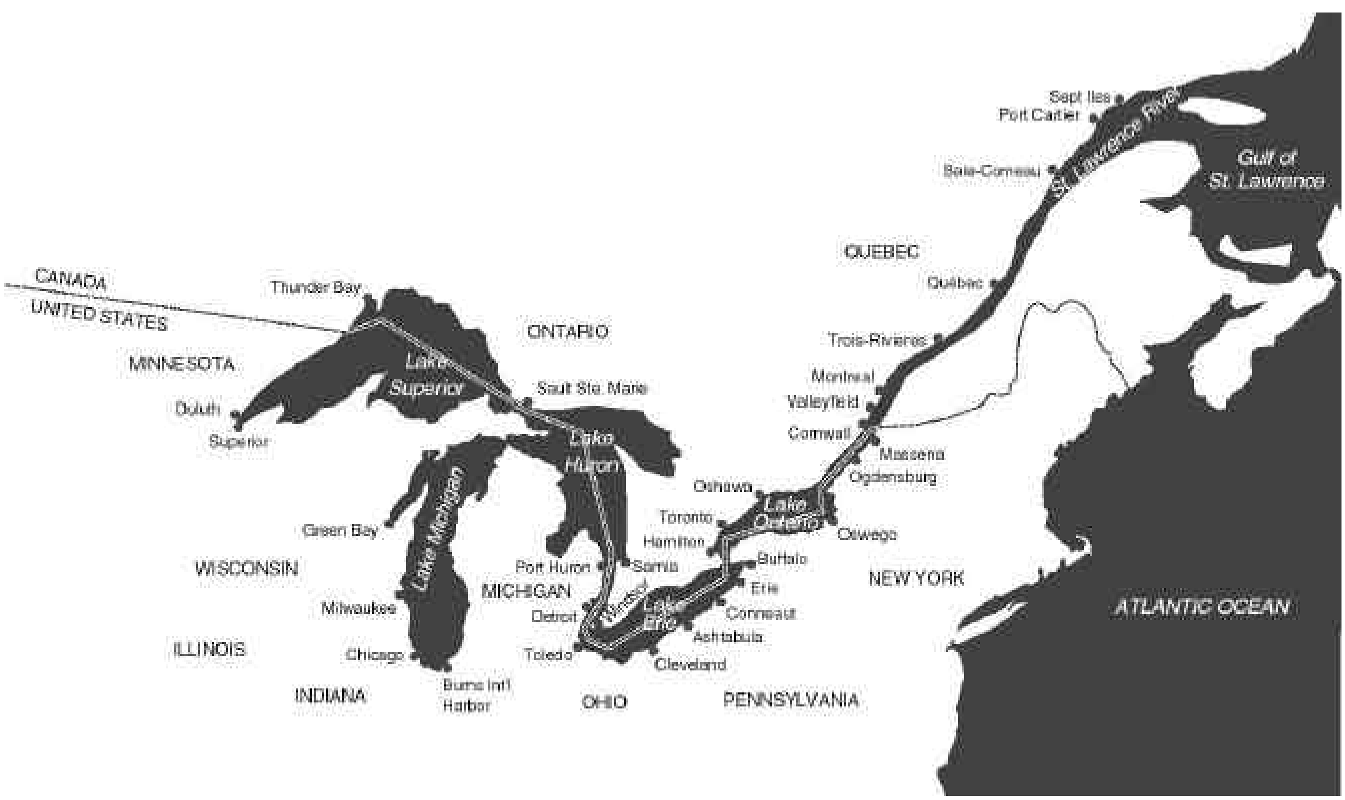
SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Fiscal Year 1998 Annual Report



Annual Report Introduction by Administrator Albert S. Jacquez

In accordance with the Chief Financial Officer's Act of 1990 and the Comptroller General's Government Auditing Standards, I am pleased to present the annual management report of the Saint Lawrence Seaway Development Corporation (SLSDC) for the fiscal year ending September 30, 1998.

This report clearly presents the financial integrity and operational accomplishments of the Corporation during FY 1998. The first section of the report was prepared by the SLSDC to provide information on the agency, its mission, and the success of its performance measures. The second section consists of FY 1998 audited financial statements with associated notes and the reports of Dembo, Jones, Healy, Pennington & Ahalt, P.C.

During FY 1998, the Corporation continued its commitment to Safety, System Reliability, Trade Development, and Management Accountability, including Customer Service, Fiscal Performance, and Cost Effectiveness. SLSDC has continued its Performance Based Organization (PBO) initiative, which included continued outreach and feedback with employees, Canadian counterparts, and industry partners.
In March 1998, the SLSDC completed Y2K certification for 10 mission critical systems and one non-critical system. In July 1998, the SLSDC and SLSMC were awarded ISO 9002 certification for its marine services' vessel inspection program.

SLSDC is dedicated to quality service and System competitiveness without compromising safe navigation and environmental protection of the Great Lakes/ St. Lawrence Seaway region.

Albert S. Jacquez

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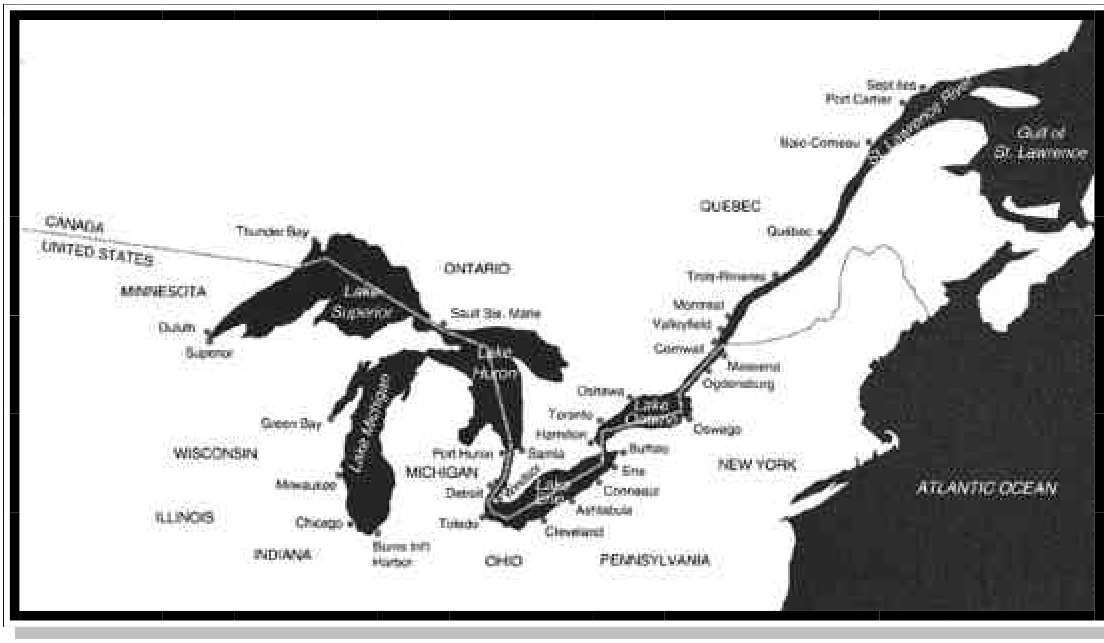
The audit of the Saint Lawrence Seaway Development Corporation for the 12 months ended September 30, 1998, has been completed. The audit was performed by Dembo, Jones, Healy, Pennington & Ahalt, P.C. in accordance with the Chief Financial Officers Act of 1990 and the Comptroller General's Government Auditing Standards. This report is in two sections. The first section (pages 1-32), 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 33-48), consists of 1998 audited financial statements with associated notes and the reports of Dembo, Jones, Healy, Pennington & Ahalt, P.C. on those statements.

Great Lakes St. Lawrence Seaway System



Saint Lawrence Seaway Development Corporation

The Saint Lawrence Seaway Development Corporation (Corporation), 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 Management Corporation (formerly the St. Lawrence Seaway Authority), 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, 1998, the Corporation had 151 full-time equivalent employees or FTEs.

The audit of the Saint Lawrence Seaway Development Corporation as of September 30, 1998 and for the 12 months ended, was performed by Dembo, Jones, Healy, Pennington & Ahalt, P.C. in accordance with the Chief Financial Officers Act of 1990 and the Comptroller General's Government Auditing Standards.

