U.S. Department
of Transportation

THE ADMINISTRATOR

Saint Lawrence
Seaway Development
Corporation

November 8, 2007

President George W. Bush
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President:

I am pleased to submit the annual financial audit and management report of the Saint Lawrence Seaway Development Corporation for the fiscal year ending September 30, 2007. The unqualified audit received is the SLSDC's 44th consecutive clean audit, dating back to June 30, 1955. In accordance with OMB Circular A-136, this report is also being transmitted to various federal departments and agencies as well as applicable congressional leaders, committees, and subcommittees. In addition, the audit report is available electronically on the SLSDC's Internet site – www.seaway.dot.gov.

This report is in two sections. The first section was prepared by the Corporation to provide information on the organization, mission, and performance measures. The second section consists of fiscal year 2007 audited financial statements with associated notes and the reports of Dembo, Jones, Healy, Pennington & Marshall, P.C., of Rockville, Md., on those statements and supplementary management information. This report is submitted in accordance with the Chief Financial Officers Act of 1990 and the Comptroller General's Government Auditing Standards.

Sincerely,

Collister Johnson, Jr.
Administrator

Enclosure

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SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

ANNUAL REPORT

September 30, 2007

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Table of Contents

Memorandum

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Subject: INFORMATION: Quality Control Review of Audited Financial Statements for FY 2007 and FY 2006, Saint Lawrence Seaway Development Corporation QC-2008-007

Date: November 9, 2007

From: Rebecca C. Leng
Assistant Inspector General for Financial and Information Technology Audits

Reply to Attn of: JA-20

To: Saint Lawrence Seaway Development Corporation Administrator

The audit of the Saint Lawrence Seaway Development Corporation's Financial Statements as of and for the years ended September 30, 2007, and September 30, 2006, was completed by Dembo, Jones, Healy, Pennington & Marshall, P.C., of Rockville, Maryland (see Attachment). We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act; Government Corporation Control Act; Generally Accepted Government Auditing Standards; and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements."

Dembo, Jones, Healy, Pennington & Marshall, P.C., concluded that the financial statements presented fairly, in all material respects, the financial position of the Saint Lawrence Seaway Development Corporation as of September 30, 2007, and September 30, 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. The report did not include any internal control weaknesses or material noncompliance with accounting principles, laws, or regulations.

In our opinion, the audit work complied with applicable standards. Therefore, we are not making any recommendations, and a response to this report is not required. We appreciate the cooperation and assistance of representatives of the Saint Lawrence Seaway Development Corporation and Dembo, Jones, Healy, Pennington & Marshall, P.C. If we can answer any questions or be of any further assistance, please call me at (202) 366-1496 or Earl Hedges, Program Director, at (410) 962-1729.

Management Discussion and Analysis

Overview

Authority – The U.S. Saint Lawrence Seaway Development Corporation (SLSDC), a wholly owned government corporation and an operating administration of the U.S. Department of Transportation, is responsible for the operations and maintenance of the U.S. portion of the St. Lawrence Seaway between Montreal and Lake Erie. This responsibility includes maintaining and operating the two U.S. Seaway locks located in Massena, N.Y., and vessel traffic control in areas of the St. Lawrence River and Lake Ontario. In addition, the SLSDC performs trade development functions designed to enhance Great Lakes St. Lawrence Seaway System utilization. The Great Lakes Seaway System annually sustains more than 150,000 U.S. jobs, $4.3 billion in personal income, $3.4 billion in transportation-related business revenue, and $1.3 billion in federal, state, and local taxes.

The St. Lawrence Seaway is an international waterway, and the SLSDC interacts directly with numerous Canadian government and private entities as it carries out its mission. The SLSDC coordinates its activities with its Canadian counterpart, The St. Lawrence Seaway Management Corporation (SLSMC), particularly with respect to rules and regulations, overall day-to-day operations, traffic management, navigation aids, safety, environmental programs, operating dates, and trade development programs. The unique binational nature of the Seaway System requires 24-hour, year-round coordination between the two Seaway Corporations.

The SLSDC's policy headquarters is located in Washington, D.C. The operational staff and facilities are located in Massena, N.Y., including the two U.S. Seaway locks (Eisenhower and Snell).

Mission Statement – The Saint Lawrence Seaway Development Corporation operates and maintains the U.S. infrastructure and waters of the St. Lawrence Seaway, while performing trade development activities focused on economic development for the Great Lakes St. Lawrence Seaway System. Our mission is to serve the marine transportation industries by providing a safe, secure, reliable, efficient, and competitive deep draft international waterway, in cooperation with the Canadian St. Lawrence Seaway Management Corporation.

Vision Statement – The Saint Lawrence Seaway Development Corporation will be a model federal agency, leading the Great Lakes Seaway System as the safest and most efficient, competitive, technologically advanced, and environmentally responsible marine transportation system in the world.

Core Organizational Values – Accountability, Competitiveness, Customer focus, Dedication, Diversity, Excellence, Integrity, Operational Efficiency, Relevance, Service, and Quality.

Financial Highlights for FY 2007

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 (now known as the SLSMC), with the U.S. share remitted to the Corporation. The Water Resources Development Act 1986, P.L. 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. However, the SLSDC still recognizes the requirement under the 1959 Tariff of Tolls agreement between Canada and the U.S. to negotiate Seaway toll levels with the SLSMC.

Selected Financial Indicators
(in thousands of dollars)

			Change	
For the years ended September 30	**2007**	**2006**	**$**	**%**
Operating revenues	16,130	15,098	1,031	7
Appropriations expended	15,231	14,424	807	6
Other	899	674	224	33
Operating expenses	16,086	15,945	141	1
Personal services and benefits	12,246	11,894	351	3
Other	3,840	4,051	(210)	(5)
Imputed financing/expenses	962	932	30	3
Total assets	95,439	96,375	(935)	(1)
Time deposits in minority banks	10,962	10,764	198	2
Short-term	9,982	10,372	(390)	(4)
Long-term	980	392	588	150
Interest income (minority banks)	533	434	99	23

Note: Rounding may affect the addition of rows and columns in the table.

Operating Revenues

Operating revenues, excluding imputed financing, totaled $16,130K in FY 2007, a 7 percent increase. Appropriations expended, representing the amount of the Harbor Maintenance Trust Fund expended for operating purposes, increased $807K and other revenues increased $224K.

Operating Expenses

Overall operating expenses of $16,086K, excluding depreciation and imputed expenses, increased 1 percent. Personal services and benefits increased 3 percent, and other costs decreased by 5 percent. Personal services and benefits represented 76 percent of the Corporation's operating expenses in FY 2007. The Corporation employed 143 people on September 30, 2007, including three temporary employees. Other costs of $3,840K included $2,207K for other contractual services; $720K for supplies and materials; $597K for rent, communications, and utilities; $150K for travel and transportation of persons and things; $125K for equipment; and $41K for printing and reproduction. Specific operating expenditures included $1,121K for concrete rehabilitation, $783K for building maintenance, $746K for special operating projects, $656K for lock inspection and maintenance, $378K for navigational aids maintenance, $376K for equipment, vehicle, and vessel maintenance, $365K for general operating expenses, $197K for closing and opening the lock for winter repairs, and $189K for groundskeeping.

Imputed Financing/Expenses

Effective in 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.

Total Assets

The Corporation's financial position continues to remain sound with total assets of $95 million. Plant, property, and equipment are valued at $75 million.

