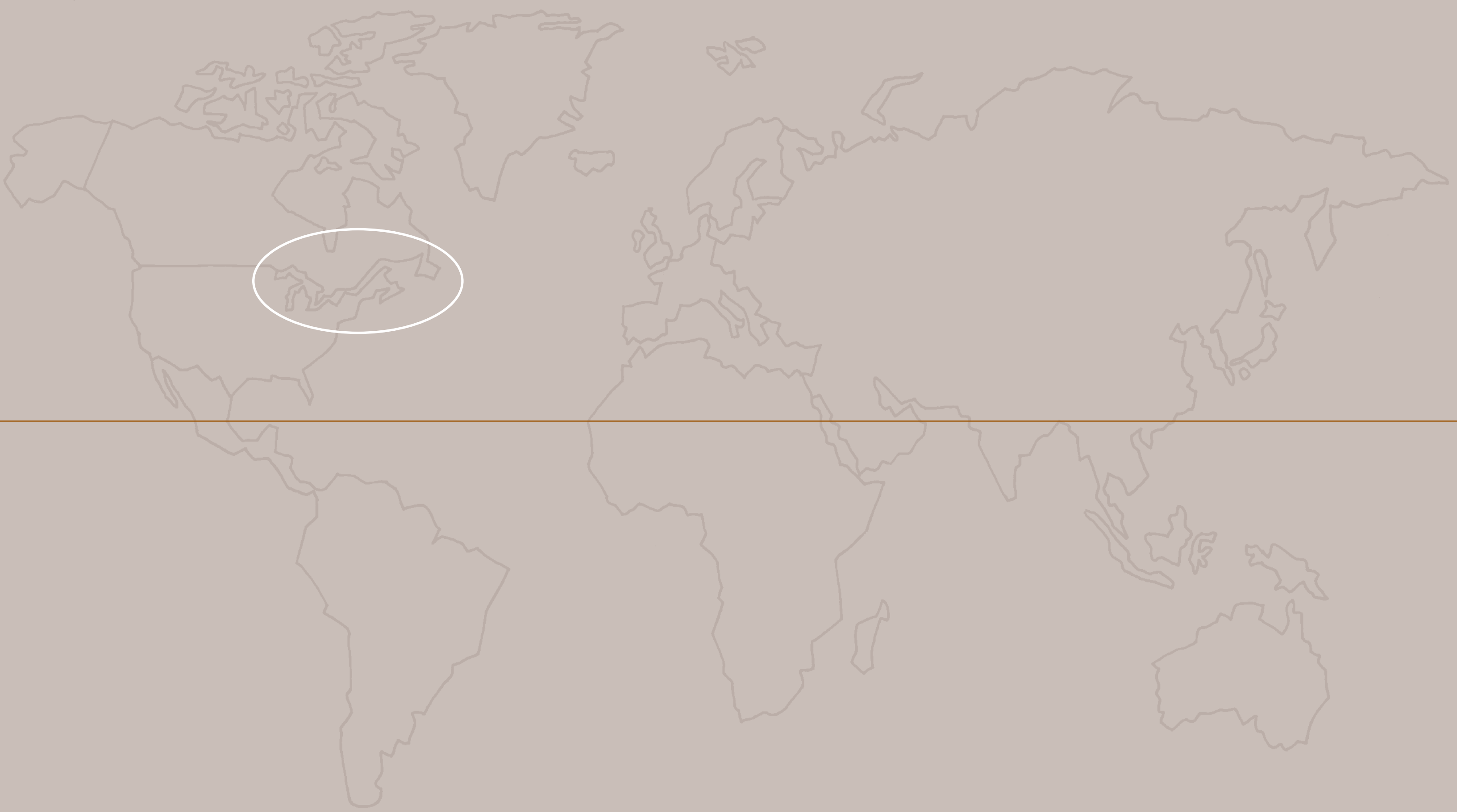
SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Fiscal Year 2006 Annual Report



SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

ANNUAL FINANCIAL AUDIT REPORT
October 1, 2005 - September 30, 2006

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 St. Lawrence Seaway System annually generates 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.

In accordance with the Chief Financial Officers 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 fiscal year (FY) 2006. The Development Corporation's report presents the financial results and operational accomplishments of the SLSDC during the fiscal year completed September 30, 2006.

This Report highlights some noteworthy achievements of the SLSDC. Five topics in particular are singled out for special attention: the change in Corporation leadership; progress on the binational Great Lakes St. Lawrence Seaway System Study; specifics on the Seaway Trade Mission Program; a snapshot of the flourishing binational Seaway website; and a status report on the Highway H_20 marketing campaign.

On July 2, 2006, the term of Albert S. Jacquez as the SLSDC's eighth Administrator expired. The Department named SLSDC Deputy Craig H. Middlebrook to serve as Acting Administrator until a successor could be named. Mr. Middlebrook provided vital leadership during the critical interim period, keeping the Corporation's business on an even keel. On August 29, President Bush nominated me for the position of Administrator, and I was confirmed by the U.S. Senate on September 29, 2006. The final days of the fiscal year served as a vital strategic planning period for the upcoming 2007 fiscal year, identifying key priorities for my new tenure.

During FY 06 the Great Lakes St. Lawrence Seaway System Study continued its crucial work in examining the engineering, economic and environmental components of the Seaway System. The Study promises to provide a 50-year blueprint for the future of the waterway. The Study is about to be released in draft form to Steering Committee members and key staff for final review and a public release later in 2007.

During FY 06, along with our Canadian partners, the SLSDC led two Seaway Trade Missions to engage both current and prospective customers and markets. Visits were made to England and Germany, as well as the world's fastest growing major economy—China. During the China mission, a cooperative marine transportation agreement was signed in Beijing with the Chinese Ministry of Communication's Water Transport Department. On behalf of the Highway H_20 Port Partners, a second agreement was signed by the St. Lawrence Seaway Management Corporation and the Port Authority of Shanghai. This Memorandum of Understanding is a cooperative partnership for developing trade and marine transportation.

The Seaway's binational website (www.greatlakes-seaway.com) continued to set records in site viewership while receiving consistently positive feedback. During FY 06, the site received more than 2.6 million page hits, a robust increase of 37 percent over FY 05 levels.

The St. Lawrence Seaway's HWY H_20 marketing campaign continues to raise awareness about the Seaway System's many benefits to the public, shippers, and diverse waterway users. Several workshops were held during the fiscal year to discuss how the Seaway's marine industry can better serve the region's U.S. and Canadian steel, forest, grain, and manufacturing industries in moving their products by water.

