property, and equipment	**(1,586,750)**	(598,604)
Net increase in time deposits	**(148,000)**	(768,000)
Net cash used in investing activities	**(1,702,625)**	(1,338,604)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations for plant, property, and equipment	**1,586,750**	598,604
NET DECREASE IN CASH	**(661,412)**	(1,052,122)
Cash at beginning of period	**1,592,601**	2,644,723
CASH AT END OF PERIOD	**$931,189**	$1,592,601

The accompanying notes are an integral part of these statements.

Statements of Budgetary Resources and Actual Expenses (Note 12) for the Year Ended September 30, 1997

	BUDGET		
	Resources	**Obligations**	**Expenses**
Saint Lawrence Seaway Development Corporation Fund	**$26,027,447.91**	**$12,542,758**	**$13,792,595**

Budget Reconciliation

Total expenses:	$13,792,595
Adjustments	
Add:	
Capital acquisitions	1,586,750
Deduct:	
Depreciation	(2,412,285)
Imputed expenses	(678,672)
Decrease in net plant in service, property disposals	(6,995)
Decrease in inventories	(4,787)
Decrease in other assets	(76,287)
Less reimbursements:	
Trust funds	(10,322,296)
Revenues from non-federal sources	(1,229,291)
Accrued expenditures	$648,732

The accompanying notes are an integral part of these statements.

Statements of Changes in Equity of the U.S. Government for the Years Ended September 30, 1997 and 1996

	Invested Capital	Unexpended Appropriations	Cumulative Results of Operations
Balance, September 30, 1995	$104,230,306	-	($1,201,898)
Appropriations expended		(8,950,396)	8,950,396
Fiscal Year 1996 appropriations		9,549,000	
Other financing sources			1,566,558
Operating expenses, excluding depreciation and imputed expenses			(10,829,333)
Depreciation expense			(1,775,583)
Transfer from invested capital for depreciation	(1,775,583)		1,775,583
Capital expenditures	598,604	(598,604)	-
Balance, September 30, 1996	103,053,327	-	(1,514,277)
Appropriations expended		(8,735,546)	8,735,546
Fiscal Year 1997 appropriations		10,322,296	
Other financing sources			1,907,963
Operating expenses, excluding depreciation and imputed expenses			(10,701,638)
Depreciation expense			(2,412,285)
Imputed expenses			(678,672)
Transfer from invested capital for depreciation	(2,412,285)		2,412,285
Capital expenditures	1,586,750	(1,586,750)	-
Balance, September 30, 1997	$102,227,792	-	($2,251,078)

The accompanying notes are an integral part of these 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

These financial statements have been prepared to report the financial position, results of operations, and cash flows of the Corporation as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the Corporation in accordance with generally accepted accounting principles as set forth for federal government corporations, and the Corporation's accounting policies and procedures, which are summarized below. The accounting policies and procedures are consistent with Title 2 of the U.S. General Accounting Office's Policy and Guidance of Federal Agencies.

Inventories consist primarily of supplies which are consumed in operations and are valued at the lower of cost or market with cost being determined using the weighted-average method. The recorded values are adjusted for the results of physical inventories taken semi-annually.

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 costing $5,000 or more are capitalized when they have an expected useful life of five years or more. Improvements and 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. In fiscal year 1996, depreciation computation on permanent operating equipment was converted from a class grouping to an individual asset basis. This change resulted in an adjustment to accumulated depreciation, which was netted in depreciation expense. 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.

Included in lock spare parts are certain items having an expected service life between 5 and 50 years. The cost of these items totals $247,811 at September 30, 1997. These lock spare parts are an integral part of the lock machinery that allow for replacement of parts, periodically removed from service for maintenance, without causing a shutdown of the Seaway. Effective for the fiscal year ended September 30, 1993, lock spare parts having expected service lives are depreciated over their service life. The balance of lock spare parts totaling $453,178 at September 30, 1997, consists of expendable inventory items valued at the lower of cost or market with cost being determined using the weighted-average method.

Accrued annual leave represents the value of the unused annual leave accrued to employees of the Corporation. The leave is funded and reported as an obligation.

The Corporation funds a program administered by the Department of Labor to compensate certain employees for death and disability resulting from performance of duty injuries or illnesses as set forth in the Federal Employees Compensation Act (FECA). As provided by FECA, employees and certain dependents are beneficiaries for various periods that can extend to life. The Corporation recognizes current costs of the program on an accrual basis and expenses those costs in the year the benefits are due. Effective with fiscal year 1994, the actuarial liability of these benefits are recognized and recorded in these statements. The liability and deferred charge recorded reflects the actuarial liability as determined by the Department of Labor.