FY 1998 HIGHLIGHTS

The Port of Detroit receives Seaway Port Pacesetter Award. Pictured from left to right: John Jamian, Executive Director of the Detroit/Wayne County Port Authority; Governor John Engler, State of Michigan and David Sanders, Deputy Administrator, SLSDC (see page 10).

SLSDC's ISO9002 certificate presentation in Massena, New York. Pictured from left to right: Roland Maynard, Erman Cocci, Lori Curran, Terry Jordan, Carol Fenton, SLSDC; Hugh Hutton, Lloyd's Register Quality Assurance; and David Sanders, SLSDC (See page 16).

The SLSDC participated in the 1998 Posidonia International Maritime Exposition in Athens (See page 20).

Captain Joeseph Craig, Marine Services Specialist, reviews ship drawings with Executives of Oshima Shipbuilding, Ltd. during Seaway Trade Mission to Japan (See page 21).

Acting Administrator David Sanders delivers presentation to the Japanese Shipbuilders' Association in Toyko (See page 21).

Financial Highlights for FY 1998

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. The 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.

The Corporation's annual appropriation financed 88% of operations, maintenance and plant and equipment expenditures. The remaining 12% was financed from financial reserves and other revenues, principally investment income and concession revenues.

Operating Revenues

Operating revenues, excluding imputed financing, totaled $10,323K in 1998, compared to $9,294K in 1997, an increase of $1,030K or 11%. Appropriations expended increased $1,040K, from $8,736K in 1997 to $9,775K in 1998. Appropriations expended represents the amount of the Harbor Maintenance Trust Fund expended for operating purposes. Other revenues, principally from concession operations, remained nearly the same, $558K in 1997 and $548K in 1998.

Operating Expenses

Overall operating expenses, excluding depreciation and imputed expenses, increased $631K or 6% from $10,702K in 1997 to $11,333K in 1998. On a recurring basis, the increase was only $114K or 1%.

Personal services and benefits decreased $117K or 1% from $9,000K in 1997 to $8,883K in 1998. The Corporation continues to control spending while financing cost-of-living adjustments along with associated benefits and step increases.

Other costs increased $748K or 44% from $1,702K in 1997 to $2,450K in 1998. The increase in other services in 1998 was primarily due to $517K in expenditures for the atypical project for stoplog testing and rehabilitation. In addition, $197K was expended for rent of the Washington, DC office. The GSA rent payment process for headquarters and field space was decentralized in 1998. Accordingly, the Corporation became responsible for making direct rental payments to GSA.

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 stable, totaling $697K in 1998 and $671K in 1997, 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 $102 million. A key asset of the Corporation is time deposits in minority banks, totaling $12,084K at year-end. In 1998, a $1,383K increase in short-term deposits, offset by a $1,825K decrease in long-term deposits, netted a decrease of $442K overall. The reduction in time deposits was principally to finance the stoplog testing and rehabilitation project.

These deposits comprise the major portion of the Corporation's $13.2 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 Committees' 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 $1,587K and $1,418K in 1997 and 1998 respectively.

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 performs the following key tasks - exact positioning of ice markers, hydrographic sweep surveys, service and maintenance of permanent navigational aid lights, tug-type assistance, and ferry of 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, two at each lock. 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. The operating units required an upgrade to improve operating characteristics to provide a safe environment for personnel working in and around this equipment and to conform with Occupational Safety and Health Administration (OSHA) and American National Standards Institute (ANSI) standards. The first two upgraded and modified stiffleg derrick operating units were delivered in 1997.

The primary capital expenditures in 1998 included $256K to upgrade mechanical lock equipment, $290K for recess drainage improvements, and $419K for stiffleg derrick improvements.

The mechanical lock equipment upgrade was for the installation of closed loop compressor cooling systems at both locks to replace the existing systems which used riverwater to cool the air compressors. This work was carried out to eliminate the possibility of compressor oils being inadvertently discharged into the river. These compressors provide air for bubblers and air curtains used to control floating ice which causes operational problems and damage to lock structures and equipment; for lock maintenance activities, such as to operate pneumatic tools, jackhammers, etc.; and for maintaining pressure in the potable water systems at the locks.

The recess drainage improvement project was for installing valves on drains in lock machinery recesses containing hydraulic equipment and for installing oil skimmers at the point where the drainage system at each lock discharges into the river. This work was driven by environmental concerns that hydraulic oils could be discharged into the river in the event that an equipment failure causes hydraulic oil to be spilled in a machinery recess.

The last two upgraded and modified stiffleg derrick operating units were delivered in 1998. The project is to be completed in 1999.

Stoplog Testing and Rehabilitation

The Corporation maintains stoplogs and bulkheads, for both 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 was accomplished in 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 (Corps) and is consistent with their regulation which requires similar programs be conducted for closure structures at all Corps locks and dams. The 1998 cost for this extraordinary operating project was $517K. It is to be completed in 1999.

Lock Survey and Evaluation

The Corporation determined that a lock survey and evaluation by an outside source could prove beneficial to identify work items and projects. An Interagency Agreement was established with the Corps in 1998 for $85K. The Corps agreed to survey and evaluate the lock operating machinery, equipment, and structures, with an inspection of Eisenhower and Snell Locks while in an operating status; provide an interim report of their findings; complete a final site inspection while the locks are dewatered; and prepare a final report due in 1999. The focus of the work is to be on the structural, mechanical, and electrical aspects of the locks, excluding lock wall stability, which had previously been addressed. When the final report is received, the Five-Year Capital and Maintenance Plans will be updated as required to incorporate the Corps' recommendations.

Significant Future Costs

Since operations and maintenance represent the bulk of the Corporation's expenditures, Five-Year Capital and Maintenance Plans have been developed for 1999 through 2003. 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 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 million in capital expenditures.

In 1999, $200K is budgeted for further development of the Automatic Identification System (AIS), which utilizes differential global positioning system (DGPS) to monitor vessel movements. When fully operational, this program will enhance safe and efficient vessel transits. Paving and drainage improvements are planned to improve the characteristics of the roadway through the highway tunnel at Eisenhower Lock for $128K. 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, $244K is budgeted for the relocation and modifications to the Vessel Traffic Control Center building.

Two 20-ton capacity hydraulic cranes are scheduled to be replaced in 2000 for an estimated $535K. Our existing 20-ton cranes are heavily used for fendering, winter maintenance, etc., and are aging. They will be 15 years old at the time of replacement.

Modifications to Snell Lock are planned in 2001 to allow its use as a drydock to handle scheduled drydock maintenance of Corporation 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 navigational 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 navigational season to handle emergencies. This project is estimated at $530K. In addition, a project is scheduled for $200K to investigate options and modify the potable water system at Eisenhower to improve the water quality.

The capital budget for 2002 includes $175K to purchase a second spare culvert valve, $100K to replace the deteriorating package sewage treatment plant at Eisenhower Visitors' Center with a septic/leach field system, $150K for paving and drainage improvements, and $130K to improve fendering at the downstream gate at Eisenhower. The fendering project involves replacing wood timber fendering on the downstream miter gate at Eisenhower Lock with rubber fenders, which will absorb more energy than the wood, providing better protection of these structures from impacts by transiting vessels.

In 2003, $250K is scheduled for paving and drainage improvements; $260K to replace compressors that provide air for ice control during opening and closing of the navigation season and for maintenance projects at the locks; and $140K to improve fendering at the downstream gate at Snell. This fendering project involves replacing damaged and inadequate rubber fendering at Snell with larger and more substantial fenders.

Harbor Maintenance Trust Fund (HMTF)

On March 31, 1998, the U.S. Supreme Court ruled that the export portion of the Harbor Maintenance Tax was unconstitutional. The Harbor Maintenance Tax funds the Harbor Maintenance Trust Fund (HMTF) from which the SLSDC draws its appropriations. However, this ruling will not have an immediate effect on funding of the SLSDC because there are sufficient revenues remaining in the fund to cover SLSDC outlays for several years. The Administration will be submitting to Congress a legislative proposal to replace the HMTF. The Administration's proposed new program is called the Harbor Services Fund.