Finally, the year will be remembered for a return to healthy traffic numbers after a few difficult years. Thanks to significant increases in grain and steel movements, the Seaway posted its best tonnage year since 1999.

To learn more about the latest developments at the Seaway, simply click on our binational website at www.greatlakes-seaway.com. Feel free to contact us if you have any questions. We are committed to improve the service and operations we provide all Great Lakes St. Lawrence Seaway System stakeholders. Your feedback is appreciated as it helps us better serve our end customers. So click on and join us. We think you'll agree that the St. Lawrence Seaway is indeed the "Gateway to North America's heartland."

Collister Johnson, Jr.

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)

For the years ended September 30	**2006**	2005	Change	
Operating revenues	$ 15,098	$ 15,256	$ (158)	(1)%
Appropriations expended	14,424	14,756	(332)	(2)%
Other	674	500	174	35%
Operating expenses	15,945	14,678	1,267	9%
Personal services and benefits	11,894	11,661	233	2%
Other	4,051	3,017	1,034	34%
Imputed financing/expenses	932	902	30	3%
Total assets	96,375	96,957	(582)	(1)%
Time deposits in minority banks	10,764	11,102	(338)	(3)%
Short-term	10,372	10,220	152	1%
Long-term	392	882	(490)	(56)%
Interest income (minority banks)	434	277	157	57%

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

Operating Revenues

Operating revenues, excluding imputed financing, totaled $15,098K in FY 2006, a one percent decrease. Appropriations expended, representing the amount of the Harbor Maintenance Trust Fund expended for operating purposes, decreased $332K and other revenues increased $174K.

Operating Expenses

Overall operating expenses of $15,945K, excluding depreciation and imputed expenses, increased nine percent. Personal services and benefits increased two percent, and other costs increased by 34 percent. Personal services and benefits represented 75 percent of the Corporation's operating expenses in FY 2006. The Corporation employed 148 people on September 30, 2006, including one part time and three temporary employees. Other costs of $4,051K included $2,434K for other contractual services; $732K for supplies and materials; $584K for rent, communications, and utilities; $166K for travel and transportation of persons and things; $108K for equipment; and $27K for printing and reproduction. Specific operating expenditures included $1,206K for concrete rehabilitation, $686K for building maintenance, $608K for special operating projects, $601K for lock inspection and maintenance, $391K for navigational aids maintenance, $381K for general operating expenses, $300K for equipment, vehicle, and vessel maintenance, $265K for closing and opening the lock for winter repairs, and $236K 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 $96 million. Plant, property and equipment are valued at $76 million.

Time Deposits in Minority Banks and Interest Income

A key asset of the Corporation is time deposits in minority banks, totaling $10,764K at year-end. An increase in short-term deposits of $152K offset by a decrease in long-term deposits of $490K result in a net decrease of $338K. Interest on deposits in minority banks increased by 57 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, 2006 of $14.3 million, comprised of $3.2 million of unused borrowing authority and the $11.1 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 $1,697K in FY 2006 and $951K in FY 2005.

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.

• *Vertical Lift Gate Operating Machinery and Control Upgrades* - 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.

• *Lock Recess Access Structure Improvements* - 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 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.

The primary expenditures in FY 2005 were $180K for fendering, $148K for lock recess access structure improvements, and $121K for the emergency generator at the Administration Building.

• *Fendering Improvements at Eisenhower Lock* - The downstream miter gate at Eisenhower Lock was fendered with wood fenders to protect the gate structure and diagonals from damage. The fendering on the downstream north gate leaf was replaced with new composite fenders.

• *Lock Recess Access Structure Improvements* - Deteriorated cable riser handrails, stairs, platforms, and structural supports were removed and replaced at the downstream north cable riser at Eisenhower Lock. Existing access and maintenance platforms were removed and replaced and new ladder rungs were installed at the vertical lift gate cylinder recesses on both the north and south sides of Eisenhower Lock.

• *Emergency Generator at the Administration Building* - The undersized emergency generator at the Administration Building was replaced with a unit of sufficient size to provide power to service emergency command center operations in the building.

Several winter maintenance projects were completed this year, such as placing a new hydraulic power unit for the vertical lift gate at Eisenhower Lock, replacing deteriorated concrete at the low pool level on the lock chamber wall at the Eisenhower Lock, replacing a corroded steel stairway with a new fiber reinforced polymer stairway which is utilized to access the crossunder gallery at the Snell Lock, and reinstalling a repaired, reinforced and repainted culvert valve at Eisenhower Lock.

SLSDC Continues to Meet Performance Levels for Foreign Vessel Inspections

The SLSDC and the U.S. Coast Guard (USCG), in conjunction with Transport Canada and the Canadian SLSMC, signed a Memorandum of Understanding in March 1997 to develop a program of coordinated vessel inspection and enforcement activities to expedite the safe transit of shipping through the Great Lakes Seaway System. The principal goal of the Enhanced Seaway Inspection (ESI) program is to inspect all (100%) ocean vessels entering the Seaway for safety and environmental protection issues in Montreal, Quebec, before they enter U.S. waters.

The goal was achieved during the 2005 season, with 224 vessel inspections conducted by SLSDC personnel. In 2006, through September 30, the goal was achieved with 208 vessel inspections completed.

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.

This inspection program has been extremely successful and eliminates the practice of duplicative inspections. It allows for a more seamless and efficient transit of the Seaway and provides an excellent location for repair resources, if required.

Emergency Response Exercise

From September 6-8, 2006, the Corporation participated in the "Thousand Island Scramble", a USCG-sponsored exercise designed to test the policies and procedures of the USCG's Area Contingency Plan (ACP), and other local and state plans brought into the exercise. In addition, oil boom deployment training was offered to participants. The SLSDC and USCG deployed boom in the local area (Alexandria Bay) and many participants elected to be onsite for this training. The full-scale response activity was conducted along the St. Lawrence River on September 7. Federal, state, and local response agencies on both sides of the U.S. and Canadian border, as well as environmental stakeholders, tested notification, communication, and response duties within their individual plans, the ACP, and within the structure of the Incident Command System (ICS).

SLSDC, Partners, and Native American Tribe Reach Settlement

The SLSDC, SLSMC, Transport Canada, and the Akwesasne Mohawk Tribe have agreed to study the effects of icebreaking in certain areas along the St. Lawrence River. The study will last three years and its cost will be shared equally by the SLSDC, Transport Canada, and the St. Regis Mohawk Tribe of Akwesasne.