Time Deposits in Minority Banks and Interest Income

A key asset of the Corporation is time deposits in minority banks, totaling $10,962K at year-end. A decrease in short-term deposits of $390K offset by an increase in long-term deposits of $588K result in a net increase of $198K. Interest on deposits in minority banks increased by 23 percent due to higher interest rates. The interest income is an important financing source for the Corporation.

Unobligated Balance

The Corporation had an unobligated balance on September 30, 2007 of $14.2 million, comprised of $3.2 million of unused borrowing authority and the $11 million financial reserve. The reserve is maintained to finance emergency or extraordinary expenditures to ensure safe and uninterrupted use of the Seaway, a policy affirmed by the 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 $992K in FY 2007 and $1,697K in FY 2006.

The primary expenditures in FY 2007 were $177K for the telecommunications upgrade, $125K for security-related electrical and electronic upgrades, and $97K for fendering improvements at the downstream miter gate at Snell Lock.

<u>Telecommunications Upgrade</u> – Working with a contractor, the Office of Engineering and Maintenance personnel completed upgrading the Corporation's telephone systems such that they now operate over the fiber optic network. These upgrades resulted in savings to the Corporation while increasing the capabilities and features of the telephone systems.

<u>Security-related Electrical and Electronic Upgrades</u> – The Office of Engineering and Maintenance personnel completed construction of concrete bases for camera towers and control enclosures, installed electrical wiring and fiber optic cable, and commenced with installation of CCTV cameras and vehicle gate control equipment.

<u>Fendering Improvements at the Downstream Miter Gate at Snell Lock</u> – New fenders and mounting hardware were purchased for installation by the Maintenance Division personnel during the winter season of 2007-08.

The primary expenditures in FY 2006 were $640K for the vertical lift gate operating machinery and control upgrades, $162K for lock recess access structure improvements, and $150K for security-related electrical and electronic upgrades.

<u>Vertical Lift Gate Operating Machinery and Control Upgrades</u> – The Corporation contracted with Fluid Power Service Corporation to upgrade the original operating equipment and control for the emergency vertical lift gate at Eisenhower Lock. This work included installing new hydraulic power units to provide pumps such that if one pump didn't start, a second pump would automatically start to raise the gate. Also, the control was improved such that the skew of the gate is constantly corrected and not allowed to get out by 1-1/2 inches prior to being corrected as it was with the original controls.

<u>Lock Recess Access Structure Improvements</u> – B-S Industrial Contractors removed the existing corroded steel stairways utilized to access the downstream crossunder gallery at Snell Lock with corrosion-resistant fiber reinforced polymer stairways. This project also incorporated provisions for retrieving injured personnel from the crossunder gallery and included blast cleaning and painting the structures and equipment in the north side No. 2 Wire Rope Fender braking cylinder recess at Snell.

Security-related Electrical and Electronic Upgrades – Materials were procured and Office of Engineering and Maintenance personnel began installation of the infrastructure for making the new vehicle gates at Corporation facilities operational and for future installation of CCTV and electronic access control equipment.

Anticipated FY 2008 Accomplishments:

Capital Plan – Major capital projects totaling $740K include: $250K to replace a 20-ton capacity hydraulic crane utilized for lock and facility maintenance activities that include handling both materials and personnel; $100K to repair paved areas along the approach walls at the locks that are used by SLSDC personnel and vessel crew members for tying up vessels during transits; and $95K for AIS / Traffic Management System (TMS) improvements.

Concrete Rehabilitation – In January 2006, the Corporation began the first year of work on a four-year, $6 million concrete replacement project at the two U.S. Seaway locks. The $1.5 million requested for concrete replacement in FY 2008 is included in the agency's non-capital maintenance base level funding and will fund work to be completed in January-March 2009, following the completion of the 2008 navigation season. The SLSDC is using contractors for the concrete project with SLSDC personnel providing lock covering work and stairway construction. The replacement of deteriorated concrete has historically been one of the Corporation's most expensive maintenance projects dating back to the Seaway's opening in 1959. The majority of the concrete replacement has occurred at the U.S. Eisenhower Lock, which has a history of concrete-related problems. Between 1959 and 2004, the Corporation expended more than $25 million on concrete replacement at the two locks during the off-season winter months.

Dredging – The Corporation plans to spot dredge approximately 750 cubic yards of river bottom material from high spots in the navigation channel in U.S. waters east of Snell Lock near Massena, N.Y. for an estimated $570K. These high spots could impact the drafts of vessels transiting the Seaway during periods of low water. The Corporation has been working with the U.S. Army Corps of Engineers and the N.Y. State Department of Environmental Conservation (NYSDEC) to secure permits to complete this work. The required sampling and testing of the river bottom materials to be dredged has been completed. Testing revealed contaminants in the material to be dredged; therefore, this material will be hauled off-site and disposed of at a landfill in accordance with Environmental Protection Agency (EPA) and NYSDEC regulations.

Significant Future Costs

As the St. Lawrence Seaway celebrates its 50th anniversary in 2009, the SLSDC and U.S. Department of Transportation are working to develop a long-term infrastructure asset renewal plan for the U.S. portion of the St. Lawrence Seaway. The Seaway is comprised of perpetual assets (locks, channels, an international bridge, highway tunnel, vessel traffic control system, and accompanying facilities, and equipment), which require periodic capital reinvestment in order to continue to operate safely, reliably, and efficiently. Yet, the U.S. Seaway infrastructure is approaching the end of its original "design" life, and without sufficient investment in these perpetual assets, it will become increasingly difficult to maintain the future availability and reliability of the Seaway.

Operational and Environmental Initiatives

SLSDC Continues to Meet Performance Levels for Foreign Vessel Inspections and Ballast Water Exams

The SLSDC continues to perform its Enhanced Seaway Inspection (ESI) program, inspecting all ocean vessels on their initial transit into the Seaway System for safety and environmental protection issues in Montreal, Quebec, before they enter U.S. waters. The SLSDC and the U.S. Coast Guard (USCG), in conjunction with Transport Canada and the Canadian St. Lawrence Seaway Management Corporation (SLSMC), signed a Memorandum of Understanding in March 1997 to develop the program of coordinated vessel inspection and enforcement activities to expedite the safe transit of shipping through the Great Lakes St. Lawrence Seaway System.

ESI inspections are jointly performed by SLSDC and SLSMC marine inspectors and cover both Seaway-specific fittings as well as port state control items identified by the USCG as critical for the vessel to transit to a U.S. Great Lakes port of call. In the event major deficiencies are identified, Transport Canada is notified and the vessel is detained in Montreal until the deficiencies are cleared.

The proactive approach of the inspection program has been exceptionally successful in reducing the number and frequency of incidents both on the River and in and around the lock facilities. In addition, the inspection program has eliminated the practice of duplicative inspections, which allows for a more seamless and efficient transit of the Seaway and provides an excellent location for repair resources, if required.

The SLSDC's goal for performing inspections of all foreign-flag vessels on their initial Seaway transit each year was achieved during the 2006 navigation season, with 252 inspections conducted by SLSDC personnel. In 2007, through September 30, 188 vessel inspections had been completed.

The ballast water exchange program continues to be an important function of the ship inspection program. These inspections are carried out by a joint USCG and Transport Canada (TC) team in Montreal. The inspectors verify a vessel's successful ballast water exchange through a boarding program, which includes measuring the salinity of on-board ballast. Ballast with a salinity of 30 parts per thousand or more is considered evidence that the tanks have been adequately exchanged and provide a reasonably harsh environment for any remaining organisms.