Seaway Tolls

On June 1, 1998, Transport Canada's unilateral proposal to increase St. Lawrence Seaway tolls by 2% across-the-board was implemented. This marks the first toll increase since 1993.

Selected Financial Indicators
(in thousands of dollars)

For the years ended September 30	1998	1997	Change $	Change %
Operating revenues	10,323	9,294	1,030	11%
Appropriations expended	9,775	8,736	1,040	12%
Other	548	558	(10)	-2%
Imputed financing/expenses				
Imputed financing	620	679	(59)	-
Imputed expenses	620	679	(59)	-
Operating expenses	11,333	10,702	631	6%
Personal services and benefits	8,883	9,000	(117)	-1%
Other	2,450	1,702	748	44%
Interest income/minority banks	697	671	26	4%
Total assets	102,320	103,664	(1,344)	-1%
Time deposits in minority banks	12,084	12,526	(442)	-4%
Short-term	10,672	9,289	1,383	15%
Long-term	1,412	3,237	(1,825)	-56%

Significant Organization Changes

Albert S. Jacquez Named New Seaway Administrator

On September 29, 1998, the President announced his intent to nominate Albert S. Jacquez to serve as Administrator of the Saint Lawrence Seaway Development Corporation. President Clinton used his recess appointment authority and named Mr. Jacquez as Administrator. Mr. Jacquez was sworn in by U.S. Transportation Secretary Rodney E. Slater on January 4, 1999.

Mr. Jacquez was chief of staff to U.S. Rep. Esteban E. Torres of California and has over 16 years of international trade, finance and transportation policy experience. As chief of staff for Congressman Torres, he provided oversight and guidance for all Appropriations Committee work, including the Transportation and Foreign Operations and Export Financing Subcommittees.

Mr. Jacquez is the eighth administrator of the Corporation and succeeds Gail C. McDonald, who resigned as the SLSDC Administrator in April 1997. In the interim, David G. Sanders has served as the agency's Acting Administrator.

Canadian Seaway Restructured

On October 2, 1998, operational control of the St. Lawrence Seaway Authority was officially transferred to the St. Lawrence Seaway Management Corporation as a not-for-profit organization established by Seaway users. The Seaway users group is composed of private companies, including vessel operators, shippers from the grain and steel industries in Canada, and a nine member board of directors that will include user representatives, the federal government, and provincial representatives from Ontario and Quebec. The Government of Canada will continue to own the infrastructure and will act as regulator.

Customer Service Initiatives

Four U.S. Ports Earn Seaway Pacesetter Award

The Corporation honored four U.S. Great Lakes Seaway Ports in 1998 for increased international tonnage during the 1997 navigation season with its sixth annual Seaway Port Pacesetter Award.

Ports receiving the award were: the Detroit/Wayne County Port Authority; the Erie-Western Pennsylvania Port Authority; the Brown County Port of Green Bay; and the Port of Oswego Authority.

The Port Pacesetter Award is the Corporation's only industry recognition program and has been in effect since 1993.

SLSDC Offers Vessel Information Through Nightcast Program

Since the mid-1980's, the Corporation has been offering users the subscription-based service, Seaway Nightcast. The daily Easylink or FAX service details inbound (westbound) 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.

Year 2000 (Y2K) Compliance

On March 31, 1998 The SLSDC Management Information Services staff completed Y2K certification for ten mission critical systems and one non-critical system. The Office of Inspector General initiated a comprehensive verification process that resulted in agreement that the reported systems were Y2K compliant. On August 5, 1998, the Deputy Secretary of Transportation issued a memo of congratulations to the Corporation for being the first DOT operating administration to achieve full Y2K compliance for mission critical and non-critical data systems, lock operations, and physical plant facilities. The SLSDC is also participating in a departmental Y2K outreach initiative. Since June 1998, the Corporation has contacted over 3,000 Seaway customers and stakeholders.

Seaway Performance Index (SPI)

The Seaway Performance Index is an overall measure of the Saint Lawrence Seaway Development Corporation's (SLSDC's) performance and will be used as a management tool to monitor Seaway performance in specific performance areas as well as overall performance.

Based on the Performance Based Organization (PBO) plan, four major performance areas were established: Safety, Reliability, Trade Development, and Management Accountability. These are the major categories that encompass all of the work at the Corporation. Each of these major measurement categories is calculated based on its individual measurement indicators as listed below:

- **Safety Measurement: Includes Vessel Safety and Workplace Safety, and is weighted 30%.**
- **Reliability Measurement: Includes System Availability, and is weighted 30%.**
- **Trade Development: Includes U.S. International Tonnage, and is weighted 20%.**
- **Management Accountability: Includes Fiscal Performance and Personnel Management, and is weighted 20%.**

Each area has a special project category to include major projects that arise throughout the year.

Based on results of management meetings and surveys from each SLSDC employee, it was determined that each area would be measured by results and effort with the following weights:

- **Safety – Results 60% and Effort 40%**
- **Reliability – Results 60% and Effort 40%**
- **Trade Development – Results 40% and Effort 60%**
- **Management Accountability – Results 60% and Effort 40%**

For example, Safety results measurements include: number of vessel incidents (weighted 40%); number of mechanical incidents (weighted 30%); number of traumatic injuries (weighted 15%); and hours lost to injury (weighted 15%).

Safety effort measurements include: vessel inspections (weighted 50%); and percent of timely abatements of workplace hazards (weighted 50%).

The overall Safety Performance Index is calculated by averaging together the averages for the individual measures for results and effort, then points for special projects are added to compute the final total.

The results of the Seaway Performance Index will be produced and distributed on a monthly and yearly basis to monitor and improve Seaway performance.

Performance Indicators for CY 1998

1998 Cargo Tonnage, Vessel Transits, and Lock Availability

Total tonnage through the Montreal /Lake Ontario section of the Seaway in CY 1998 was 39.2 million tons, +6.4 percent (2.4 million tons) above the CY 1997 total. CY 1998 vessel transits increased over CY 1997 by 12.4 percent (349 transits) to a total 3,158 transits for the season.

Seaway total grain tonnage decreased 3.8 percent over 1997 due to a significant decrease in Canadian grain movement. U.S. grains increased 34.1 percent due to strong demand and an excellent fall harvest.

Iron and steel tonnage reached 6.9 million tons, which was 61 percent above the 1997 level. Iron ore tonnage was up by 9.7 percent reflecting higher demand throughout the season.

In CY 1998, the U.S. portion of the St. Lawrence Seaway was open for 277 days (March 26 through December 27), and available for vessel transiting 98.5 percent of the time.

Five Year Performance Indicators
(CY 1994 - 1998)

Calendar Year	Cargo Tons *(millions of metric tons)*	Vessel Transits
1994	**38.4**	**2,857**
1995	**38.7**	**2,777**
1996	**38.1**	**2,707**
1997	**36.9**	**2,809**
1998	**39.2**	**3,158**
5-year average	**38.3**	**2,862**

Lockage Downtime/Availability in Hours

Cause of Delay	1994	1995	1996	1997	1998	5 Year Average
Weather, Poor Visibility	82.5	75.5	137.2	64.6	30.3	78.0
Weather, High Wind/Ice	18.5	13.0	6.2	0.6	12.9	10.2
Water Level/Flow	0.0	0.0	0.0	17.2	0.0	3.4
Vessel Incident	17.7	32.6	38.3	31.2	43.3	32.6
Civil Interference	0.3	0.4	1.4	2.8	10.3	3.0
Lock Equipment Malfunction	44.7	16.3	4.5	15.6	1.8	16.6
Total Delay (hours)	163.7	137.8	187.6	132.0	98.6	143.9
Equivalent Days	6.8	5.7	7.8	5.5	4.1	6.0
Duration of Season (days)**	268	276	273	270	277	273
Percent of System Availability	**97%**	**98%**	**97%**	**98%**	**98.5%**	**98%**