After 19 months of negotiations, a settlement agreement was reached between the SLSDC and the St. Regis Mohawk Tribe of Akwesasne in June 2006. This agreement dismisses a lawsuit, *St. Regis Mohawk Tribe v. Jacquez*, (N.D.N.Y. No. 7:04 cv 00305), filed against the SLSDC and Department of Transportation in 2004. The terms of the settlement agreement are memorialized in a Memorandum of Understanding (MOU) signed by the SLSDC, Transport Canada, the SLSMC, and the St. Regis Mohawk Tribe of Akwesasne. Under the terms of the MOU, the authority of the SLSDC to determine when to open the Seaway is protected while a more formal and open relationship with the St. Regis Mohawk Tribe of Akwesasne is established. In addition, the MOU establishes transparent procedures to set the opening and closing dates of the Seaway; creates a process for meeting with the St. Regis Mohawk Tribe of Akwesasne and discussing these procedures prior to the selection of an opening date; and requires the St. Regis Mohawk Tribe to withdraw its currently pending lawsuit. The court formally dismissed the case on July 18, 2006.

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

The Canadian and U.S. Governments are conducting a comprehensive study to assess the future infrastructure needs of the Great Lakes St. Lawrence Seaway System, specifically the engineering, economic, and environmental implications of those needs as they relate to the marine transportation infrastructure on which commercial navigation depends. The study is scheduled to be completed by mid 2007. 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 Great Lakes St. Lawrence Seaway System is a key component of North America's transportation infrastructure. The binational waterway serves 15 major international ports and some 50 regional ports on both sides of the border. Maritime commerce on the waterway supports domestic and international trade, and provides a competitive advantage to a wide range of industries throughout the heartland of North America.

On May 1, 2003, then-Secretary of Transportation Norman Y. Mineta and Transport Canada former Minister David M. Collenette signed a Memorandum of Cooperation (MOC) to establish a framework and goals for carrying out the study. The MOC was the result of 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 for the study.

A Steering Committee comprised of DOT (Under Secretary for Policy Jeff Shane, Kristine Burr, 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. Moreover, MARAD has funded a new vessels/new cargoes study that is critical to forecasting the potential future commodity movements through the Great Lakes Seaway

Coils of steel are being off-loaded on a Fednav ship transiting through the Great Lakes St. Lawrence Seaway System.

The Port of Hamilton handles over 12 million tons of cargo and is visited by over 700 vessels each year. This ranks Hamilton as the busiest of all Canadian Great Lakes ports.

System. The Canadian Government has fully funded its commitments to the Study through the end of 2006.

SLSDC Remains International Standards Organization (ISO) Compliant

In 1998, the SLSDC began the process of certifying its operational business processes 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.

The SLSDC received an upgrade to its ISO certified Quality Management System in January 2003, which was then recertified in July 2004. The London, U.K.-based Lloyds Register of Quality Assurance was the independent accrediting agency that evaluated and recertified the SLSDC functions. The upgraded standard called "ISO 9001:2000" encompasses improvements from revisions to previous ISO standards. The focus of the revised standard is on self assessment, ongoing improvements, and performance metrics. Incorporation of these quality concepts, at all levels within the agency, has improved customer awareness, significantly enhanced communication with Seaway customers, and improved SLSDC 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 internal and external. 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.

Corporation Involved in Great Lakes Regional Waterways Management Forum

In FY 2006, 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. Over the past few years, the SLSDC has played an active role on the Forum's ballast water working group. The ballast water working group was developed to harmonize efforts between the USCG, SLSDC, SLSMC, and Transport Canada to coordinate and exchange compliance and research efforts for reducing aquatic nuisance species invasions via ballast water in the Great Lakes.

SLSDC Helps Launch "Green Marine" Program

In FY 2006, the SLSDC was actively involved in the development of a new binational, voluntary program aimed at demonstrating and communicating the maritime industry's commitment to addressing a number of key environmental issues called "Green Marine". The objective of the Green Marine program 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, and strengthening industry involvement in regulatory processes and improving regulatory outcomes.

Great Ships Initiative

The SLSDC is involved in several initiatives to combat the spread of invasive species in the Seaway System. One such effort is the Great Ships Initiative (GSI), which is focusing resources and expertise on producing solutions to the problem of ship-mediated invasive species in the Great Lakes. 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. It will operate 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.

The SLSDC and SLSMC committed $50,000 each in FY 2006 for the purchase of a mobile laboratory to be used by GSI program officials. The mobile lab will have space for microscopic analysis, suction filtration of phytoplankton and zooplankton samples, store, small incubators (for bacteria samples on the road), desk space, and a meeting/eating space. This traveling mobile laboratory will allow for ballast water testing between test sites in the Great Lakes as well as for transporting equipment between the sites.

Automatic Identification System Memorandum of Understanding with the USCG

In April 2006, the SLSDC and USCG signed a Memorandum of Understanding (MOU) to share real-time Automatic Identification System (AIS) vessel tracking data. The MOU will allow for the sharing of vessel location data in the U.S. sections of the Great Lakes as well as in the Canadian sections of the Seaway. By September, the technical challenges of the project had been solved and the SLSDC and USCG had begun to share preliminary vessel data.

The tracking of vessel movements has been made easier with the implementation of the Automatic Identification System (AIS). This system, shared with the Canadian St. Lawrence Seaway Management Corporation, allows ship-to-ship, ship-to-shore, shore-to-shore and shore-to-ship communication. AIS has greatly enhanced the safety, security and efficiency of the Seaway System.

SLSDC Leads Two Trade Missions in FY 2006 to Europe and China

During FY 2006, the SLSDC and the SLSMC lead two binational Seaway Trade Missions to engage both current and prospective markets with visits to Europe and the world's fastest growing economy in China. The Seaway's Binational Trade Mission in October 2005 to the United Kingdom and Germany was a weeklong marketing effort to meet with key international maritime organizations in London and the three Lower Saxony ports of Hamburg, Bremen, and Brake.

The trade mission offered delegates a unique opportunity to deliver the message that doing business with our System offers their companies strategic advantages. It also afforded them a chance to educate many decision makers with facts about season length, vessel draft, port infrastructure and intermodal connections. The two Corporations also introduced the new binational Highway H_20 marketing campaign to an audience of current and potential customers throughout the European Maritime Community.

On April 21-28, 2006 the SLSDC and the SLSMC, led a delegation of 20 senior executives from the Great Lakes St. Lawrence Seaway System to Beijing, Shanghai, Shenzhen and Hong Kong, China. The delegation members capitalized on the opportunity for collective as well as individual business agreements, to be developed with the Chinese on this trade mission.