If the USCG/TC inspection team is unavailable, the SLSDC/SLSMC inspection team will check ballast water as part of the ESI program. In addition, the USCG/TC team conducts ballast tank exams, which include sampling un-pumpable ballast water from tanks for analysis. SLSDC and USCG inspectors continue to perform ballast water exams on vessels making more than one Seaway transit during a navigation season when they reach U.S. waters at Snell Lock in Massena, N.Y. These ballast water inspections and exams support the Oil Pollution Act of 1990 and the Non-Indigenous Aquatic Nuisance Prevention and Control Act of 1990.

During the 2006 navigation season, Seaway marine inspectors conducted 82 ballast water inspections in conjunction with the ESI program, and performed an additional 57 ballast water exams for subsequent voyages at the U.S. Seaway locks in Massena, N.Y. In 2007, through September 30, Seaway inspectors conducted 22 ballast water inspections and 30 ballast exams.

SLSDC Officials Participate in Emergency Response Exercises

SLSDC marine officials participated in a two-day "Oil in Ice Training Symposium" in Alexandria Bay, N.Y., June 13-14, 2007. The training was hosted by the U.S. Coast Guard's Buffalo, N.Y. office and Jefferson County (N.Y.) Office of Emergency Management. Presentations were made at the symposium on cold weather and cold water injuries, ice rescue, ice characteristics, winter response spill site safety, tracking of oil in ice conditions, and containment and recovery processes.

On September 12-13, 2007, the SLSDC hosted a combined tabletop and oil boom deployment emergency response exercise at its offices in Massena, N.Y. The exercise was attended by various local U.S. and Canadian federal, state, local, and tribal maritime and emergency response officials. The tabletop exercise simulated two oil spill scenarios in the St. Lawrence River – one west of the U.S. Eisenhower Lock and the other east of the U.S. Snell Lock. The SLSDC discussed the differences between the two locations and what response activities would take place. Participating agencies also provided input on their respective roles and capabilities. Participants also took part in an oil boom deployment exercise using three SLSDC small boats to deploy boom just outside the Corporation's lock facilities.

Seaway Agencies Participate in Joint Observational Study to Observe Environmental Impacts of Seaway Opening

After 19 months of negotiations, a settlement agreement was reached between the SLSDC and the St. Regis Mohawk Tribe of Akwesasne in June 2006 concerning the Corporation's authority to determine when to open the Seaway and when to break ice in the Seaway navigation channel. This agreement dismissed a lawsuit filed against the SLSDC and the U.S. Department of Transportation in 2004. As part of the settlement agreement, the parties agreed to a three-year Joint Observational Study (JOS) of fixed scope and cost to observe scientifically the environmental effects, if any, arising from opening the navigation season when ice is still present on the river.

The JOS team is comprised of representatives from the U.S. SLSDC, Canadian SLSMC, St. Regis Mohawk Tribe, Mohawk Council of Akwesasne, and Transport Canada. The team is led by a project coordinator hired by the parties to be responsible for the day-to-day management and implementation of the JOS.

In FY 2007, the JOS team developed a work plan that included identifying potential study sites, acquiring background technical information, organizing a limited 2007 spring observational program, and establishing a monitoring program for 2008 and 2009. In March 2007, a limited observation program took place and included tracking icebreaking conditions both aboard an icebreaker and along the shore, marking the ice with readily visible dyes to track movement following icebreaking, and conducting aerial observations to document the ice cover before, during, and after icebreaking.

Based on the FY 2007 JOS activities, findings, and conclusions, the project coordinator made the following recommendations to the JOS team: (1) the current team is effective at moving forward the mandate and should be retained to ensure ongoing progress; (2) the freezing-degree-day method used to gauge the severity of ice conditions serves as input to the Seaway opening and icebreaking planning processes and should be assessed for potential enhancements; (3) the opening date selection and ice-breaking operations should continue to be an inclusive process for the current stakeholders and include risk assessment elements of icebreaking operations and ice conditions; (4) the ice marking technique used should be improved to ensure the permanency of detection and movement during the icebreaking operations; and (5) a third-party technical consultant should be retained to work with the project coordinator to prepare and conduct a more comprehensive observation program for the spring 2008 icebreaking operations.

SLSDC Accepts Role of Co-Chair for "Green Marine" Program

In FY 2007, the SLSDC expanded its involvement in the U.S./Canadian "Green Marine" initiative, a marine industry partnership program aimed at demonstrating and communicating the maritime industry's commitment to addressing a number of key environmental issues, by accepting the role of Co-Chair.

The objective of the "Green Marine" program, which is scheduled to be formally announced in October 2007, is to build and maintain strong relations with key stakeholders and develop a greater awareness of the maritime industry's activities, benefits and challenges. To accomplish this, activities will be directed towards strengthening the industry's environmental standards and performance through a process of continuous improvement, helping the maritime industry to speak with one voice, strengthening industry involvement in regulatory processes, and improving regulatory outcomes.

"Great Ships Initiative" Launches Testing Facility in Superior, Wisconsin

On June 28, 2007, the SLSDC participated in a formal ceremony launching a new shore-based high-flow Research Development Testing and Evaluation (RDTE) facility for the "Great Ships Initiative" (GSI) in Superior, Wis. This new facility will provide an intensive testing environment for vendors of ballast treatment prospects suitable to Seaway-sized vessels. On September 24, 2007, GSI officials officially announced that Seakleen™, a ballast water treatment system marketed by Hyde Marine, Inc., of Cleveland, Ohio, will be the first such system to be tested (expected in October 2007).

Announced on July 12, 2006, the GSI program is an industry-led cooperative effort initiated by the Northeast-Midwest Institute, in collaboration with the American Great Lakes Ports Association, aimed at ending the problem of ship-mediated invasive species in the Great Lakes St. Lawrence Seaway System through independent research and demonstration of environmental technology, financial incentives and consistent basin-wide harbor monitoring. The SLSDC serves on the GSI Executive Steering Committee as an "ex officio" member. The GSI program operates on two fronts: 1) activating a set of "technology incubators" to accelerate the identification and verification of treatment alternatives to stop organism introductions by ocean-going ships; and 2) monitoring Great Lakes ports and harbors for new introductions of invasive species by ships.

Both the University of Wisconsin-Superior and the University of Minnesota-Duluth participate in the testing at the GSI facility. Financial support for GSI has come from the U.S. Department of Transportation, the U.S. SLSDC and Canadian SLSMC, the National Oceanic and Atmospheric Administration, and U.S. and Canadian ports. The two Seaway entities committed $50,000 each in FY 2006 for the purchase of a mobile laboratory that is used as GSI's primary laboratory at the RDTE facility in Superior. The mobile lab includes space and equipment for microscopic analysis, suction filtration of phytoplankton and zooplankton samples, small incubators, desk space, and a meeting/eating space. This traveling mobile laboratory allows for ballast water testing between test sites in the Great Lakes as well as for transporting equipment between the sites.