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

Lockage Equipment Malfunction by Type in Hours

Calendar Year	1994	1995	1996	1997	1998	5 Year Average
Electrical						
— Fender Boom	1.7	10.5	0.7	2.9	0.0	3.2
— Gates	9.3	2.7	1.2	1.7	1.0	3.2
— Valves	0.0	0.0	0.4	0.0	0.0	0.1
— Lock Equipment	0.0	0.0	0.4	0.8	0.5	0.3
Subtotal	11.0	13.2	2.7	5.4	1.5	6.8
Mechanical						
— Fender Boom	2.3	0.0	1.8	0.0	0.0	0.8
— Gates	31.4	3.1	0.0	0.0	0.3	7.0
— Valves	0.0	0.0	0.0	0.0	0.0	0.0
— Lock Equipment	0.0	0.0	0.0	0.3	0.0	0.1
Subtotal	33.7	3.1	1.8	0.3	0.3	7.9
Grand Total	**44.7**	**16.3**	**4.5**	**5.7**	**1.8**	**14.7**

Calendar Year 1998 Selected Commodity Summary
Montreal-Lake Ontario Section

Agricultural Products:	Metric Tons	Percent of Total
Wheat	6,651,577	16.9%
Corn	1,949,639	5.0%
Oats	56,318	0.1%
Barley	78,249	0.2%
Soybeans	2,052,209	5.2%
Flaxseed	500,473	1.3%
Other Grains	217,993	0.6%
Other Agricultural	1,458,369	3.7%
Total	12,964,827	33.0%
Mine Products:		
Iron Ore	11,104,515	28.3%
Coal	191,356	0.5%
Coke	624,131	1.6%
Stone	559,951	1.4%
Salt	732,983	1.9%
Other Mine	1,511,225	3.9%
Total	14,724,161	37.5%
Processed Products:		
Iron and Steel	6,909,049	17.6%
Fuel Oil	1,086,624	2.8%
Other Petroleum	65,467	0.2%
Chemicals	677,309	1.7%
Other Processed	2,782,601	7.1%
Total	11,521,050	29.4%
Misc. Cargo:		
Forest Products	1,456	0.0%
Animal Products	34,885	0.1%
Total	36,341	0.1%
GRAND TOTAL	39,246,379	100.0%

Seaway Reform Measures

Performance Based Organization (PBO)

The Corporation has continued to work with Congress, the National Performance Review (NPR), Office of Management and Budget (OMB) and the Department of Transportation (DOT) Office of the Secretary (OST) to achieve enactment of legislation implementing the PBO conversion initiative.

The initiative included continued outreach and feedback with employees, Canadian counterparts, and our maritime industry partners. Pending legislated conversion, the Corporation has pursued internal implementation of performance and financial management based on the PBO plan, which was funded at plan levels for FY 1998, and approved for funding at the plan level by OMB for FY 1999.

Enforcing Shipping Safety

Corporation Receives ISO 9002 Certification for Vessel Inspection Program

By written agreement dated December 11, 1997, the SLSDC and SLSA confirmed a joint effort to pursue ISO 9002 certification for marine services. The focus of this first-of-a-kind Seaway certification is the marine services vessel inspection program including pre-clearance for Seaway transit, the enhanced inspection program in Montreal, and any other incidents or occurrences requiring vessel inspection services by Seaway agencies.

Since December of 1997, SLSDC and SLSA/SLSMC have been actively involved in the major steps of this program, namely: management decision, commitment and support; project planing and assignment of responsibility; process training for all primary participants; initial assessment of existing practices and procedures; documentation development; preparation of a “quality manual”; implementation of procedures; pre-assessment reviews; internal (simulated) certification audits; correction of deficiencies; independent assessment; correction of deficiencies; and final external assessment and certification. The SLSMC has stated that it will continue to support the ISO initiative.

The international certification is only conferred on firms that meet the highest quality management standards established by the Geneva-based International Organization for Standardization. The London-based Lloyds Register of Quality Assurance was the independent accrediting agency that performed the actual evaluations of the inspection program. The inspections include safety checks on vessel construction and equipment, ballast water, radio telecommunications, and documentation, as well as Port State Control inspections.

On July 16, 1998, the Corporation and the SLSA were awarded ISO 9002 certification for the high quality vessel inspection services program. Additional SLSDC office units that are seeking ISO certification in 1999 include: Administration, Vessel Traffic Control, and the Marine Services section of Maintenance.

Seaway Automatic Identification System (AIS)

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.

On April 15, 1998, the SLSDC and the SLSA held a meeting and presented a cost-sharing program for the proposed 1998 prototype program. On September 16, 1998, the Canadian Shipping Association and the Shipping Federation of Canada agreed to share project costs with the SLSDC and the SLSMC during the 1999 prototype evaluation period.

SLSDC Participates in Emergency Simulation

On September 12, 1998, the Corporation hosted its tenth annual emergency response exercise. The exercise involved a simulated tanker vessel carrying hazardous chemicals running aground and incurring severe hull damage. Personnel injuries requiring medical assistance were included in the simulation. Program participation included federal, state, and local agencies designated to assist in any emergency situation along the St. Lawrence River.

In July 1998, the Corporation and the U.S. Coast Guard (USCG) conducted a joint emergency response exercise. The SLSDC tugboat, Robinson Bay, buoy barge, and Corporation personnel assisted the USCG during the dive on the M/V Jodrey to determine the cause of a suspected oil leak.

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.

Seaway Emergency Exercises/Simulations 1991-1998

1991	Hosted terrorist vessel capture/oil spill exercise Waddington, New York
1992	Hosted tour boat grounding exercise Louisville, New York
1993	Hosted chemical spill/injury exercise Alexandria Bay, New York
1994	Hosted tabletop exercise Thousand Islands Bridge, New York
1995	Hosted chemical spill exercise Hogansburg, New York
1996	Participated in "CANUSLAK" exercise Cornwall, Ontario
1997	Hosted chemical spill exercise Alexandria Bay, New York
1998	Hosted hazardous materials spill Massena, New York Participated in USCG exercise to determine suspected oil leak Alexandria Bay, New York

Developing Seaway Trade

Overseas Trade Missions

The Seaway Corporation organized a binational trade mission to Hamburg, Germany, October 14-17, 1997. Mission delegates included U.S. and Canadian Great Lakes executives from both the public and private sectors, including the Seaway Corporation, the port communities, and vessel agents. The principal purpose of the trip was to expand international trade through the Great Lakes-St. Lawrence Seaway System. Hamburg was the destination chosen because Germany is one of the Seaway's top five trading partners, with almost one million tons of traffic in 1996, (8% of total overseas traffic through the Seaway). Hamburg is the home office for many vessel operators and a significant transshipment port for Northern Europe and the United Kingdom.

The official program of the mission was held on October 15, 1997, with 68 guests in attendance. These individuals represented a cross-section of the maritime industry, including: ship owners; operators; brokers; vessel agents; and cargo interests. Acting Administrator David Sanders and Marine Services Specialist, Captain Joe Craig, made presentations regarding the competitiveness, reliability, and safety of the Seaway System. The presentation was followed by one-on-one meetings with business partners and delegation members.

A significant development during this program was the announcement by Polish Steamship Lines that it intended to begin building five new ships in 1998 to Seaway-maximum dimensions.

New Business Prospects From the Mission:

- Two delegates reported sales leads for several near-term shipments of steel imports and western coal exports.
- One delegate from the Port of Duluth completed an agreement with the Hamburg-based Hapag-Lloyd Cruise Ship Management Company regarding stops in Duluth during the 1998 navigation season.
- Acting Administrator Sanders met with Hapag-Lloyd to discuss the possibility of adding another cruise ship to the Great Lakes run next year.
- Following the announcement by Polish Steamship that they were building five new vessels, three mission participants met with representatives of that company to discuss future steel shipment using the new vessels.
- The President and General Manager of Lake Superior Warehousing is pursuing possible imports of pipe from Germany to Western Canada in the 1998/99 season, and he anticipates the resumption of German steel shipments to Duluth in 1998.

Following the Seaway Trade Mission to Hamburg, Germany, the Seaway Corporation's trade development team continued on to Johannesburg, South Africa, October 18-25, 1997. This trade mission was in support of the U.S. Department of Transportation's initiative aimed at expanding the U.S. market share in South Africa by increasing U.S. exports. South African trade through the Seaway in 1996 was 340,000 metric tons, and was the eleventh highest among overseas nations using the system. Johannesburg was chosen as a destination because it is the country's largest city and commercial center.