While in Beijing, a cooperative marine transportation agreement was signed with the Chinese Ministry of Communication's Water Transport Department and the SLSDC and the SLSMC. The 'Implementation Plan for Cooperation' calls for a more structured exchange of information and expertise between the nations in the field of waterborne transportation, specifically in the areas of technology, marketing, and water management.

Another significant event was the signing in Shanghai of a Memorandum of Understanding (MOU) between the Seaway Corporation's port stakeholders and the Port Management Bureau of Shanghai. The MOU is a cooperative partnership among the port's Hwy H_20 partners to promote trade and maritime business, and to further enhance port management and economic development.

SLSDC's Annual Stakeholder Appreciation Reception

In recognition of its Great Lakes St. Lawrence Seaway System stakeholders, the SLSDC hosted its annual reception on December 1, 2005, during the Grunt Club events in Montreal, Canada. More than 110 Great Lakes Seaway System stakeholders representing a cross section of the maritime community attended this annual event. The Corporation hosts the event each year to provide an opportunity for our stakeholders to discuss business opportunities and challenges throughout the Seaway System.

SLSDC Participates at Annual Seatrade Cruise Convention in Miami

The SLSDC led a delegation of U.S. and Canadian stakeholders participating in the annual Seatrade Cruise Shipping Convention and Exhibition held in Miami, FL, March 13-16, 2006. This marked the sixth consecutive year the SLSDC, and the Great Lakes Cruising Coalition co-hosted an informational booth to promote the Great Lakes Seaway System as an attractive cruise ship destination.

Seatrade is North America's premier weeklong conference for cruising industry professionals, bringing under one roof hundreds of executives, operations staff, travel agents, suppliers, ship owners, shipbuilders, ship and tour operators and itinerary planners.

SLSDC and SLSMC Highway H_20's Marketing Accomplishments

The SLSDC and the SLSMC signed a Memorandum of Understanding (MOU) for co-funding their binational marketing promotion effort, Highway H_20, through September 2006. The Highway H_20 program is a joint effort to raise awareness about the benefits of the Seaway System to the public, elected officials, shippers, and other users of the waterway. The MOU details the services and reimbursable marketing materials and initiatives such as workshops, meetings, business presentations, and trade missions.

During the year, there were several Highway H_20 accomplishments:

(1) Highway H_20 leaders signed a Memorandum of Cooperation with the Seaports of Niedersachsen on July 11, 2006 in Oldensburg, Germany, establishing a marketing alliance between the two groups.

The purpose of the agreement is to promote trade between Germany, Europe and the Great Lakes St. Lawrence Seaway System, generate business opportunities through joint marketing, and encourage an exchange of information and collaboration. This

A highlight during the China Trade Mission was the signing of a cooperative marine transportation agreement in Beijing with the Chinese Ministry of Communications' Water Transport Department. Sitting at the table, left to right: Mr. Richard Corfe, President and CEO, St. Lawrence Seaway Management Corporation; Mr. Song, Director General; and Mr. Albert Jacquez, former Administrator, SLSDC.

The United Kingdom and Germany Seaway delegation participants take time out of their busy day for a photo.

TRADE DEVELOPMENT INITIATIVES

will be accomplished through joint participation at conferences and exhibitions, as well as an annual workshop. The agreement evolved during the binational Trade Mission to Germany in October 2005.

(2) A "One-Stop-Shop Workshop" was held on March 30, 2006, in Montreal as part of its Highway H_20 marketing program. This workshop focused on how the waterway could be more "user-friendly" for carriers, discussing the opportunities for consolidating cargo in order to accommodate a future liner service into the Great Lakes.

The meeting was the fourth in a series of joint sessions between transportation and logistics professionals from various shipper sectors and the region's marine service suppliers. The goal of the SLSDC and the SLSMC is to organize work sessions to discuss tangible options and opportunities available to North America's manufacturing and shippers to move their products through the waterway.

More than 20 officials attended the workshop from the region's carrier, port and shipper community; cargo handling, terminal and stevedoring operations; pilotage authorities; and the U.S. and Canadian government.

(3) As part of the Highway H_20 marketing campaign to raise awareness about international trade and container shipping on the Great Lakes St. Lawrence Seaway, a 20-foot container named "Travis" was transported on July 19, 2006, from the Port of Aarhus, Denmark, to the Great Lakes' largest and furthest inland port — Duluth-Superior.

Travis traveled aboard the M/V BBC India, a modern multi-purpose vessel owned by Germany-based BBC Chartering and Logistic. Travis had Highway H_20-themed murals printed on both sides of the box. Along with the Highway H_20 container, the vessel carried a cargo of Siemens wind turbine equipment, including components for a large crane being used to erect the equipment destined for Mower County, Minn.

CUSTOMER SERVICE INITIATIVES

Binational Seaway Website Sets Records in FY 2006

During FY 2006, the Seaway binational website (www.greatlakes-seaway.com), jointly owned and maintained by the SLSDC and the SLSMC, continued to record sizeable year-to-year growth in site viewership and positive feedback. During FY 2006, the site received more than 2.6 million page hits, an increase of 37 percent over FY 2005 levels. In addition, the site posted an all-time record month in March 2006 with 248,000 pages. Site viewership has increased dramatically each year since the site was launched in February 2001.

The site is a unique public-private partnership and is the result of feedback from Seaway customers who requested a "one-stop" internet site for locating U.S. and Canadian information related to transiting the Seaway System. The site includes up-to-the minute navigation news, real-time vessel location, regulatory cost calculators, Seaway regulations, publications, traffic results, tolls information, port profiles, and other background information on the waterway and the two Seaway agencies. Significantly, the web site serves as a portal to the system for current and prospective customers, as it provides links to all the U.S. and Canadian entities engaged in commercial maritime navigation in the system.

Ship Drawing Reviews

The Corporation offers, free of charge, a review of ship drawings for new buildings or revisions, encouraging owners to fit vessels to Seaway dimensions during construction. In addition, the Corporation provides advice and guidance to developers, shipping companies or agents on modifications necessary to meet requirements for transiting the Seaway. The free service has been an incentive in attracting ocean freighter and passenger vessel traffic to the Seaway.

Seaway Ship Inspectors completed a total of 64 vessels drawing reviews through September 30.