Corporation Plays Active Role in
Great Lakes Regional Waterways Management Forum

In FY 2007, the SLSDC continued to play a key role in the Great Lakes Regional Waterways Management Forum, a group of U.S. and Canadian federal representatives who work cooperatively to identify and resolve waterways management issues that involve the Great Lakes region. The Forum specifically reviews issues that cross multiple jurisdictional zones and/or involve international issues and is tasked with developing operational solutions that improve the use and effectiveness of the Great Lakes. The SLSDC continues to play an active role on the Forum's ballast water working group. The ballast water working group was developed to harmonize efforts between the SLSDC, USCG, SLSMC, and Transport Canada as well as coordinate and exchange compliance and research efforts for reducing aquatic nuisance species invasions via ballast water in the Great Lakes. Activities last year included development and implementation of a shared database that tracks all ballast water boarding results from all agencies. This database allows agencies to access data and create reports to track the effectiveness of current ballast regulations and aid in the development of new initiatives.

The Forum members also determined to reinstitute the Automatic Identification System (AIS) Technical Subcommittee originally created prior to implementation of the Seaway's AIS network. This subcommittee will track the progress of implementation by the U.S. and Canadian Coast Guards of the Great Lakes AIS networks to ensure interoperability between the various networks.

New Ballast Water Page Added to Binational Seaway Web Site

In order to provide Great Lakes St. Lawrence Seaway System stakeholders with a comprehensive portal of ballast water-related industry and government activities, the SLSDC developed a new ballast water page in FY 2007 for its binational Seaway Internet website – www. greatlakes-seaway.com. Both Seaway Corporations regularly update the site to keep policymakers, stakeholders, and citizens informed about government, industry and academic organizations pursuing ballast water research designed to control the spread of exotics in the Great Lakes St. Lawrence Seaway System.

The website's section begins with an introduction to the complex nature of the problem and recounts the actions that the Seaway Corporations have taken to reduce the level of introductions via ocean-going vessels trading in the System. The page includes links to U.S. and Canadian regulations, testimony, legislation, new technologies, and presentations.

Trade Development Initiatives

U.S. Transportation Deputy Secretary
Attends SLSDC's Annual Stakeholder Appreciation Reception

In recognition of its Great Lakes St. Lawrence Seaway System stakeholders, the SLSDC hosted its annual Stakeholder Appreciation Reception on December 1, 2006, during the maritime industry's annual Grunt Club events in Montreal, Canada. More than 150 stakeholders representing a cross-section of the maritime community attended the event. The then-U.S. Department of Transportation Deputy Secretary Maria Cino joined SLSDC Administrator Collister Johnson, Jr. at the Montreal reception to meet with stakeholders. In addition, she visited the SLSDC's lock and operational facilities in Massena, N.Y., and presented the SLSDC Robert J. Lewis Pacesetter Award to the Port of Buffalo Gateway Metro Terminal, in Buffalo, N.Y.

SLSDC Participates at Annual Seatrade Cruise Convention in Miami, Florida

The SLSDC led a delegation of U.S. and Canadian stakeholders who participated in the annual Seatrade Cruise Shipping Convention and Exhibition held in Miami, Fl., March 12, 2007. This marked the seventh consecutive year the SLSDC, the Canadian SLSMC, and the Great Lakes Cruising Coalition co-hosted an informational booth to promote the Great Lakes Seaway System as an attractive cruise ship destination.

The convention is one of the cruise ship industry's largest trade shows, allowing the Seaway delegation to meet with over 1,000 industry executives. More than 100 countries and regions were represented. The Great Lakes Seaway System delegation exhibited at the Convention to promote increased ship voyages in the waterway.

FY 2007 *Highway $H_2 0$* Marketing Program Accomplishments

<u>*Highway $H_2 0$* Workshop – Calgary, Alberta – October 19, 2006</u>: This workshop was the fifth in a series of outreach sessions hosted by the two Seaway entities to discuss the Seaway's many transportation and logistics opportunities. This workshop was designed to enable decision-makers to participate in an open, constructive discussion on how the marine movement of oil and gas equipment destined for Western Canada's petroleum sector can be better served by the Seaway. The agenda for the session allowed participants to learn about the growing capabilities of the Seaway's marine transportation industry to accommodate the unique and specialized petroleum cargo moving into Western Canada while also examining equipment logistics needs of the industry.

<u>Reverse Trade Mission and Workshop – Seaports of Niedersachsen (SoN) – October 26, 2006</u>: The SLSDC and the SLSMC hosted a "reverse" Seaway Trade Mission and workshop for port representatives from SoN. The meeting took place in St. Catharines, Ontario. The German delegation received a tour of the Canadian Welland Canal followed by the afternoon workshop with *Highway $H_2 0$* port partners. The workshop provided the participants an opportunity to promote trade between the two regions, discuss the advantages of promoting a group or system of ports, as opposed to an individual port and to exchange views and ideas on matters such as trade strategies and future projects.

Seaway Corporation Initiates Outreach to Maritime and Trade Associations

In an effort to "raise the profile" of the Great Lakes St. Lawrence Seaway System, SLSDC Administrator Collister Johnson, Jr., met with officials from a variety of commodity and transportation associations in FY 2007. The associations visited during the year included: Exports Competitive Maritime Council; American Association of State Highway Transportation Officials; American Waterway Operators; National Grain and Feed Association; National Corn Growers Association; American Wind Energy Association; U.S. Grains Council; and American Association of Port Authorities.

SLSDC Leads Several Great Lakes Short Sea Shipping Initiatives

In FY 2007, the SLSDC was involved in several initiatives that seek to move cargo, particularly cargo that does not currently move via the marine mode, between Canada and the United States via cross-lake waterborne transportation. The SLSDC is working to advance these new services as part of a U.S. Department of Transportation-wide effort to mitigate transportation congestion, particularly on the northern border. Congressional legislation was introduced in FY 2007 which would complement that effort by removing existing impediments to Short Sea Shipping operations. The legislation would exempt non-bulk commodities being shipped across the Great Lakes from having to pay the U.S. Harbor Maintenance Tax. SLSDC Administrator Collister Johnson, Jr., testified before the House Committee on Transportation and Infrastructure's Subcommittee on Coast Guard and Maritime Transportation on February 15, 2007 to describe the proposed operations in the Great Lakes and to support the legislation.

H.R. 981, the "Great Lakes Short Sea Shipping Enhancement Act of 2007", was introduced in February by Rep. Stephanie Tubbs Jones (D-OH) and Rep. Phil English (R-PA), and was referred to the House Committee on Ways and Means. In May, the Joint Committee on Taxation produced a 'scoring letter' which indicated that the Congressional Budget Office had determined the bill to be revenue neutral; thus its passage would result in no cost to the U.S. Treasury, an important point in advancing any tax legislation. An identical Senate companion bill, S. 1683, was introduced by Sen. Debbie Stabenow (D-MI). The Administration's Committee on Marine Transportation System (CMTS) Coordinating Board endorsed the legislation on June 12, 2007 and letters from U.S. Transportation Secretary Mary E. Peters supporting both H.R. 981 and S. 1683 were transmitted to Congress on July 31, 2007. On September 21, 2007 the Senate Finance Committee approved S. 1683 as part of a larger transportation tax package, which is currently awaiting action by the full Senate.

SLSDC Hosts Chinese Maritime and Governmental Officials to Discuss Waterway Management and Technologies

On September 6, 2007, the SLSDC hosted a visit from a Chinese delegation representing maritime governmental officials from several different regions of China. The Delegation requested and received a briefing from the SLSDC Deputy Administrator Craig H. Middlebrook on its operations and use of technologies. Currently China is experiencing traffic congestion problems as its international trade continues to dramatically increase. China has more than 75,000 miles of navigable inland waterways which is the most extensive system of any country in the world. However, most of its inland waterways are not developed enough to handle modern maritime freight operations. While China's water transport potential is great, it is still far from being fully developed. As a result the Chinese government has been seeking to learn from other countries about how they develop and run their inland waterways. Such interest from China was the impetus for requesting informational meetings with the SLSDC. A second Chinese delegation is scheduled to meet with SLSDC officials in Washington, D.C. in October 2007.