In Johannesburg, the central focus of the Seaway Corporation's promotional efforts was the South African International Trade Exhibition (SAITEX) – a week long event involving 1500 exhibitors from 60 countries. Throughout SAITEX, the Seaway Corporation staffed a comprehensive Seaway trade display and booth that drew the attention of roughly 200 registrants per day.

A significant business contact made at the exhibition was the Director of the West African Timber Trading Ltd. This firm currently imports timber from Canada via the West Coast. At SAITEX, the firm showed serious interest in using the Seaway to move its shipments. Seaway Corporation staff members were able to put this company in contact with representatives of a firm that already uses the Seaway (SAFELINK Forwarding Company) and the two were close to a business arrangement by the time the exhibition concluded.

During this mission, the Christiansen Canadian Africa Lines (CCAL), announced their commitment to adding a fourth ship in 1998 to their Seaway service, and to opening a new service office at the Port of Chicago.

Trade Mission to Cyprus and Greece

This binational mission was organized by the Seaway Corporation and the Seaway Authority of Canada and took place from May 25 to June 5, 1998. Mission delegates totaled nine Great Lakes Seaway maritime executives from both the public and private sectors. The mission departed for Limassol, Cyprus on May 25 and returned from Athens, Greece, on June 6.

The principal purpose of the trip was to provide shipbuilders, shipowners and ship operators an update on Seaway trade advantages, detailing new navigation/customer services and emphasizing the need for more Seaway-sized ship newbuildings and refittings.

Cyprus and Greece were the destinations chosen because they rank as key world centers for shipbuilding and operations, and Athens has the world's largest concentration of commercial shipowners.

New Business Prospects From the Mission:

- At least one of the four "Astrakhan" type of ships owned by Interorient of Limassol, Cyprus, expected to transit the Seaway in the near future.

- The vessel CHEETAH of V. Ships Cyprus is being fitted and is expected to transit the Seaway with a cargo of steel from Europe.

- A cargo of ammonium nitrate may transit to Duluth or Hamilton due to the provision of handling guidelines by mission participants.

- A cargo of inbound steel and outbound soya seeds is being negotiated by Kyprosum of Limassol.

- Considerable interest was expressed for passenger ships into the Great Lakes, and Zihni Shipping of Istanbul is making inquiries into building its own passenger ship for this purpose.

- Strong interest for fitting ships for the Seaway during their construction was shown by nearly all shipyard exhibitors at Posidonia 98.

- Four charterers are fixing vessels for transits to the Great Lakes.

Seaway Corporation Visits Shipyards in Japan

The Seaway Corporation completed a trade mission to Japan from September 25-October 3, 1998. Mission delegates included the Acting Administrator, the Director of Congressional and Public Affairs, and one Marine Services Specialist. The purpose of the trip was to encourage Japanese shipbuilders to build Seaway-fitted vessels and brief them on the latest regulatory and technical requirements for ships that want to trade in the St. Lawrence Seaway/Great Lakes System. This is the first trade mission ever targeted directly at shipyards producing Seaway-size vessels. The mission addressed Seaway trade advantages, detailing new navigation/customer services and stressed the opportunity for more Seaway-sized ship newbuildings and refittings. Japan was the destination chosen because they are the #1 producer of Seaway-size ships in the world, and all newbuilds that are currently designated for Seaway service are on the orderbooks of Japanese shipyards.

The focal points of the visit to Japan were a presentation and meetings at the U.S. Trade Center in Tokyo. These meetings were attended by 34 high-ranking representatives from every major shipbuilder in Japan. The presentation generated numerous questions and much discussion regarding Seaway operations and navigation requirements. So much interest was generated that several of the participants requested individual presentations. The mission delegates conducted several briefings for individual companies and, by request, traveled to Nagasaki, Japan for a presentation to the CEO, Chief Naval Architect, and other ranking staff members of Oshima Shipbuilding. All presentations were very well received and shipbuilders were very grateful that mission delegates found and corrected several errors in their design of Seaway vessels before the shipbuilders began construction. If these errors had gone undetected until after the ships were built, refitting costs could have run into the millions of dollars.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION (SLSDC)
REVISED STRATEGIC PLAN

Introduction

The Saint Lawrence Seaway Development Corporation (Corporation) (SLSDC) is a wholly owned government corporation created by statute May 13, 1954, 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. Trade development functions aim to enhance Great Lakes/St. Lawrence Seaway System utilization without respect to territorial or geographic limits.

SLSDC coordinates its activities with its Canadian counterpart, the St. Lawrence Management Corporation (SLSMC) (formerly the St. Lawrence Seaway Authority) particularly with respect to rules and regulations; the Tariff of Tolls; overall day-to-day operations; traffic management; navigation aids; safety; environmental programs; operating dates; and trade development programs. The unique binational nature of the System requires 24-hour, year-round coordination between the two Seaway entities.

Since March 4, 1996, the SLSDC has been participating in the process of conversion to a Performance Based Organization (PBO) under the auspices of the National Performance Review (NPR). The process involves oversight by the NPR, the Office of Management and Budget (OMB), and the Department of Transportation (DOT) Office of the Secretary (OST). Incorporating the PBO plan structure into SLSDC's Strategic Plan document is the first significant revision of the Corporation's Strategic Plan published in October 1994.

Legislative enactment of the PBO structure requires congressional authorization. Pending that action, the Corporation is pursuing the PBO plan within current legislative authority and through the appropriations process. The PBO program plan established four performance areas that form the basis for this revised SLSDC strategic plan and goals that link well with the Department's goals and management strategies as reflected in the following table:

DEPARTMENT **SLSDC/PBO Performance Areas**

Goals and Strategies	Safety Environment	Reliability Availability	Trade Development	Management Accountability
Safety	•	•	•	•
Mobility	•	•		•
Economic Growth & Trade			•	•
Human & Natural Environment	•			•
National Security		•		•
One Dot	•	•	•	•
Human Resources	•			•
Customer Service	•	•	•	•
Research & Technology	•	•		•
Information Technology			•	•
Resource & Business Process				•

External Factors/Basis for Data Reported

External factors affecting SLSDC performance and all strategic goals include: vessel incidents due to mechanical failure and human error; weather conditions; global economic factors affecting demand, production, and pricing of commodities and vessel services; and federal policy decisions by the United States and Canada.

The Seaway System and related operations are on a calendar year (CY) basis from late March to late December. In accordance with calendar year operations and the PBO operating plan, both CY and fiscal year (FY) data are reported as appropriate.

Vision Statement

Ensured viability of the United States navigation facilities and the St. Lawrence Seaway System into the 21st century.

Mission Statement

Serve the United States' intermodal, international, transportation system by improving the operation and maintenance of a safe, reliable, and environmentally responsible deep draft waterway, in cooperation with Canadian counterparts.

Strategic Goals

SAFETY: Promote navigation and workplace safety and environmental protection by reducing vessel incidents, employee injuries and environmental emergencies.

Outcome Goals:

- **Increase the application of technologies and programs to ensure navigation safety and protection of the river environment.**
- **Reduce the risk of commercial vessel incidents.**
- **Improve compliance with navigation and workplace safety and environmental standards.**

How we will achieve this strategic goal: Insist on excellence in occupational safety by providing the education, equipment and commitment needed to make the Seaway an accident-free employer.

Effectively utilize emerging technologies, such as Global Positioning Systems (GPS) and related systems, to enhance system efficiency and safety.

Maintain the enhanced vessel inspection program at Montreal to inspect every ocean vessel on the first transit inbound each navigation season, in coordination with SLSDC's Canadian counterpart and the Canadian and U.S. Coast Guards. The program includes Seaway regulations and fittings, legislated port-state inspection, and the International Safety Management Code (ISM).

Promote System safety through traffic control procedures; rules and regulations for Seaway transit; vessel speed surveillance; deployment of fixed and floating navigation aids; operation of weather and visibility meters; vessel inspections, routine and for cause; water level and rate of flow monitoring; and vessel customer exit survey recommendations.

Maintain and improve our capability to react to a hazardous materials spill by conducting simulated Emergency Response Exercises, and updating our spill response plan and equipment accordingly.