Seaway Tie-Up Service

To accommodate vessel operators who have elected not to install or use landing booms, the Seaway entities initiated tie-up services in 1995 on a cost-recovery basis. The fee for the service continues to be $1,500 Canadian for each round trip through the Montreal-Lake Ontario and Welland Canal sections. During the 2006 navigation season, through September 30, a total of 130 vessels requested the tie-up service in the Montreal-Lake Ontario section, and 92 vessels requested the service in the Welland Canal section.

Acting SLSDC Administrator, Craig H. Middlebrook (right) presents the Robert J. Lewis Pacesetter Award to the Port of Milwaukee port officials in August. Eric Reinelt, (left) Port Director, Milwaukee Port, and Daniel J. Steininger, (middle) President, Board of Harbor Commissioner.

SLSDC Presents 12 Seaway Robert J. Lewis Pacesetter Awards

The Robert J. Lewis Pacesetter Award is presented by the SLSDC annually to those U.S. Great Lakes ports and terminals that have registered increases in international cargo tonnage shipped through the Seaway over the previous season. The 2005 presentations marked the 14th anniversary of the award.

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

- Brown County Port and Solid Waste Department, Green Bay, WI
- Illinois International Port District of Chicago, Chicago, IL
- Port of Oswego Authority, Oswego, NY
- Toledo-Lucas County Port Authority, Toledo, OH
- Port of Milwaukee, Milwaukee, WI
- Ogdensburg Bridge and Port Authority, Ogdensburg, NY
- Lorain Port Authority, Lorain, OH
- Duluth Seaway Port Authority, Duluth, MN
- Midwest Energy Resources Company, Superior, WI
- Midwest Terminals of Toledo International, Toledo, OH
- Port of Buffalo Gateway Metroport Terminal, Buffalo, NY
- K & K Warehousing, Green Bay, WI

SLSDC Departmental Awards Recipients

On November 10, 2005, six SLSDC employees were honored by DOT Secretary Norman Y. Mineta at the 38th Annual DOT Awards Ceremony held in Washington, D.C. The employees honored were:

Tom Lavigne, Director, Office of Engineering and Maintenance, Massena, N.Y., received the Meritorious Achievement (silver medal) award recognizing his extraordinary commitment to the development of plans to improve the Great Lakes St. Lawrence Seaway System.

Marsha Sienkiewicz, Team Leader, Accounting Officer, Massena, N.Y., received the Excellence award for her superior performance of all duties in support of the President's Management Agenda.

Vicki Garcia, Director of Civil Rights and Public Affairs Specialist, Massena, N.Y.; received the Team award for exceptional performance in response to an emergency on the St. Lawrence River.; and *Rebecca McGill*, Director, Trade Development, Congressional and Public Affairs, Washington, D.C.; *Tim Downey,* Communications Team Leader, Washington, D.C.; *Carol Fenton*, Deputy Associate Administrator, Massena, N.Y.

Change in SLSDC Leadership

On July 2, 2006, the term of Albert S. Jacquez as the SLSDC's eighth Administrator expired. The Department named SLSDC Deputy Administrator and Acting Chief Counsel Craig H. Middlebrook to serve as Acting Administrator until a successor was named. On August 29, President Bush nominated Collister Johnson, Jr., for the position of Administrator.

Mr. Johnson had served previously as President and Chief Executive officer of FastShip Atlantic, Inc., and as Chairman of the Virginia Port Authority. Most recently he served as Senior Management consultant at Mercer Management Consulting, Inc. In 2002, he was appointed a member of the board of directors of the Overseas Private Investment Corporation. The U.S. Senate confirmed Mr. Johnson's appointment on September 29, 2006. Mr. Johnson was sworn-in as SLSDC Administrator on October 5, 2006 by U.S. DOT Secretary Mary E. Peters.

U.S. Seaway Tolls Proposal

The President's FY 2007 budget to the Congress proposed to re-establish U.S. Seaway commercial tolls as a self-funding mechanism for the SLSDC to support its operations, maintenance, and capital needs. The re-establishment of U.S. Seaway tolls was first proposed as part of the President's FY 2006 budget request, but no action was taken by the Congress.

For FY 2007, the budget proposal called for $7.920 million in appropriations from the Harbor Maintenance Trust Fund (HMTF), with the remaining $9.425 million derived from the collection of commercial tolls. Beginning in 2008, the proposal called for complete self-sufficiency. The split between tolls and traditional appropriations from the HMTF was based on an assumption that U.S. Seaway toll collections would begin with the start of the navigation season (late March/early April), which is the halfway mark of the fiscal year. For FY 2007, the House and Senate Appropriations Committees both passed funding levels of $17,425,000 for the SLSDC and rejected the Administration's proposal to re-establish U.S. tolls.

Education/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 2006, one student participated in the job shadowing program.

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

The fifth grade class of Jefferson Elementary School participated in the National Transportation Poster Contest. The theme was "St. Lawrence Seaway on the Move." Winners were selected and awarded U.S. savings bonds by SLSDC's Public Information Officer Vicki Garcia. As part of the Jefferson Elementary 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 received a safe boating demonstration by a New York State Certified Instructor.

One of the 2003 National Transportation Week poster contest winners was honored when Fednav-Belgium requested to use the poster as their annual Christmas card.

Left: The Brown County Port and Solid Waste Department and its K & K Warehouse Terminal in Green Bay, Wisconsin were presented in April with the SLSDC's Robert J. Lewis Pacesetter Award. Left to right: Neil McKloskey, President of the Brown County Harbor Commission; Carol Kelso, Brown County Executive; Tom Kuber, President of K & K Warehousing; and Craig H. Middlebrook, Deputy Administrator, SLSDC.

Right: One of SLSDC's National Transportation poster contest winners was honored to be selected as Fednav-Belgium's 2005 Christmas card. Pictured is the winning artwork designed by Kayla Fetterley, Massena, New York.

Below: Secretary's Award winners (left to right) Tim Downey, Communications Team Chief, accepting the Team Award; Marsha Sienkiewicz, Team Leader, Accounting Officer, receives the Excellence Award; Albert Jacquez, former SLSDC Administrator; and Tom Lavigne, Director, Office Engineering and Maintenance receives the Meritorious Achievement Award.

Safety

Enhanced Seaway Inspections

"Maintain 100 percent of ocean vessel first-transit-inbound inspections at Montreal, Quebec, outside of U.S. waters, each navigation season." The goal was achieved during the 2005 season, with 224 vessel inspections conducted by SLSDC personnel. In 2006, through September 30, the goal was achieved with 208 vessel inspections completed.

Reliability

System Availability

"Improve the reliability and availability of locks and related navigational facilities during the navigation season." The goal for 2006 was 99 percent availability. System availability during the 2006 navigation season, through September 30, was 99.1 percent.