Management Initiatives

Collister Johnson, Jr. Sworn In as Ninth SLSDC Administrator; Sets Agency Policy Priorities

Collister ("Terry") Johnson, Jr. was sworn in by U.S. Secretary of Transportation Mary E. Peters on October 7, 2006 as the ninth SLSDC Administrator. He was nominated by President George W. Bush on August 29, 2006, and confirmed by the U.S. Senate on September 29, 2006. Mr. Johnson brings to the position three decades of leadership experience in the transportation industry working diverse marine, rail, and air jobs that focused on capital investment, research and development, and strategic planning.

Most recently a senior consultant at Mercer Management Consulting, Inc. in Washington, D.C., Mr. Johnson helped craft innovative solutions to financial, planning and corporate structure challenges for railroad, port, airline and shipping projects throughout the last decade. During that period, President Bush appointed him to serve on the Board of Directors of the Overseas Private Investment Corporation (OPIC) where his economic development background proved useful in mobilizing private capital for investment in developing countries. Mr. Johnson also previously served as chief executive officer of FastShip Atlantic, Inc., and chairman of the Virginia Port Authority. He earned a B.A. in American Studies from Yale University, and a J.D. from the University of Virginia.

In his first action as Administrator, Mr. Johnson submitted his policy priorities to Transportation Secretary Peters for the SLSDC through January 2009. He identified several initiatives that would serve as the focus of the agency under his leadership, including integrating the Seaway's AIS vessel tracking system with U.S. and Canadian Coast Guard systems in the Great Lakes, ensuring adequate capital funding for Seaway infrastructure needs, promoting Short Sea Shipping to mitigate rail and truck congestion in the Great Lakes region, and taking pro-active steps to resolve the problems posed by aquatic invasive nuisance species.

Corporation Continues to Work on the Binational Great Lakes St. Lawrence Seaway Study

In FY 2007, the SLSDC continued to work with other U.S. and Canadian federal partners on the binational Great Lakes St. Lawrence Seaway Study, which will assess the future infrastructure needs of the binational waterway, specifically the engineering, economic, and environmental implications of those needs as they relate to the marine transportation infrastructure on which commercial navigation depends. The goal of the study is to produce a "blueprint" for what is needed to maintain the commercial navigation infrastructure at its current level of reliability over the next 50 years. The study is scheduled to be completed and released to the public in late 2007.

On May 1, 2003, the U.S. Department of Transportation and Transport Canada entered into a Memorandum of Cooperation to establish a framework and goals for carrying out the study. The Memorandum resulted after months of discussions by marine transportation officials from both nations. The U.S. Army Corps of Engineers (USACE) was an active participant in the negotiations and is the primary source of U.S. funding and project coordinator for the study.

A Steering Committee comprised of the U.S. Department of Transportation (co-chair), SLSDC, Transport Canada (co-chair), the USACE, and the Canadian SLSMC oversees the completion of the study. The Steering Committee also includes Environment Canada and the U.S. Fish and Wildlife Service. The SLSDC and the U.S. Maritime Administration (MARAD) have provided funding and in-kind expertise to supplement the Corps' funding of the study.

SLSDC's FY 2007 Departmental Awards Recipients

On November 29, 2006, three SLSDC employees were honored by U.S. Transportation Secretary Mary E. Peters and SLSDC Administrator Collister Johnson, Jr., at the 39th Annual DOT Awards Ceremony held in Washington, D.C. The employees honored were:

- Anita Blackman, Chief of Staff, Washington, D.C., received the Meritorious Achievement (Silver Medal) Award recognizing her extraordinary effort in the advancement of the Department's diversity and human resources initiatives which are part of the President's Management Agenda.

- Christopher Ehrman, Marine Transportation Specialist, Massena, N.Y., received the Excellence Award for his superior performance which contributed to the Corporation's success in meeting its performance goals in the areas of safety and reliability.

- Jill Hamilton, Human Resources Specialist, Massena, N.Y., received the Volunteer Award for her dedication and commitment to serving both her community and workplace.

SLSDC Offers Education and Mentoring Programs

The SLSDC continued its "Adopt-a-School" program with the Jefferson Elementary School in Massena, N.Y., and its partnering efforts with the Tech Prep/School-to-Work-Initiative with Massena Central High School and St. Lawrence University, to prepare high school juniors and seniors for post school employment. In FY 2007, two students participated in the job shadowing program.

In recognition of Disability Employment Awareness Day, SLSDC hosted four special needs students from the local high school who mentored with several Seaway employees.

In addition, SLSDC employees visited Jefferson Elementary School to participate in a "Who Does This Job" match game with the sixth grade students. Five employees explained their jobs and the subjects that prepared them for their careers.

The fifth grade class participated in the National Transportation Poster Contest. The theme of the contest was "St. Lawrence Seaway Helps the Nation Move." Winners were selected and awarded U.S. savings bonds by the SLSDC. As part of the Jefferson Elementary School's annual Outdoor Activities Week, 75 sixth graders were given a tour of the SLSDC *GRASSE RIVER* gatelifter, a tug ride onboard the SLSDC's *ROBINSON BAY*, and a safe boating demonstration by a New York State certified instructor.

Thirteen U.S. Great Lakes/Seaway Ports and Terminals Receive SLSDC's Robert J. Lewis Port Pacesetter Awards

The SLSDC's Robert J. Lewis Pacesetter Award is presented annually to those U.S. Great Lakes ports and terminals that have registered increases in international cargo tonnage shipped through the Seaway. The 2006 presentations marked the 15th anniversary of the award.

The following eight U.S. Great Lakes ports and five terminal operators earned the award based upon improved international tonnage results posted in 2005 over the previous year:

Illinois International Port District of Chicago, Chicago, Ill.
Port of Oswego Authority, Oswego, N.Y.
Toledo-Lucas County Port Authority, Toledo, Ohio
Port of Milwaukee, Milwaukee, Wis.
Cleveland-Cuyahoga County Port Authority, Cleveland, Ohio
Detroit/Wayne County Port Authority, Detroit, Mich.
Port of Indiana – Burns Harbor, Portage, Ind.
Port of Buffalo Gateway Metro Terminal, Buffalo, N.Y.

Federal Marine Terminals – Burns Harbor, Portage, Ind.
Federal Marine Terminals – Cleveland, Cleveland, Ohio
Hallett Dock Company, Duluth, Minn.
Nicholson Terminal and Dock Company, Detroit, Minn.
Midwest Terminals of Toledo International, Toledo, Ohio

Seaway Agencies Issue Positive Customer Satisfaction Survey Report

In FY 2007, the SLSDC and SLSMC released the results of its 2006 customer satisfaction survey of ship masters. The survey was performed to gauge customer satisfaction with various aspects of the Seaway navigation experience and to capture other navigation and operation-related comments. Every two years, the U.S. and Canadian Seaway entities survey a targeted customer group to measure the effectiveness of Seaway operations and business practices and to solicit customer comments.