Continuously improve teamwork of regional government agencies to respond to an incident through training, simulations and actual incident critiques.

Candidate Performance Measures: Calendar year data sourced from SLSDC offices of Lock Operations, Engineering, and Maintenance and Marine Services. Annual historical data for baseline measurement is included in annual performance agreements, performance plans, and budget justifications. Selected historical data is shown below.

- Increase utilization of available technologies to advance system safety.

- Reduce the number of commercial vessel incidents in excess of $50,000 in damages each navigation season. Five-year rolling average, vessel incidents:

CY 1989 – 1993	1.2
1990 – 1994	0.4
1991 – 1995	0.4
1992 – 1996	0.2
1993 – 1997	0.0
1994 – 1998	0.0

- Increase the percentage of ocean vessel first-transit-inbound inspections at Montreal, outside of U.S. waters, each navigation season:

CY 1996	38 %
1997	100 %
1998	100 %

- Increase Emergency Response Plan training and simulated activations.

CY 1989 - Four training sessions for SLSDC employees, U.S. and Canadian, federal, state/province and local organizations.

CY 1990 - Five training sessions for SLSDC employees, U.S. and Canadian, federal, state/province and local organizations.

CY - 1991 - Terrorist vessel capture/oil spill exercise, Waddington, NY; plus separate training sessions for all participants.

CY - 1992 - Tour boat grounding exercise, Louisville, NY; plus separate training sessions for all participants.

CY - 1993 - Chemical spill/injury exercise, Alexandria Bay, NY; plus separate training sessions for all participants.

CY - 1994 - Tabletop exercise, Thousand Islands Bridge, NY; plus separate training sessions for all participants.

CY - 1995 - Chemical spill exercise, Hogansburg, NY.

CY - 1996 - Participation in “CANUSLAK” exercise, Cornwall, Ontario.

CY - 1997 - Chemical spill exercise, Alexandria Bay, NY.

CY -1998 - Chemical tanker grounding exercise, Massena, NY.

LONG AND SHORT-TERM RELIABILITY: Maintain user confidence in the continued viability of the Seaway System by ensuring that plans and decisions sustain the long term reliability and availability of U. S. navigation facilities.

Outcome Goals:

- **Increase the availability and reliability of navigation facilities each shipping season.**
- **Reduce the risk of vessel delays due to lock equipment failure.**
- **Improve maintenance and inspection systems to ensure an accessible, safe, and efficient System for users.**

How we will achieve this strategic goal: Ensure the structural integrity and mechanical reliability of our locks through a comprehensive program of maintenance, inspection and modernization**.**

Strictly maintain weekly/monthly inspections for electrical systems and lock machinery and conduct major maintenance and rehabilitation programs during the winter shutdown period.

Continuously evaluate and improve our operating procedures, regulations and policies to better serve our customers. Actively seek customer feedback.

Supplement SLSDC preventive maintenance measures in coordination with periodic, comprehensive surveys and evaluations by independent engineering consultants such as the Corps of Engineers.

Maintain five-year "rolling" capital improvement plan for machinery, lock and hydraulic steel structure replacement/rehabilitation programs.

Periodic channel maintenance and improvements, including sweeping and maintenance dredging.

System operating date negotiations with Canadian counterparts; and related safety goal activities critical to availability: maintenance and repair of fixed and floating navigation aids; weather and visibility meters; Emergency Response Plan and periodic simulations; water level and rate of flow monitoring.

Candidate Performance Measures: Calendar year data sourced from SLSDC offices of Lock Operations, Engineering, and Maintenance and Marine Services. Annual historical data for baseline measurement is included in annual performance agreements, performance plans, and budget justifications. Selected historical data is shown below.

- Increase the percentage ratio of Seaway System navigation days open, versus downtime in the U.S. sectors of the Seaway, for any incident, cause, problem, or occurrence, including weather. Five-year rolling average of navigation day availability:

CY 1987 – 1991	97.4%
1988 – 1992	97.0
1989 – 1993	96.4
1990 – 1994	96.2
1991 – 1995	96.4
1992 – 1996	96.4
1993 – 1997	96.6
1994 – 1998	97.4

- Reduce delays to navigation, per total commercial vessel transit, due to lock equipment maintenance failure. Five-year rolling average of per-transit delay hours:

CY 1987 – 1991	0.001361 hours
1988 – 1992	0.001963 hours
1989 – 1993	0.00286 hours
1990 – 1994	0.007329 hours
1991 – 1995	0.007977 hours
1992 – 1996	0.008346 hours
1993 – 1997	0.00749 hours
1994 – 1998	0.006483 hours

- Increase the effectiveness and extent of periodic evaluations and inspections by SLSDC personnel. Obtain outside views and expertise by arranging for periodic inspections by the Corps of Engineers or other consultants.

TRADE DEVELOPMENT: <u>Encourage increased System utilization that benefits the Midwest and national economies and promotes cost effective competition for all System users.</u>

Outcome Goals:

- **Increase the volume of United States international tonnage through the Seaway System, to and from U.S. ports.**

- **Increase ocean vessel fleet System utilization in terms of laden vessel transits and tonnage per transit.**

- **Increase domestic and international trade development programs to improve the Seaway's competitive position in serving the nation.**

How we will achieve this strategic goal: Serve as a catalyst to unite the Great Lakes/Seaway community to improve communications and cooperation on system-wide initiatives directed toward improving customer service.

Target overseas trade development programs to high potential markets and regions. Focus trade activities on specific commodity groups and vessel services including refitting existing ships and construction of new vessels for Seaway operation.

Advocate policies to reduce System operating costs to the industry, such as rebates, new business incentives, and targeted cargo discounts. Support negotiations with our Canadian counterparts to freeze, reduce or eliminate all Seaway tolls.

Work with carriers, ports, pilots, agents, cargo handlers, and other interests in the Great Lakes/Seaway community to contain costs and participate in trade development programs.

Develop operating initiatives to improve current capacity and future utilization of the system, such as vessel draft, beam, and length modifications.

Expand our capability to analyze and disseminate traffic information and publications and develop trade leads. Continue successful information outreach programs like Seaway Nightcast.

Candidate Performance Measures: Calendar year data sourced from SLSDC monthly and annual navigation statistics, and Lock Operations data on vessel pre-clearance, and vessel owner/agent records. Annual historical data for baseline measurement are included in annual performance agreements, performance plans, and budget justifications. Selected historical data is shown below.

- Increase tonnage volume for total System tonnage, and United States international tonnage through the Seaway System, to and from U.S. ports. Five-year rolling average, international tonnage (in metric tons):

CY 1986 – 1990	10.2 million tons
1987 – 1991	09.5 million tons
1988 – 1992	09.1 million tons
1989 – 1993	08.8 million tons
1990 – 1994	08.8 million tons
1991 – 1995	09.5 million tons
1992 – 1996	10.4 million tons
1993 – 1997	10.6 million tons
1994 – 1998	11.0 million tons

- Increase ocean vessel transits, laden versus ballast transits, and tonnage per laden transit. Five-year rolling average ocean transit data:

	Ocean Transits	**Percent Laden**	**Average Tons Per Transit**
CY 1986 – 1990	1,075	83%	13,015
1987 – 1991	1,074	82%	13,170
1988 – 1992	994	81%	13,227
1989 – 1993	928	82%	13,495
1990 – 1994	958	82%	13,689
1991 – 1995	959	83%	13,827
1992 – 1996	999	84%	14,138
1993 – 1997	1,049	85%	14,349
1994 – 1998	1,161	85%	14,380

MANAGEMENT ACCOUNTABILITY, INCLUDING CUSTOMER SERVICE, FISCAL PERFORMANCE AND COST EFFECTIVENESS: Improve Seaway customer service; increase employee proficiency, and be accountable for sound long-term financial management.

Outcome Goals:

- **Increase customer/stakeholder satisfaction with SLSDC services.**

- **Increase workforce performance measurements to improve morale, and to achieve progress toward meeting all SLSDC performance goals.**

- **Increase management planning focus on meeting long-term critical capital outlay programs, operations and maintenance needs, and replenishment of emergency reserves.**

How we will achieve this strategic goal:

Conduct outreach with all customers, employees, industry, federal and state agencies to involve the customer in the development of policies, programs and operating decisions.