Seaway Tolls -The Water Resource Development Act of 1986 (Public Law 99-662) required the Corporation to turn over U.S. Seaway tolls charged on commercial vessels to the Harbor Maintenance Trust Fund (the "Fund"). Annual appropriations from the Fund are used to meet operation and maintenance expenses. The Act further required the U.S. Treasury to rebate the tolls to the shippers from the Fund. Public Law 103-331, dated September 30, 1994, eliminated the requirement to collect and rebate these tolls effective October 1, 1994.

Budget Authority -The Corporation was apportioned authority by the Office of Management and Budget (OMB) to obligate a maximum amount of $12,592,296 for fiscal year (FY) 1997, $10,322,296 from the Fund (Public Law 104-205), $1,370,000 from the Corporation's unobligated balance, and $900,000 from non-federal revenues. Actual obligations, in contrast to the accrued costs stated in the Statement of Operations, totaled $12,542,758 for FY 1997. The Corporation's unobligated balance at September 30, 1997 totaled $13.5 million including $3.2 million unused borrowing authority. For FY 1998, Congress appropriated $11,193,000 (Public Law 105-66) for operations and maintenance expenses from the Fund. In addition, authority to obligate $900,000 of non-federal revenues and $320,000 from the Corporation's unobligated balance has been apportioned by OMB for FY 1998.

Statement of Cash Flows -For purposes of financial reporting, the Corporation considers cash to be cash held in the U.S. Treasury, cash in banks and cash on hand.

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 consist mainly of the Corporation's unobligated balance, which is retained for emergency situations.

4. Accounts Receivable

The Corporation has not provided for an allowance for uncollectible receivables because prior losses have been insignificant. Receivables as of September 30, 1997 and 1996 are as follows:

	1997	1996
Due from concession contracts	**$56,961**	$58,169
Interest on deposits in minority banks	**44,092**	42,391
Reimbursable work	**11,358**	2,244
Other	**37,483**	28,341
Total	**$149,894**	$131,145

5. Plant in Service

Plant in service as of September 30, 1997 and 1996 is as follows:

		1997		1996	
Plant in Service	Estimated Life (Years)	Accumulated Cost	Depreciation	Accumulated Cost	Depreciation
Lands in fee	N/A	**$867,526**	**N/A**	$867,526	N/A
Land rights & relocations	95	**5,639,064**	**1,998,226**	5,639,064	1,939,016
Locks & guidewalls	40-100	**73,793,693**	**31,766,741**	73,623,759	30,817,824
Roads & bridges	50	**9,060,530**	**6,660,131**	8,974,425	6,480,499
Channels & canals	95	**36,870,221**	**12,907,525**	36,870,221	12,520,388
Public use facilities	50	**892,157**	**483,313**	892,157	465,470
Navigation aids	10-40	**2,939,691**	**1,874,922**	2,939,691	1,797,723
Buildings, grounds & utilities	50	**11,194,621**	**3,672,370**	10,976,387	3,448,822
Permanent operating equipment	5-40	**11,873,904**	**6,788,762**	11,065,446	6,442,605
Total plant in service		**$153,131,407**	**$66,151,990**	$151,848,676	$63,912,347

Plant in service includes costs of certain features of the Seaway International Bridge Corporation, Ltd., which is 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 the Seaway International Bridge Corporation, Ltd. (SIBC)
The Corporation owns, on behalf of the U.S. Government, 37.5% of SIBC, a subsidiary of SLSA; ownership consists of common stock and debenture bonds. The debenture bonds are payable to the Corporation and have a face value totaling $8,000. The net annual income from the SIBC, after all operating expenses, is distributed as a bridge user charge, first to SLSA to offset the amortization of the cost of the North Channel Bridge together with interest, then to the 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 will be returned to the U.S. Treasury as miscellaneous receipts. No revenue from the SIBC has been received since 1961.