The 2006 survey captured responses for 10 core areas based on customer service and performance expectations: Seaway inspections for fittings; Seaway accident and investigations; vessel traffic control; lock wall procedures; transit times; aids to navigation; tie-up service; lock structures; partner agencies; and information. Performance was measured on a "1-to-5" scale (*poor-to-excellent*), or "0" for *no experience*. The Seaway agencies' target goal is an overall rating of four or greater, which indicates positive stakeholder satisfaction.

Of the 10 core areas surveyed in 2006, eight received equal or higher ratings than the comparable 2002 survey. One area, "Seaway inspections and fittings" specific to the Montreal-Lake Ontario section, dropped three-tenths of one percent, but maintained the target rating of 4.0. The overall rating of the 2006 survey was 4.1 (*good*), compared to 4.3 (*good*) in 2002.

SLSDC Receives Recertification of International Standards Organization (ISO) Status

In 1998, the SLSDC began the process of certifying its operational business practices through the internationally recognized International Standards Organization (ISO). The ISO recognition is only conferred on those service firms and organizations that meet the highest quality customer service and management standards set by the Geneva, Switzerland-based ISO.

On February 6, 2007, the SLSDC successfully completed its fifth ISO 9001:2000 external audit and was recertified by the London, U.K.-based, independent accrediting agency Lloyds Register of Quality Assurance. The ISO 9001:2000 standard focuses on self assessment, ongoing improvements, and performance metrics. Incorporation of these quality concepts, at all levels within the Corporation, has improved customer awareness, significantly enhanced communication with Seaway customers, and improved services.

The SLSDC's certification is internationally recognized and complements the agency's marketing and trade development efforts overseas. Customer complaints have been greatly reduced, while positive customer comments have increased. Maintaining the ISO certification has kept agency officials focused on finding better ways of operating the waterway, and recognizing how agency initiatives and decisions affect its customers, both internally and externally. Other benefits of the SLSDC's ISO certification include improved communications within the organization, redefined business processes that are clearly understood by employees, and integrated performance measurements and objectives with the agency's mission.

Seaway Corporation Serves on U.S. Committee on Marine Transportation System (CMTS)

In FY 2007, the SLSDC played an active role on the Committee on Marine Transportation System (CMTS), a U.S. Cabinet-level, interagency organization consisting of 18 federal departments and agencies, which was established by Presidential directive for the purpose of coordinating the maritime transportation policy of the Executive Branch. The CMTS plays a critical role in preserving and improving safety, security, air and water quality, and the efficient movement of freight and people at U.S. coasts, waterways, and port facilities. One of the most important CMTS accomplishments during FY 2007 was its support for H.R. 981, the "Short Sea Shipping Enhancement Act of 2007".

Corporation Appoints Two Senior Officials to Lead Legal and Legislative Activities

In September 2007, SLSDC Administrator Collister Johnson, Jr., announced two appointments to senior-level positions in the SLSDC's Washington, D.C. office. Carrie Bedwell Mann was named the Corporation's Chief Counsel and Nancy Alcalde was selected as the agency's Director of Congressional Affairs.

Charles "Trip" Dorkey III Appointed to SLSDC Advisory Board

Charles E. "Trip" Dorkey III of New York, N.Y., a partner in the international law firm of McKenna Long & Aldridge LLP and President Bush's nominee for a position on the five-member SLSDC Advisory Board, received Senate confirmation on December 9, 2006. The SLSDC Advisory Board is charged with advising the Corporation's Administrator on agency policies affecting the overall effective operation and management of the St. Lawrence Seaway.

Mr. Dorkey joins the other four members of the SLSDC Advisory Board – Chairman Scott K. Walker of Milwaukee, Wis., Jack E. McGregor of Bridgeport, Conn., George D. Milidrag of Clarkson, Mich., and William L. Wilson of Minneapolis, Minn.

SLSDC and U.S. Department of Transportation
Move Washington Headquarters Offices to S.E. Federal Center

In May 2007, the SLSDC moved its policy headquarters in Washington, D.C. to the new U.S. Department of Transportation Headquarters, part of the redevelopment of the Southeast Federal Center located on a 55-acre site along the Anacostia River, adjacent to the Washington Navy Yard. The SLSDC's move was part of the larger DOT relocation in which 7,000 federal employees and contractors moved from the original DOT Headquarters at the Nassif Building in Southwest Washington over a 10-week schedule.

The SLSDC's new mailing address for its policy headquarters is: 1200 New Jersey Avenue, S.E., Suite W32-300, Washington, D.C. 20590. All employee telephone and fax numbers, as well as e-mail addresses, remained the same.

SLSDC FY 2007 Performance Measures and Results

Safety

Enhanced Seaway Inspections – "Inspect 100 percent of ocean vessels during their first Seaway inbound transit at Montreal, Quebec, outside of U.S. waters, each navigation season." The goal was achieved during the 2006 season, with 252 vessel inspections conducted by SLSDC personnel. In 2007, through September 30, 188 vessel inspections had been completed.

Reliability

System Availability – "Ensure the reliability and availability of the U.S. portion of the Seaway, including the U.S. locks and related navigational facilities, during each navigation season." The goal each year is 99 percent availability. The goal was achieved during the 2006 season with an availability rate of 99.5 percent. System availability during the 2007 navigation season, through September 30, was 99.7 percent.

Lock Equipment Maintenance – "Minimize vessel delays due to lock equipment failure or malfunction." The goal each year is zero hours of delay. In 2006, the goal was not met when the SLSDC recorded 2 hours, 28 minutes of lock-related delays. Lock-related delays in 2007, through September 30, were 0.0 hours.

Management Accountability

Administrative Expenses – "Reduce the administrative overhead expense ratio of total operating expenses, excluding depreciation and imputed expenses, to 25 percent or lower." The administrative expense ratio goal was met in FY 2007 at 25 percent.

Financial Reserve – "Maintain/increase the financial reserve account to ensure contingency funding for catastrophic emergencies and funding for critical capital and extraordinary maintenance projects." The goal each year is to maintain a minimum year-end balance of $10 million. The financial reserve goal was met in FY 2007 with a year-end balance of $11.0 million.

Audit Opinion – "Achieve an unqualified opinion (clean audit) in the independent examination of financial statements as well as no instances of non-compliance with laws and regulations or material weaknesses in internal control as they relate to financial reporting." The goal was achieved in FY 2007 as the Corporation received its 43rd consecutive unqualified opinion with no management letter in the independent examination of its financial statements for FY 2006, which was completed and issued on November 15, 2006.

Corporation's Statement on Internal Accounting and Administrative Control System

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, 2007 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'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, 2007, 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 2007 and prior years.

DJHPM
Dembo, Jones, Healy, Pennington & Marshall, 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, 2007 and 2006**, 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 years 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 U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements". 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 opinions.

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, 2007 and 2006**, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007, on our consideration of **Saint Lawrence Seaway Development Corporation's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND PKF INTERNATIONAL

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 & Marshall, P.C.

Rockville, Maryland
October 26, 2007

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

Report on Compliance with Laws and Regulations 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 years ended **September 30, 2007 and 2006**, and have issued our report thereon dated October 26, 2007. We conducted our audits in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements".

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 audits, 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 audits, we considered **Saint Lawrence Seaway Development Corporation's** internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We obtained an understanding of the design effectiveness of internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of the Corporation's internal controls. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. Our audits were not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses.

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.

Demko, Jones, Healy, Bennington & Marshall, P.C.