SLSDC will pursue ISO 9002 certification for all organizational functions.

Supplement outreach activities with customer surveys to obtain direct feedback concerning operations and regulations in practice and recommendations for program modifications.

Foster an employee “customer” environment to strengthen and develop the organization internally, reach out to the employee local community and participate in local/ national education initiatives.

Continue support for administration initiatives and worklife policies, empower employees in the decision process, utilize partnerships, encourage teambuilding and worklife policies.

Establish binational partnerships with Canadian counterparts to drive service improvements and share resources.

Conduct and participate in maritime industry oriented public meetings with a broad array of U.S., Canadian and overseas interests representing all segments of the Great Lakes/ St. Lawrence Seaway System.

Ensure that commitments are maintained to monitor costs, to build emergency reserves, and to conduct periodic risk assessments. Corporation assets will be safeguarded and transactions performed in accordance with accepted accounting principles.

Candidate Performance Measures: Calendar and Fiscal year data sourced from SLSDC annual financial audits and management reports. Annual historical data for baseline measurement is included in annual performance agreements, performance plans, and budget justifications. Selected historical data is shown below.

- Improve the customer survey ratings of SLSDC performance and service quality, measured over time against baseline survey results. Baseline: CY 1995 customer service rating of 4.5 on a scale of 1 to 5.

- Employee cultural audits measured over time against baseline audits.

- Reduce the ratio of administrative overhead expenses versus operating expenses, excluding depreciation. Five-year rolling average, Administrative expenses as a percent of operating expenses:

FY 1991 – 1995	25.6 %
1992 – 1996	26.16
1993 – 1997	26.26
1994 – 1998	26.34

- Ensure that a “clean” annual financial audit rating is maintained. Baseline: under the auspices of the Government Corporation Control Act, SLSDC has had a “clean” audit since the first Fiscal Year audit of June 30, 1955.

- Increase the emergency reserve account year-end balances to achieve the SLSDC financial plan goal. Five-year rolling average reserve account balances:

FY 1988 – 1992	$11.38
1989 – 1993	11.74
1990 – 1994	11.80
1991 – 1995	11.96
1992 – 1996	11.89
1993 – 1997	11.42
1994 – 1998	11.04

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, 1998 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 contraints, 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's 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, 1998, 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 1998 and prior years.

Dembo, Jones, Healy, Pennington & Ahalt, P.C.
Certified Public Accountants and Consultants

Report of Independent Auditors
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, 1998, and the related statements of operations and changes in cumulative results of operations, cash flows, budgetary resources and actual expenses and changes in equity of the U.S. Government for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Saint Lawrence Seaway Development Corporation as of September 30, 1997, were audited by other auditors whose report dated January 30, 1998, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audit contained in *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 audit provides 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, 1998, and the results of its operations and its cash flows for the year then ended in conformity with the basis of accounting described in Note 2.

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.

Dembo, Jones, Healy, Pennington + Ahalt, P.C.

December 11, 1998

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Dembo, Jones, Healy, Pennington & Ahalt, P.C.
Certified Public Accountants and Consultants

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Administrator of the
Saint Lawrence Seaway Development Corporation

We have audited the financial statements of Saint Lawrence Seaway Development Corporation (the Corporation) as of and for the year ended September 30, 1998, and have issued our report thereon dated December 11, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Saint Lawrence Seaway Development Corporation's financial statements are free of material misstatement, we performed tests of its 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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Saint Lawrence Seaway Development Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. With respect to the internal control over financial reporting, 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting and its operation that we consider to be material weaknesses.

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This report is intended for the information of the management of Saint Lawrence Seaway Development Corporation. However, this report is a matter of public record and its distribution is not limited.

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

December 11, 1998

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1998 AND 1997

	1998	1997
ASSETS		
CURRENT ASSETS:		
Cash:		
Held by U.S. Treasury	$ 909,703	$ 909,610
Held in banks and on hand	118,523	21,579
Short-term time deposits in minority banks (Note 3)	10,672,000	9,289,000
Accounts receivable (Note 4)	210,740	149,894
Inventories (Note 2)	272,989	274,748
Other current assets	5,200	-
Total current assets	12,189,155	10,644,831
LONG-TERM INVESTMENTS:		
Long-term time deposits in minority banks (Note 3)	1,412,000	3,237,000
Total long-term investments	1,412,000	3,237,000
PLANT, PROPERTY AND EQUIPMENT:		
Plant in service (Note 5)	152,879,500	153,131,407
Less: Accumulated depreciation	(68,047,052)	(66,151,990)
Net plant in service	84,832,448	86,979,417
Work in progress	1,627,189	453,871
Total plant, property and equipment	86,459,637	87,433,288
OTHER ASSETS:		
Lock spare parts (Note 2)	718,919	700,989
Less: Accumulated depreciation	(155,709)	(137,339)
Net lock spare parts	563,210	563,650
Investment in Seaway International Bridge Corporation, Ltd. (Note 6)	7,440	7,440
Total other assets	570,650	571,090
DEFERRED CHARGES:		
Workman's compensation benefits (Note 2)	1,688,092	1,777,648
Total deferred charges	1,688,092	1,777,648
TOTAL ASSETS	$ 102,319,534	$ 103,663,857

The accompanying notes are an integral part of these statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1998 AND 1997

	1998	1997
LIABILITIES AND EQUITY OF THE U.S. GOVERNMENT		
CURRENT LIABILITIES:		
Accounts payable	$ 746,332	$ 807,019
Accrued annual leave (Note 2)	712,994	705,833
Accrued payroll costs	421,173	396,643
Deferred revenue	32,000	-
Total current liabilities	1,912,499	1,909,495
ACTUARIAL LIABILITIES:		
Workman's compensation benefits (Note 2)	1,688,092	1,777,648
Total actuarial liabilities	1,688,092	1,777,648
Total liabilities	3,600,591	3,687,143
EQUITY OF THE U.S. GOVERNMENT:		
Invested capital	101,282,690	102,227,792
Cumulative results of operations (deficit)	(2,563,747)	(2,251,078)
Total equity of the U.S. Government	98,718,943	99,976,714
TOTAL LIABILITIES AND EQUITY OF THE U.S. GOVERNMENT	$ 102,319,534	$ 103,663,857

The accompanying notes are an integral part of these statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF OPERATIONS AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	1998	1997
OPERATING REVENUES:		
Appropriations expended	$ 9,775,334	$ 8,735,546
Imputed financing (Note 9)	619,891	678,672
Other (Note 7)	547,976	558,182
Total operating revenues	10,943,201	9,972,400
OPERATING EXPENSES (NOTE 8):		
Locks and marine operations	2,295,305	2,118,862
Maintenance and engineering	3,574,300	3,151,608
General and development	2,561,720	2,573,827
Administrative expenses	2,901,540	2,857,341
Depreciation	2,362,768	2,412,285
Imputed expenses (Note 9)	619,891	678,672
Total operating expenses	14,315,524	13,792,595
Operating loss	(3,372,323)	(3,820,195)
OTHER FINANCING SOURCES:		
Interest on deposits in minority banks	696,886	671,109
Transfer from invested capital for depreciation	2,362,768	2,412,285
Total other financing sources	3,059,654	3,083,394
OPERATING REVENUES AND OTHER FINANCING SOURCES UNDER OPERATING EXPENSES	(312,669)	(736,801)
Beginning cumulative results of operations (deficit)	(2,251,078)	(1,514,277)
ENDING CUMULATIVE RESULTS OF OPERATIONS (deficit)	$ (2,563,747)	$ (2,251,078)