Lock Equipment Maintenance — "Reduce vessel delays due to lock equipment failure." The goal for 2006 was zero hours of delay. Lock-related delays in 2006, through September 30, were 1.7 hours.

Trade Development

Cruise Vessel Itineraries/Passengers

"Increase the number of cruise vessel port calls throughout the Great Lakes Seaway System over the previous navigation season level." In 2005, the goal for increased itineraries was not achieved with 57 port calls versus 64 in 2004. Data for 2006 was not available at the end of this reporting period.

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 achieved in FY 2006 at 24.5 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 for FY 2006 was a minimum year-end balance of $10 million. The financial reserve goal was met with a year-end balance of $11.1 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 as the Corporation received an unqualified opinion and no management letter in the independent examination of its financial statements for FY 2006, which was completed and issued on November 13, 2006.

From the Atlantic to the St. Lawrence to the beautiful Great Lakes, the scenic Seaway System is the ideal cruising experience. The Great Lakes provide a unique opportunity to sail from five of the largest bodies of fresh water in the world to the ocean.

Significant increases in the St. Lawrence Seaway's traditional cargoes — grain and steel — during the 2006 navigation season resulted in 47.2 million metric tons of cargo moving through the binational waterway, its highest overall tonnage level since 1999. The estimated increase of 3.9 million metric tons represented a 9 percent increase compared to the 2005 season.

Lower prices for imported steel products, drought conditions in Australia's agricultural region, and increased highway, rail, and border crossing congestion in North America were all factors in the Seaway posting its second busiest shipping year in 20 years. Vessel transits in 2006 were 4,613, the second highest amount since 1984. Low water level conditions in several Upper Great Lakes required cargo vessels to carry lighter loads than normal.

Grain exports totaled 11.5 million metric tons (18 percent increase), serving both traditional markets and those impacted by a lack of sufficient Australian grain exports. General cargoes were also up significantly (4.6 million metric tons, up 42 percent), led by imports of manufactured iron and steel and steel slabs.

In addition to increases in the Seaway's "traditional" commodities of grain and steel, the binational waterway also enjoyed increases in several new and diversified cargoes, including imports of wind turbine components for several U.S. Great Lakes communities and mining-petroleum machinery destined for Canada's tar oil sands mega project in Alberta.

The St. Lawrence Seaway also established a new record for the longest shipping season in the Waterway's 48th year. With the waterway's opening on March 23 and the passage of the *Kathryn Spirit* on December 30, the Seaway recorded a 283-day season, exceeding by two days the previous record set in 2004. The SLSDC also reported system and lock availability for the U.S. portion of the St. Lawrence Seaway at 99.1 percent, exceeding its annual target level of 99.0 percent.

2006 St. Lawrence Seaway Commodity and Transit Results

(Volume in Thousands of Metric Tons)

			Change	
Commodities	**2006**	**2005**	**Tons Transit**	**Percent**
Grain	11,538	9,773	1,765	18%
Government Aid	11	0	11	0%
Iron Ore	11,038	11,010	27	0%
Coal	3,714	3,693	21	1%
Other Bulk	16,284	15,548	736	5%
General Cargo	4,560	3,259	1,301	40%
Containers	19	17	2	12%
Cargo Total	**47,165**	**43,301**	**3,864**	**9%**
Vessel Transit Total	**4,613**	**4,361**	**252**	**6%**

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, 2006 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, 2006, 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 2006 and prior years.

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

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, 2006 and 2005,** 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 and the standards applicable to financial audits 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 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, 2006 and 2005, 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 20, 2006, 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.

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.

Dembo, Jones, Healy, Pennington & Marshall, P.C.
Rockville, Maryland
October 20, 2006

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

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, 2006 and 2005, and have issued our report thereon dated October 20, 2006. We conducted our audits in accordance with U.S. 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 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control 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 reportable 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 caused by error or fraud 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.

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 & Marshall, P.C.

Dembo, Jones, Healy, Pennington & Marshall, P.C.
Rockville, Maryland
October 20, 2006

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STATEMENTS OF FINANCIAL POSITION

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
AS OF SEPTEMBER 30, 2006 and 2005

	2006	2005
Assets		
Current Assets		
Cash		
Held by U.S. Treasury	$ 5,472,650	$ 5,280,148
Held in banks and on hand	121,721	94,033
Short-term time deposits in minority banks (Note 3)	10,372,000	10,220,000
Accounts receivable (Note 4)	82,451	78,878
Inventories (Note 2)	256,044	249,508
Other current assets (Note 4)	2,181	-
Total current assets	16,307,047	15,922,567
Long-Term Investments		
Long-term time deposits in minority banks (Note 3)	392,000	882,000
Plant, Property and Equipment		
Plant in service (Note 5)	160,866,144	158,850,187
Less: Accumulated depreciation	(85,532,428)	(83,109,074)
Net plant in service	75,333,716	75,741,113
Work in progress	739,675	1,093,481
	76,073,391	76,834,594
Other Assets		
Lock spare parts (Note 2)	740,247	825,344
Less: Accumulated depreciation	(231,415)	(230,858)
Net lock spare parts	508,832	594,486
Investment in Seaway International Bridge Corporation, Ltd. (Note 6)	7,440	7,440
	516,272	601,926
Deferred Charges		
Worker's compensation benefits (Note 2)	3,085,984	2,715,903
Total assets	$ 96,374,694	$ 96,956,990

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

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
AS OF SEPTEMBER 30, 2006 and 2005

		2006		2005
Liabilities and Equity of the U.S. Government				
Current Liabilities				
Accounts payable	**$**	**1,778,967**	$	1,588,812
Accrued annual leave (Note 2)		**785,174**		782,624
Accrued payroll costs		**445,881**		440,606
Disbursements in transit		**23,962**		-
Deferred revenue		**-**		8,000
Total current liabilities		**3,033,984**		2,820,042
Actuarial Liabilities				
Worker's compensation benefits (Note 2)		**3,085,984**		2,715,903
Total liabilities		**6,119,968**		5,535,945
Equity of the U.S. Government				
Invested capital (Note 2)		**91,064,503**		91,818,280
Cumulative results of operations (deficit)		**(809,777)**		(397,235)
		90,254,726		91,421,045
Total liabilities and equity of the U.S. Government	**$**	**96,374,694**	$	96,956,990