Rockville, Maryland
October 26, 2007

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2007 and 2006

Assets	2007	2006
Current Assets		
Cash		
Held by U.S. Treasury	$ 5,255,198	$ 5,472,650
Held in banks and on hand	192,585	121,721
Short-term time deposits in minority banks (Note 3)	9,982,000	10,372,000
Accounts receivable (Note 4)	115,467	82,451
Inventories (Note 2)	252,544	256,044
Other current assets (Note 4)	5,546	2,181
Total current assets	15,803,340	16,307,047
Long-Term Investments		
Long-term time deposits in minority banks (Note 3)	980,000	392,000
Plant, Property and Equipment		
Plant in service (Note 5)	161,445,778	160,866,144
Less: Accumulated depreciation	(87,756,608)	(85,532,428)
Net plant in service	73,689,170	75,333,716
Work in progress	889,332	739,675
	74,578,502	76,073,391
Other Assets		
Lock spare parts (Note 2)	824,039	740,247
Less: Accumulated depreciation	(231,972)	(231,415)
Net lock spare parts	592,067	508,832
Investment in Seaway International Bridge Corporation, Ltd. (Note 6)	7,440	7,440
	599,507	516,272
Deferred Charges		
Worker's compensation benefits (Note 2)	3,478,093	3,085,984
Total assets	$ 95,439,442	$ 96,374,694

The accompanying notes are an integral part of these financial statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2007 and 2006

Liabilities and Equity of the U.S. Government	2007	2006
Current Liabilities		
Accounts payable	$ 1,289,268	$ 1,778,967
Accrued annual leave (Note 2)	831,487	785,174
Accrued payroll costs	456,332	445,881
Disbursements in transit	-	23,962
Total current liabilities	2,577,087	3,033,984
Actuarial Liabilities		
Worker's compensation benefits (Note 2)	3,478,093	3,085,984
Total liabilities	6,055,180	6,119,968
Equity of the U.S. Government		
Invested capital (Note 2)	89,616,989	91,064,503
Cumulative results of operations (deficit)	(232,727)	(809,777)
	89,384,262	90,254,726
Total liabilities and equity of the U.S. Government	$ 95,439,442	$ 96,374,694

The accompanying notes are an integral part of these financial statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF OPERATIONS AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS
For the Years Ended September 30, 2007 and 2006

	2007	2006
Operating Revenues		
Appropriations expended	**$ 15,230,844**	$ 14,423,809
Imputed financing (Note 9)	**962,471**	932,469
Other (Note 7)	**898,688**	674,427
Total operating revenues	**17,092,003**	16,030,705
Operating Expenses (Note 8)		
Locks and marine operations	**3,379,982**	3,442,167
Maintenance and engineering	**4,535,924**	4,420,950
General and development	**4,100,821**	4,180,942
Administrative expenses	**4,069,145**	3,900,804
Depreciation	**2,439,830**	2,451,128
Imputed expenses (Note 9)	**962,471**	932,469
Total operating expenses	**19,488,173**	19,328,460
Operating loss	**(2,396,170)**	(3,297,755)
Other Financing Sources		
Interest on deposits in minority banks	**533,390**	434,085
Transfer from invested capital for depreciation	**2,439,830**	2,451,128
Total other financing sources	**2,973,220**	2,885,213
Operating revenues and other financing sources over (under) operating expenses	**577,050**	(412,542)
Beginning cumulative results of operations (deficit)	**(809,777)**	(397,235)
Ending cumulative results of operations (deficit)	**$ (232,727)**	$ (809,777)

The accompanying notes are an integral part of these financial statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Operating revenues and other financing sources over (under) operating expenses	$ **577,050**	$ (412,542)
Adjustments to reconcile operating revenues and other financing sources over (under) operating expenses to net cash used in operating activities:		
Depreciation	**2,439,830**	2,451,128
Transfer from invested capital for depreciation	**(2,439,830)**	(2,451,128)
Net gain on property disposals	**(285,168)**	(74,775)
Change in assets and liabilities:		
(Increase) in accounts receivable	**(33,016)**	(3,573)
Decrease (increase) in inventories	**3,500**	(6,536)
(Increase) in other current assets	**(3,365)**	(2,181)
(Increase) decrease in other assets	**(83,792)**	85,097
(Decrease) increase in accounts payable	**(489,699)**	190,155
Increase in accrued liabilities	**32,802**	31,787
(Decrease) in deferred revenue	**-**	(8,000)
Net cash used in operating activities	**(281,688)**	(200,568)
Cash flows from investing activities:		
Proceeds from property disposals	**333,100**	82,758
Acquisition of plant, property and equipment	**(992,316)**	(1,697,351)
Net (increase) decrease in time deposits	**(198,000)**	338,000
Net cash used in investing activities	**(857,216)**	(1,276,593)
Cash flows from financing activities:		
Appropriations for plant, property and equipment	**992,316**	1,697,351
Net (decrease) increase in cash	**(146,588)**	220,190
Cash at beginning of period	**5,594,371**	5,374,181
Cash at end of period	**$ 5,447,783**	$ 5,594,371

The accompanying notes are an integral part of these financial statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENT OF BUDGETARY RESOURCES AND ACTUAL EXPENSES (NOTE 12)
For the Year Ended September 30, 2007

	-------- Budget --------		
	Resources	**Obligations**	**Expenses**
Saint Lawrence Seaway Development Corporation Fund	$ 32,120,484	$ 17,911,110	$ 19,488,173
Budget Reconciliation:			
Total expenses			19,488,173
Adjustments			
Add:			
Capital acquisitions			992,316
Deduct:			
Depreciation			(2,439,830)
Imputed expenses			(962,471)
Decrease in net plant in service, property disposals			(47,931)
Decrease in inventories			(3,500)
Increase in other assets			83,792
Less reimbursements:			
Trust funds			(16,223,160)
Revenues from non-federal sources			(1,432,078)
Accrued expenditures			$ (544,689)

The accompanying notes are an integral part of this financial statement.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF CHANGES IN EQUITY OF THE U.S. GOVERNMENT
For the Years Ended September 30, 2007 and 2006

	Invested Capital	Unexpended Appropriations	Cumulative Results of Operations
Balance, September 30, 2005	$ 91,818,280	$ -	$ (397,235)
Appropriations expended	-	(14,423,809)	14,423,809
Fiscal Year 2006 appropriations	-	16,121,160	-
Other financing sources	-	-	2,040,981
Operating expenses, excluding depreciation and imputed expenses	-	-	(15,944,863)
Depreciation expense	-	-	(2,451,128)
Imputed expenses	-	-	(932,469)
Transfer from invested capital for depreciation	(2,451,128)	-	2,451,128
Capital expenditures	1,697,351	(1,697,351)	-
Balance, September 30, 2006	91,064,503	-	(809,777)
Appropriations expended	-	(15,230,844)	15,230,844
Fiscal Year 2007 appropriations	-	16,223,160	-
Other financing sources	-	-	2,394,549
Operating expenses, excluding depreciation and imputed expenses	-	-	(16,085,872)
Depreciation expense	-	-	(2,439,830)
Imputed expenses	-	-	(962,471)
Transfer from invested capital for depreciation	(2,439,830)		2,439,830
Capital expenditures	992,316	(992,316)	-
Balance, September 30, 2007	$ 89,616,989	$ -	$ (232,727)

The accompanying notes are an integral part of these financial statements.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 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.

