
Office of Inspector General

Audit Report

INDEPENDENT AUDITOR'S REPORT ON AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2017

Saint Lawrence Seaway Development Corporation

Report Number: FI2018003

Date Issued: November 8, 2017





U.S. Department of
Transportation
Office of Inspector General

Memorandum

Subject: **ACTION:** Independent Auditor's Report on
Audited Financial Statements for
Fiscal Year 2017,
Saint Lawrence Seaway Development Corporation
Report Number: FI2018003

Date: November 8, 2017

From: Louis C. King, CPA 
Assistant Inspector General for Financial and
Information Technology Audits

Reply to
Attn. of: JA-20 Baltimore

To: Saint Lawrence Seaway Development Corporation Administrator

REPORT ON THE FINANCIAL STATEMENTS

In accordance with the Government Corporation Control Act,¹ we have audited the accompanying financial statements of the Saint Lawrence Seaway Development Corporation (SLSDC), a U.S. Government Corporation. These financial statements comprise SLSDC's statement of financial position as of September 30, 2017. The statements also include SLSDC's statements of operations and changes in cumulative results of operations, cash flows, budgetary resources and actual expenses, and changes in equity of the U.S. Government for the year then ended, and the related notes to the financial statements. SLSDC's financial statements as of September 30, 2016, and for the year then ended, were audited by other auditors.² Those auditors expressed an unmodified opinion on those financial statements in their report dated October 14, 2016.

We conducted our audit in accordance with generally accepted Government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

¹ 31 U.S.C. § 9101-9110.

² *Quality Control Review of Audited Financial Statements for Fiscal Years 2016 and 2015, Saint Lawrence Seaway Development Corporation* (Report Number QC-2017-014), November 15, 2016. OIG reports and testimony can be found on our website at: www.oig.dot.gov.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SLSDC as of September 30, 2017, and its changes in financial position, cash flows, budgetary resources and actual expenses, and changes in equity of the U.S. Government for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 6 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements other than with respect to the adjustments and accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

As discussed in Note 6 to the 2017 financial statements, the 2016 financial statements have been restated to correct a misstatement in liability reported and to record certain revenues and expenses. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the 2017 financial statements, the 2016 financial statements have been changed to correct a presentation error related to the “Worker’s Compensation Benefits” asset line item. This line item has been removed because it was incorrectly presented as an asset. Our opinion is not modified with respect to this matter.

As also discussed in Note 2, the accumulated depreciation for fiscal year 2017 includes unplanned depreciation to adjust the net book values of some assets. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. Management’s Discussion and Analysis and Other Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2017, we considered SLSDC’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the

effectiveness of SLSDC's internal control. Accordingly, we do not express an opinion on the effectiveness of SLSDC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.³

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

Findings and Recommendations—Significant Deficiencies

A. Controls Over Financial Reporting of FECA Actuarial Liabilities

Background

Federal Employees' Compensation Act of 1916 (FECA)⁴—administered by the Department of Labor (DOL)—provides income and medical costs for job-related injuries, diseases, and deaths of civilian employees of the Federal Government through a special benefit fund. The fund pays benefits on behalf of Federal entities as costs are incurred, and bills the entity annually before August 15 for the costs incurred during the previous 12-month period ending June 30.

The FECA actuarial liability includes the expected liability for death, disability, medical, and other approved costs. Agency records reflect the unfunded actuarial

³ Public Law No. 97-255.

⁴ Public Law No. 64-267.

liability for future outlays to DOL. This unfunded liability is updated annually to reflect changes in the actuarial estimate calculated by DOL, and agencies adjust their books to reflect changes. As of September 30, 2017, SLSDC's accounts show an unfunded FECA liability totaling \$4,330,027.

Condition

In its draft fiscal year 2017 and prior financial statements, SLSDC presented an asset of equal value to the unfunded FECA actuarial liability (Worker's Compensation Benefits). This asset was not recorded in SLSDC's accounting records and SLSDC did not have support for the asset. SLSDC acknowledged this presentation error, corrected the presentation for fiscal year 2017, and restated the fiscal year 2016 financial statements to remove it.

Criteria

Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts 5 states that a financial statement—a formal tabulation of names and amounts of money derived from accounting records—displays either the entity's financial position at a moment in time or one or more kinds of changes in the entity's financial position during a period of time.

Cause

Controls over financial statement preparations were not operating effectively.

Effect

The fiscal year 2016 financial statement did not accurately represent SLSDC's actual financial condition as of September 30, 2016. Assets and cumulative results of operation presented in the fiscal year 2016 financial statements were overstated by approximately \$3,891,000.

Recommendations

We recommend that SLSDC management

1. Improve and implement reconciliation (walkthrough) procedures during the financial statement preparation process to ensure information included in its financial statements is supported by underlying accounting records and transactions.