7. Other Revenues
Other revenues for the years ended September 30, 1997 and 1996 consist of the following:

	1997	1996
Reimbursable authority from the U.S. Coast Guard	**-**	$361,000
Concession operations	**350,719**	341,898
Shippers payments for damages to locks	**14,407**	21,159
Rental of administration building	**44,102**	46,215
Vessel towing services	**58,370**	47,080
Pleasure craft/non-commercial tolls	**37,553**	37,443
Miscellaneous (net)	**53,031**	41,787
Total	**$558,182**	$896,582

Shippers' payments for damages are reported net of direct materials and direct labor costs. Reimbursements for direct materials and direct labor are recorded as reductions of the related expense accounts.

8. Operating Expenses by Object Class

Operating expenses by object class for the years ended September 30, 1997 and 1996 are as follows:

	1997	1996
Personal services and benefits	**$9,000,025**	$8,800,686
Travel and transportation	**156,404**	195,041
Rental, communications, and utilities	**211,316**	237,928
Printing and reproduction	**22,204**	20,264
Contractual services	**620,788**	838,062
Supplies and materials	**637,335**	662,745
Equipment not capitalized	**46,723**	95,385
Loss on property disposals	**1,632**	19,222
Uncollectible accounts	**5,211**	-
Subtotal	**$10,701,638**	$10,829,333
Depreciation expense	**2,412,285**	1,775,583
Imputed expenses	**678,672**	-
Total operating expenses	**$13,792,595**	$12,604,916

9. Retirement Plans

Retirement Plans consist of the Civil Service Retirement System (CSRS), to which the Corporation makes matching contributions equal to 7 percent of pay, and the Federal Employees Retirement System (FERS). FERS went into effect, pursuant to Public Law 99-335, on January 1, 1987. Employees hired after December 31, 1983 are automatically covered by FERS and Social Security while employees hired prior to January 1, 1984 elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Corporation automatically contributes 1 percent of pay and matches any employee contributions up to an additional 4 percent of pay. For employees hired since December 31, 1983, the Corporation also contributes the employer's matching share for Social Security. Effective with fiscal year 1997, the Corporation recognizes and records the cost of pensions and other post-retirement benefits during employees active years of service, based on cost factors provided by the Office of Personnel Management (OPM). These costs are recorded as both an expense paid by another entity and an imputed financing source to the receiving entity, therefore offset each other with no impact upon the Corporation's net position.

Contributions to the retirement plans and Social Security for the years ended September 30, 1997 and 1996 are as follows:

	1997	1996
Civil Service Retirement System	**$236,773**	$232,277
Federal Employees Retirement System:		
Automatic contributions	**426,783**	400,799
Matching contributions	**121,425**	108,660
Social Security	**236,579**	223,235
Total	**$1,021,560**	$964,971

10. Contingencies and Commitments
As of September 30, 1997, a claim from a former employee was pending against the Corporation. However, no provision for liability has been recorded, as the Corporation feels it will prevail. In addition to the current liabilities at September 30, 1997 and 1996 there were undelivered orders and contracts amounting to $1,412,898 and $1,121,773, respectively.

11. Related Party Transactions
The Corporation receives rental payments for office space provided to U.S. Immigration and Naturalization Service, the U.S. Coast Guard and the Internal Revenue Service at its administration building in Massena, N.Y. For the years ended September 30, 1997 and 1996, revenue totaled $41,486 and $36,633, respectively.

The Corporation has entered into reimbursable agreements with certain federal agencies to provide services and equipment to the Corporation. Amounts due under reimbursable agreements with federal agencies for FY 1997 and FY 1996 were as follows:

	1997	1996
Volpe National Transportation System Center	**$50,000**	-
Department of Commerce	**45,000**	30,000
Office of the Secretary of Transportation	**2,870**	16,515
Surface Transportation Board	**10,000**	0
United States Coast Guard	**769**	741
Maritime Administration (MARAD)	**0**	15,300
Total	**$108,639**	$62,556

Accounts payable at September 30, 1997 and 1996 include $504,703 and $510,161 respectively, of amounts payable to the U.S. Government.

In fiscal years 1997 and 1996, the Corporation accrued costs of $46,784 and $63,465, respectively, to SLSA for administrative services related to tolls and statistics.

12. Statement of Budgetary Resources and Actual Expenses
The Statement of Budgetary Resources and Actual Expenses presents budget information as reported on the Corporation's "Report on Budget Execution" SF-133 and reconciles accrued expenditures from that report to expenses as reported in the accompanying financial statements.

Budget resources of $26,027,448 consists of the Corporation's unobligated balance of $14,424,547 brought forward from October 1, 1996, and reimbursements earned of $11,551,587 and recoveries of prior year's obligations of $51,314 during FY 1997.

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