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

STATEMENTS OF OPERATIONS AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
Operating Revenues		
Appropriations expended	$ 14,423,809	$ 14,756,083
Imputed financing (Note 9)	932,469	902,190
Other (Note 7)	674,427	500,265
Total operating revenues	16,030,705	16,158,538
Operating Expenses (Note 8)		
Locks and marine operations	3,442,167	3,258,861
Maintenance and engineering	4,420,950	3,636,330
General and development	4,180,942	4,055,174
Administrative expenses	3,900,804	3,727,937
Depreciation	2,451,128	2,444,893
Imputed expenses (Note 9)	932,469	902,190
Total operating expenses	19,328,460	18,025,385
Operating loss	(3,297,755)	(1,866,847)
Other Financing Sources		
Interest on deposits in minority banks	434,085	276,591
Transfer from invested capital for depreciation	2,451,128	2,444,893
Total other financing sources	2,885,213	2,721,484
Operating revenues and other financing sources (under) over operating expenses	(412,542)	854,637
Beginning cumulative results of operations (deficit)	(397,235)	(1,251,872)
Ending cumulative results of operations (deficit)	$ (809,777)	$ (397,235)

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

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
Cash flows from operating activities:		
Operating revenues and other financing sources (under) over operating expenses	$ (412,542)	$ 854,637
Adjustments to reconcile operating revenues and other financing sources (under) over operating expenses to net cash provided by operating activities:		
Depreciation	2,451,128	2,444,893
Transfer from invested capital for depreciation	(2,451,128)	(2,444,893)
Net (gain) loss on property disposals	(74,775)	394
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,573)	2,929
(Increase) in inventories	(6,536)	(3,609)
(Increase) in other current assets	(2,181)	-
Decrease (increase) in other assets	85,097	(63,659)
Increase in accounts payable	190,155	268,927
Increase in accrued liabilities	31,787	114,941
(Decrease) increase in deferred revenue	(8,000)	8,000
Net cash (used in) provided by operating activities	(200,568)	1,182,560
Cash flows from investing activities:		
Proceeds from property disposals	82,758	-
Acquisition of plant, property and equipment	(1,697,351)	(950,717)
Net decrease (increase) in time deposits	338,000	(48,000)
Net cash used in investing activities	(1,276,593)	(998,717)
Cash flows from financing activities:		
Appropriations for plant, property and equipment	1,697,351	950,717
Net increase in cash	220,190	1,134,560
Cash at beginning of period	5,374,181	4,239,621
Cash at end of period	$ 5,594,371	$ 5,374,181

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

STATEMENT OF BUDGETARY RESOURCES AND ACTUAL EXPENSES (NOTE 12)

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budget		
	Resources	Obligations	Expenses
Saint Lawrence Seaway Development Corporation Fund	$ 31,736,202	$ 17,456,635	$ 19,328,460
Budget Reconciliation:			
Total expenses			19,328,460
Adjustments			
Add:			
Capital acquisitions			1,697,351
Deduct:			
Depreciation			(2,451,128)
Imputed expenses			(932,469)
Decrease in net plant in service, property disposals			(7,983)
Increase in inventories			6,536
Decrease in other assets			(85,097)
Less reimbursements:			
Trust funds			(16,121,160)
Revenues from non-federal sources			(1,108,512)
Accrued expenditures			$ 325,998

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

STATEMENTS OF CHANGES IN EQUITY OF THE U.S. GOVERNMENT

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	Invested Capital	Unexpended Appropriations	Cumulative Results of Operations
Balance, September 30, 2004	$ 93,312,456	$ -	$ (1,251,872)
Appropriations expended		(14,756,083)	14,756,083
Fiscal Year 2005 appropriations		15,706,800	
Other financing sources			1,679,046
Operating expenses, excluding depreciation and imputed expenses			(14,678,302)
Depreciation expense			(2,444,893)
Imputed expenses			(902,190)
Transfer from invested capital for depreciation	(2,444,893)		2,444,893
Capital expenditures	950,717	(950,717)	-
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)

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

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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, 2006. 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 $492,438 September 30, 2006, 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.

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 fiscal year 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 $18,071,160 for fiscal year (FY) 2006, $16,121,160 from the Fund (Public Laws 109-115 and 109-148), $1,050,000 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 $17,456,635 for FY 2006. The Corporation's unobligated balance at September 30, 2006 totaled $14.3 million including $3.2 million unused borrowing authority. For FY 2007, the Corporation is operating on a Continuing Resolution based on the FY 2006 level of $16,121,160. In addition, authority to obligate $900,000 of non-federal revenues has been apportioned by OMB for FY 2007.

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.

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 as of September 30, 2006 and 2005 are as follows:

	2006	2005
Due from concession contracts	**$ 36,984**	$ 28,736
Interest on deposits in minority banks	**27,197**	16,898
Other	**20,451**	33,244
Total	**$ 84,632**	$ 78,878

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

Note 5. Plant in Service

Plant in service as of September 30, 2006 and 2005 as follows:

		2006		2005	
Plant in Service	**Estimated Life (Years)**	**Cost**	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Lands in fee	N/A	**$ 867,326**	**$ -**	$ 867,526	$ -
Land rights & relocations	95	**5,639,064**	**2,531,118**	5,639,064	2,471,907
Locks and guidewalls	40 - 100	**77,323,851**	**40,587,384**	76,106,007	39,591,262
Roads and bridges	50	**9,399,099**	**8,310,608**	9,242,862	8,122,627
Channels and canals	95	**36,870,221**	**16,391,760**	36,870,221	16,004,623
Public use facilities	50	**918,409**	**646,097**	918,409	627,729
Navigation aids	10 - 40	**2,939,691**	**2,462,241**	2,939,691	2,404,554
Buildings, grounds and utilities	50	**14,735,539**	**5,932,797**	14,359,314	5,640,249
Permanent operating equipment	5 - 40	**12,172,944**	**8,670,423**	11,907,093	8,246,123
Total plant in service		**$ 160,866,144**	**$ 85,532,428**	$ 158,850,187	$ 83,109,074

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.