Note 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 periodically.

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, 2007. 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 remaining balance of lock spare parts, totaling $576,230 at September 30, 2007, consists of expendable inventory items valued at the lower of cost or market with cost being determined using the weighted-average method.

Note 2. Summary of Significant Accounting Policies ***(continued)***

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 U.S. 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 (FY) 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.

Invested Capital

The Corporation was initially funded by revenue bonds issued by the U.S. Treasury. On December 18, 1982, Congress cancelled the outstanding revenue bonds of $109,976,000 (P.L. 97-369, 96 Stat. 1782). With cancellation of the debt, the amount was converted to invested capital. Since FY 1987, when the Corporation began receiving annual appropriations from the Harbor Maintenance Trust Fund, capital expenditures and annual depreciation have been recognized in invested capital.

Budget Authority

The Corporation was apportioned authority by the Office of Management and Budget (OMB) to obligate a maximum amount of $17,923,160 for FY 2007, $16,223,160 from the Fund (Public Laws 109-289, 109-369, 109-383, and 110-5), $800,000 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 $17,911,110 for FY 2007. The Corporation's unobligated balance at September 30, 2007 totaled $14.2 million including $3.2 million unused borrowing authority. For FY 2008, the Corporation is operating on a Continuing Resolution based on the FY 2007 level of $16,223,160. In addition, authority to obligate $900,000 of non-federal revenues has been apportioned by OMB for FY 2008.

Note 2. Summary of Significant Accounting Policies *(continued)*

Statements 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.

Note 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.

Note 4. Accounts Receivable and Other Current Assets

The Corporation has not provided for an allowance on uncollectible receivables because prior losses have been insignificant. Receivables and other current assets as of September 30, 2007 and 2006 are as follows:

	2007	2006
Other	**$ 48,945**	$ 20,451
Due from concession contracts	**39,107**	36,984
Interest on deposits in minority banks	**32,961**	27,197
Total	**$ 121,013**	$ 84,632

Note 5. Plant in Service

Plant in service as of September 30, 2007 and 2006 is as follows:

		2007		2006	
Plant in Service	**Estimated Life (Years)**	**Cost**	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Locks and guidewalls	40 - 100	**$ 77,507,366**	**$41,591,060**	$77,323,851	$40,587,384
Channels and canals	95	**36,870,221**	**16,778,898**	36,870,221	16,391,760
Buildings, grounds and utilities	50	**14,936,558**	**6,229,911**	14,735,539	5,932,797
Permanent operating equipment	5 - 40	**12,359,436**	**8,893,701**	12,172,944	8,670,423
Roads and bridges	50	**9,417,700**	**8,498,683**	9,399,099	8,310,608
Land rights & relocations	95	**5,639,064**	**2,590,328**	5,639,064	2,531,118
Navigation aids	10 - 40	**2,929,698**	**2,509,562**	2,939,691	2,462,241
Public use facilities	50	**918,409**	**664,465**	918,409	646,097
Lands in fee	N/A	**867,326**	**-**	867,326	-
Total plant in service		**$ 161,445,778**	**$87,756,608**	$160,866,144	$85,532,428

Note 5. Plant in Service *(continued)*

Plant in service includes costs of certain features of the Seaway International Bridge Corporation, Ltd. (SIBC), 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.

Note 6. Investment in the Seaway International Bridge Corporation, Ltd. (SIBC)

The Corporation owns, on behalf of the U.S. Government, 50 percent of SIBC, a subsidiary of The Federal Bridge Corporation Ltd., a federal Crown Corporation of Canada. 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.

Note 7. Other Revenues

Other revenues for the years ended September 30, 2007 and 2006 consist of the following:

	2007	2006
Concession operations	$ **369,442**	$ 313,009
Miscellaneous (net)	**352,681**	170,405
Pleasure craft/non-commercial tolls	**112,572**	109,476
Rental of administration building	**63,506**	66,562
Shippers' payments for damages to locks	**487**	3,275
Vessel towing services	**-**	11,700
Total	$ **898,688**	$ 674,427

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.

Note 8. Operating Expenses by Object Class

Operating expenses by object class for the years ended September 30, 2007 and 2006 are as follows:

	2007	2006
Personnel services and benefits	**$ 12,245,565**	$ 11,894,198
Contractual services	**2,206,875**	2,434,178
Supplies and materials	**719,729**	731,642
Rental, communications and utilities	**597,159**	584,499
Travel and transportation	**150,296**	165,697
Equipment not capitalized	**124,789**	108,005
Printing and reproduction	**41,459**	26,644
Subtotal	**16,085,872**	15,944,863
Depreciation expense	**2,439,830**	2,451,128
Imputed expenses	**962,471**	932,469
Total operating expenses	**$ 19,488,173**	$ 19,328,460

Note 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 FY 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, 2007 and 2006 are as follows:

	2007	2006
Federal Employees Retirement System:		
Automatic contributions	**$ 781,150**	$ 722,615
Matching contributions	**211,870**	195,373
Social Security	**422,628**	410,383
Civil Service Retirement System	**172,080**	188,628
Total	**$ 1,587,728**	$ 1,516,999

Note 10. Related Party Transactions

The Corporation receives rental payments for office space provided to the U.S. Citizenship and Immigration Services (formerly the 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, 2007 and 2006, revenue totaled $60,040 and $63,181, respectively.

The Corporation made rental payments to the General Services Administration for our Washington, D.C. office totaling $259,348 and $234,098 for fiscal years 2007 and 2006, 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 2007 and FY 2006 were as follows:

	2007	2006
Office of the Secretary of Transportation	$ **67,698**	$ 52,780
Department of Energy	**30,019**	-
Volpe National Transportation System Center	**25,000**	55,000
Federal Highway Administration	**21,138**	22,968
General Services Administration	**5,799**	4,866
Federal Aviation Administration	**4,000**	4,000
U.S. Census Bureau	**1,459**	1,317
Federal Occupational Health	**364**	1,074
Department of Interior	**278**	-
Pipeline and Hazardous Materials Safety Administration	**100**	100
Environmental Protection Agency	**86**	-
National Science Foundation	**12**	-
Department of Commerce	**-**	35,000
U.S. Maritime Administration	**-**	15,000
Department of Defense	**-**	9,232
Office of Personnel Management	**-**	1,000
Federal Motor Carrier Safety Administration	**-**	684
Total	**$ 155,953**	$ 203,021

Note 10. Related Party Transactions *(continued)*

Accounts payable at September 30, 2007 and 2006 include $1,105,520 and $1,218,980 respectively, of amounts payable to the U.S. Government.

In fiscal years 2007 and 2006, the Corporation accrued costs of $95,560 and $89,071, respectively, to the Canadian St. Lawrence Seaway Management Corporation for administrative services related to tolls and statistics.

Note 11. Contingencies and Commitments

As of September 30, 2007, no material claims are pending against the Corporation. In addition to the current liabilities at September 30, 2007 and 2006 there were undelivered orders and contracts amounting to $2,944,334 and $2,329,452, respectively.

The Corporation leases office space in Washington, D.C. from the General Services Administration. The current lease term is for less than one year. The Corporation also provides office space to several agencies under various lease agreements. The leases agreements are cancelable.

Note 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 $32,120,484 consist of the Corporation's unobligated balance of $14,279,568 brought forward from October 1, 2006, and reimbursements earned of $17,655,238 and recoveries of prior year's obligations of $185,679 during FY 2007.