The accompanying notes are an integral part of these statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating revenues and other financing sources under operating expenses	$ (312,669)	$ (736,801)
Adjustments to reconcile operating revenues and other financing sources under operating expenses to net cash provided by (used in) operating activities:		
Depreciation	2,362,768	2,412,285
Transfer from invested capital for depreciation	(2,362,768)	(2,412,285)
Net gain on property disposals	(45,091)	(25,130)
Change in assets and liabilities:		
Increase in accounts receivable	(60,846)	(18,749)
Decrease in inventories	1,759	4,787
Increase in other current assets	(5,200)	-
(Increase) decrease in other assets	(17,930)	76,287
(Decrease) increase in accounts payable	(60,687)	115,529
Increase in accrued liabilities	31,691	38,540
Increase in deferred revenue	32,000	-
Net cash used in operating activities	(436,973)	(545,537)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from property disposals	92,010	32,125
Acquisition of plant, property and equipment	(1,417,666)	(1,586,750)
Net decrease (increase) in time deposits	442,000	(148,000)
Net cash used in investing activities	(883,656)	(1,702,625)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations for plant, property and equipment	1,417,666	1,586,750
NET INCREASE (DECREASE) IN CASH	97,037	(661,412)
Cash at beginning of period	931,189	1,592,601
CASH AT END OF PERIOD	$ 1,028,226	$ 931,189

The accompanying notes are an integral part of these statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENT OF BUDGETARY RESOURCES AND ACTUAL EXPENSES (NOTE 12)
FOR THE YEAR ENDED SEPTEMBER 30, 1998

	BUDGET		
	Resources	**Obligations**	**Expenses**
Saint Lawrence Seaway Development Corporation Fund	**$ 26,039,206**	**$ 12,815,943**	**$ 14,315,524**
Budget Reconciliation:			
Total expenses			14,315,524
Adjustments			
Add:			
Capital acquisitions			1,417,666
Deduct:			
Depreciation			(2,362,768)
Imputed expenses			(619,891)
Decrease in net plant in service, property disposals			(46,919)
Decrease in inventories			(1,759)
Decrease in other assets			17,930
Less reimbursements:			
Trust funds			(11,193,000)
Revenues from non-federal sources			(1,244,862)
Accrued expenditures			$ 281,921

The accompanying notes are an integral part of this statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF CHANGES IN EQUITY OF THE U.S. GOVERNMENT
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	Invested Capital	Unexpended Appropriations	Cumulative Results of Operations
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)
Appropriations expended		(9,775,334)	9,775,334
Fiscal Year 1998 appropriations		11,193,000	
Other financing sources			1,864,753
Operating expenses, excluding depreciation and imputed expenses			(11,332,865)
Depreciation expense			(2,362,768)
Imputed expenses			(619,891)
Transfer from invested capital for depreciation	(2,362,768)		2,362,768
Capital expenditures	1,417,666	(1,417,666)	-
Balance, September 30, 1998	$ 101,282,690	$ -	$ (2,563,747)

The accompanying notes are an integral part of these statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. The Corporation

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

2. Summary of Significant Accounting Policies

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 biennially.

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. 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 $247,809 at September 30, 1998. 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 $471,110 at September 30, 1998, 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 $13,413,000 for fiscal year (FY) 1998, $11,193,000 from the Fund (Public Law 105-66), $1,320,000 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 $12,815,943 for FY 1998. The Corporation's unobligated balance at September 30, 1998 totaled $13.2 million including $3.2 million unused borrowing authority. For FY 1999, Congress appropriated $11,476,000 (Public Law 105-277) for operations and maintenance expenses from the Fund. In addition, authority to obligate $889,000 of non-federal revenues has been apportioned by OMB for FY 1999.

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 on uncollectible receivables because prior losses have been insignificant. Receivables as of September 30, 1998 and 1997 are as follows:

	1998	1997
Due from concession contracts	$ 31,921	$ 56,961
Interest on deposits in minority banks	47,568	44,092
Reimbursable work	14,558	11,358
Other	116,693	37,483
Total	$210,740	$149,894

5. Plant in Service

Plant in service as of September 30, 1998 and 1997 is as follows:

		1998		1997	
Plant in Service	Estimated Life (Years)	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Lands in fee	N/A	$ 867,526	N/A	$ 867,526	N/A
Land rights & relocations	95	5,639,064	2,057,436	5,639,064	1,998,226
Locks & guidewalls	40-100	73,793,693	32,716,409	73,793,693	31,766,741
Roads & bridges	50	9,060,530	6,841,342	9,060,530	6,660,131
Channels & canals	95	36,870,221	13,294,662	36,870,221	12,907,525
Public use facilities	50	892,157	501,156	892,157	483,313
Navigation aids	10-40	2,939,691	1,951,530	2,939,691	1,874,922
Buildings, grounds & utilities	50	11,286,297	3,896,522	11,194,621	3,672,370
Permanent operating equipment	5-40	11,530,321	6,787,995	11,873,904	6,788,762
Total plant in service		$152,879,500	$68,047,052	$153,131,407	$66,151,990

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, 50% of SIBC, a subsidiary of The St. Lawrence Seaway Authority of Canada (SLSA). Ownership consists of debenture bonds payable to the Corporation with face values totaling $8,000. The net annual income from the SIBC, after all operating expenses, is divided equally between both parties. The Corporation's portion, if any, is retained in escrow by SIBC to fund structural repair costs to the South Channel Bridge as provided in the Corporation's Enabling Act. 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, 1998 and 1997 consist of the following:

	1998	1997
Concession operations	271,203	350,719
Shippers payments for damages to locks	31,016	14,407
Rental of administration building	48,336	44,102
Vessel towing services	93,634	58,370
Pleasure craft/non-commercial tolls	35,190	37,553
Miscellaneous (net)	68,597	53,031
Total	$547,976	$558,182

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, 1998 and 1997 are as follows:

	1998	1997
Personal services and benefits	$8,883,358	$ 9,000,025
Travel and transportation	217,754	156,404
Rental, communications and utilities	429,178	211,316
Printing and reproduction	29,429	22,204
Contractual services	1,131,533	620,788
Supplies and materials	591,827	637,335
Equipment not capitalized	49,122	46,723
Loss on property disposals	651	1,632
Uncollectible accounts	13	5,211
Subtotal	$11,332,865	$10,701,638
Depreciation expense	2,362,768	2,412,285
Imputed expenses	619,891	678,672
Total operating expenses	$14,315,524	$13,792,595

9. Retirement Plans

Retirement Plans consist of the Civil Service Retirement System (CSRS) 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, 1998 and 1997 are as follows:

	1998	1997
Civil Service Retirement System	$ 283,683	$ 236,773
Federal Employees Retirement System:		
Automatic contributions	393,731	426,783
Matching contributions	117,094	121,425
Social Security	234,821	236,579
Total	$1,029,329	$1,021,560

10. Contingencies and Commitments

The claim from a former employee that was pending on September 30, 1997 was settled in fiscal year 1998 with the Corporation prevailing, however an appeal is pending. As of September 30, 1998, a claim from a contractor was pending before the U.S. Department of Transportation Board of Contract Appeals against the Corporation. No provision for liability has been recorded, as Council is of the opinion that the outcome would be immaterial to the Corporation's financial position. In addition to the current liabilities at September 30, 1998 and 1997 there were undelivered orders and contracts amounting to $1,392,404 and $1,412,898, 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, New York. For the years ended September 30, 1998 and 1997, revenue totaled $45,662 and $41,486, respectively.

In fiscal year 1998, the Department of Transportation's (DOT) rent budget was decentralized, making each mode responsible for direct rental payments to the General Services Administration. Prior to this fiscal year, DOT was responsible for rental payments for all headquarter space. The Corporation made rental payments for our Washington, D.C. office totaling $197,469 for fiscal year 1998.

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 1998 and FY 1997 were as follows:

	1998	1997
U.S. Army Corps of Engineers	$102,600	$ 0
Department of Commerce	35,000	45,000
Surface Transportation Board	20,000	10,000
Office of the Secretary of Transportation	4,210	2,870
United States Coast Guard	851	769
Volpe National Transportation System Center	0	50,000
Total	$162,661	$108,639

Accounts payable at September 30, 1998 and 1997 include $500,458 and $504,703 respectively, of amounts payable to the U.S. Government.

In fiscal years 1998 and 1997, the Corporation accrued costs of $53,157 and $46,784, 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 $26,039,206 consist of the Corporation's unobligated balance of $13,484,690 brought forward from October 1, 1997, and reimbursements earned of $12,437,862 and recoveries of prior year's obligations of $116,654 during FY 1998.

Saint Lawrence Seaway Development Corporation

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