Note 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 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, 2006 and 2005 consist of the following:

	2006	2005
Concession operations	$ 313,009	$ 271,613
Shippers payments for damages to locks	3,275	1,042
Rental of administration building	66,562	67,897
Vessel towing services	11,700	11,400
Pleasure craft/non-commercial tolls	109,476	106,863
Miscellaneous (net)	170,405	41,450
Total	$ 674,427	$ 500,265

Shipper's 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, 2006 and 2005 are as follows:

	2006	2005
Personnel services and benefits	$ 11,894,198	$ 11,661,314
Travel and transportation	165,697	180,707
Rental, communications and utilities	584,499	517,935
Printing and reproduction	26,644	28,572
Contractual services	2,434,178	1,509,000
Supplies and materials	731,642	669,985
Equipment not capitalized	108,005	110,395
Loss on property disposals	-	394
Subtotal	15,944,863	14,678,302
Depreciation expense	2,451,128	2,444,893
Imputed expenses	932,469	902,190
Total operating expenses	$ 19,328,460	$ 18,025,385

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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 fiscal year 1997, the Corporation recognizes and records the cost of pensions and other post-retirement benefits during employee's 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, 2006 and 2005 are as follows:

	2006	2005
Civil Service Retirement System	**$ 188,628**	$ 206,545
Federal Employees Retirement System:		
Automatic contributions	**722,615**	660,712
Matching contributions	**195,373**	186,153
Social Security	**410,383**	379,182
Total	**$ 1,516,999**	$ 1,432,592

Note 10. Contingencies and Commitments

As of September 30, 2006, no material claims are pending against the Corporation. In addition to the current liabilities at September 30, 2006 and 2005 there were undelivered orders and contracts amounting to $2,329,452 and $2,815,143, respectively.

Note 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, 2006 and 2005, revenue totaled $63,181 and $64,598, respectively.

The Corporation made rental payments to the General Services Administration for our Washington, D.C. office totaling $234,098 and $204,149 for fiscal years 2006 and 2005, 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 2006 and FY 2005 were as follows:

	2006	2005
Volpe National Transportation System Center	$ 55,000	$ 32,500
Department of Commerce	35,000	-
Office of the Secretary of Transportation	52,780	48,881
Federal Highway Administration	22,968	27,876
United States Coast Guard	-	1,074
Federal Occupational Health	1,074	-
U.S. Maritime Administration	15,000	-
General Services Administration	4,866	-
Federal Aviation Administration	4,000	4,000
U.S. Census Bureau	1,317	-
Office of Personnel Management	1,000	19,340
Executive Office of the President, Council on Environmental Quality	-	5,000
Federal Motor Carrier Safety Administration	684	-
Pipeline and Hazardous Materials Safety Administration	100	-
Department of Defense	9,232	1,572
Total	$ 203,021	$ 140,243

Accounts payable at September 30, 2006 and 2005 include $1,218,980 and $1,148,314 respectively, of amounts payable to the U.S. Government.

In fiscal years 2006 and 2005, the Corporation accrued costs of $89,071 and $80,717, respectively, to the St. Lawrence Seaway Management Corporation for administrative services related to tolls and statistics.

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 $31,736,202 consist of the Corporation's unobligated balance of $14,119,874 brought forward from October 1, 2005, and reimbursements earned of $17,229,672 and recoveries of prior year's obligations of $386,657 during FY 2006.

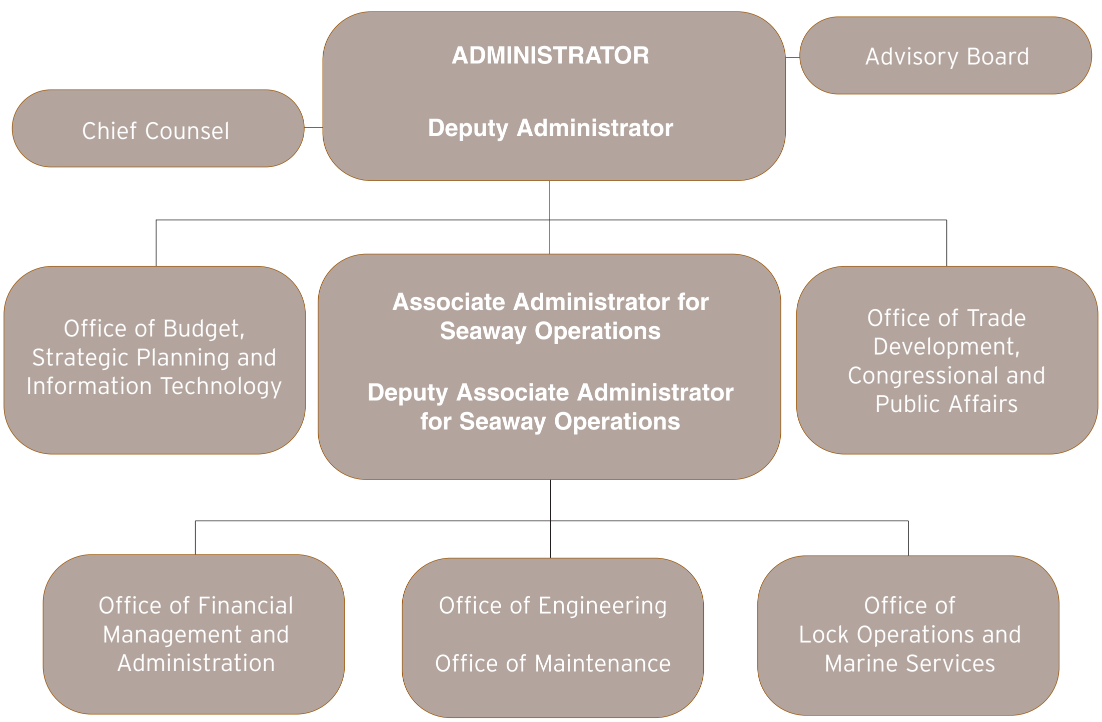
ADVISORY BOARD

SLSDC has a statutorily mandated five-member Advisory Board which reviews the general policies of the SLSDC and advises the Administrator with respect to these policies. The members of the Advisory Board are appointed by the President with the advice and consent of the U.S. Senate.

Jack E. McGregor, Chairman, Bridgeport, Conn.
George Milidrag, Troy, Mich.
James S. Simpson, New York, N.Y.
Scott K. Walker, Milwaukee, Wis.
William Wilson, Saint Paul, Minn.

Saint Lawrence Seaway Development Corporation

ORGANIZATIONAL CHART



CONTACTS

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Deputy Administrator	(202) 366-0105
Chief of Staff	(202) 366-0107
Chief Counsel	(202) 366-0091
Trade Development, Congressional and Public Affairs	(202) 366-5418
Budget, Strategic Planning and Info. Technology	(202) 366-8982

Massena, N.Y. Office

Associate Administrator	(315) 764-3209
Deputy Associate Administrator	(315) 764-3211
Chief Financial Officer	(315) 764-3275
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Engineering	(315) 764-3251
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Lock Operations (after hours)	(315) 764-3292
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SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Fiscal Year 2006 Annual Report