B. Reporting Financial Activities for the Seaway International Bridge

Background

SLSDC owns, on behalf of the U.S. Government, 68 percent of the South Channel Span of the Seaway International Toll Bridge System operated by the Seaway International Bridge Corporation (SIBC). SIBC is a wholly owned subsidiary of the Federal Bridge Corporation Limited (FBCL), a federal crown corporation of Canada. The annual surplus—the net income from bridge operations after all operating expenses—is divided equally between SLSDC and FBCL. According to the terms of a 2011 agreement between SLSDC, FBCL, and SIBC, SIBC holds surplus funds belonging to each of the owners to fund structural repair and projects that the owners authorize. SIBC credits SLSDC for interest earned from the funds held. To enhance control over the use of its funds, SLSDC established a service job order system with SIBC in early 2017. Service job orders define scope and cost parameters for approved projects and authorize SIBC to expend funds on SLSDC's behalf.

As of September 30, 2016, SLSDC's statement of financial position reflected \$2,885,741 due from SIBC and an equal liability as a reserve for future bridge repairs.

Condition

SLSDC did not record revenues—allocation of surplus from SIBC, interest earned and gain/loss on currency exchange—from bridge operations or expenses associated with service job orders in its accounts throughout the fiscal year. Furthermore, evidence of past transactions resulting in current obligations did not support the liability for bridge repairs as of October 1, 2016.

Criteria

Paragraph 83(a) of FASB Concept Statement 5, Recognition and Measurement in Financial Statement of Business Enterprises, states that revenue and gains are realized when products, merchandise, or other assets are exchanged for cash or claims to cash. It further states that revenue and gains are realizable when related assets received or held are readily convertible to known amounts of cash or claims to cash. Paragraph 83(b) states that revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the revenues' benefits.

FASB Concept Statement 6, Elements of Financial Statements, states that liabilities are probable future sacrifices of economic benefits arising from an entity's present obligations to transfer assets or provide services to other entities in the future as a result of past transactions or events. A liability has the following essential characteristics: (1) embodiment of a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand; (2) duty or responsibility that

obligates a particular entity, leaving little or no discretion to avoid future sacrifice; and (3) the transaction or other event that obligates the entity has already happened.

Cause

SLSDC did not have appropriate policies and procedures in place to periodically account for and recognize in accounting records its (1) share of activities related to the operation of the South Channel Span of the Seaway International Bridge, (2) expenses incurred for bridge repairs, and (3) liability to fund bridge repairs.

Effect

SLSDC had to restate its fiscal year 2016 financial statements to recognize and present surplus allocations, interest, and gains/losses totaling \$225,030, and bridge repair expenses totaling \$245,093. SLSDC also zeroed the previously reported liability of \$2,885,741, and recorded an increase to equity for the same amount.

For fiscal year 2017, management took action to correct these account balances prior to the issuance of the statements.

Recommendations

We recommend that SLSDC management

1. Develop and implement accounting policies and procedures to recognize and record SLSDC's:
 - a. Share of activities related to the operation of the South Channel Span of the Seaway International Bridge;
 - b. Expense activity associated with executed bridge repair service job orders; and,
 - c. Liabilities with SIBC for open service job orders.

C. Controls Over Property, Plant and Equipment

Background

As of September 30, 2017, SLSDC owned and operated property, plant and equipment (PP&E)—including construction in progress and costing approximately \$261 million—such as the Eisenhower and Snell locks, channels and canals, fixed and floating navigational aids, buildings and structures, roads, and a majority portion of the South Channel Span of the Seaway International Toll Bridge.

Per SLSDC's policy, the recorded cost of an asset should be based on the total cost needed to bring an asset into service, and all assets in use should be included in the current property records. PP&E assets are depreciated on a straight line basis using the cost of the assets, service dates, and useful lives. Useful life varies from 3 years to as much as 100 years, depending on asset class or type.

To dispose of PP&E, the Supply Team Leader submits for review and approval to the Chief, Procurement and Supply, a certificate of disposal with the asset value and description. Approved certificates of disposal are forwarded to the Director, Financial Management and Administration/Chief Financial Officer for posting to the property records. Furthermore, SLSDC's supply division policies and procedures state that a physical inventory of all non-expendable property will be conducted at least once annually.

In July 2015, SLSDC converted to a new financial management system provided by the Department of Interior.

Condition

We statistically selected a sample of 73 of 753 PP&E assets (as of June 30, 2017) for testing. Within this sample, we found the following:

- Two assets were depreciated by SLSDC's new financial management system using incorrect depreciation schedules.
- Five assets were depreciated using incorrect or inappropriate useful lives.
- One asset erroneously included costs that should have been capitalized to another asset and as a result, was overvalued in the records.
- Two assets had been disposed of in May 2017, but were still included in the PP&E records.
- Four assets could not be located and were most likely disposed of in prior periods but still included in the PP&E records.
- Nine assets were buoys that could not be specifically identified.

Criteria

FASB states that (1) depreciation expense in financial statements for an asset shall be determined based on the asset's useful life; (2) cost should be spread over the expected useful life of the asset in a way that allocates it as equitably as possible to the periods during which services are obtained from the use of this asset; and

(3) the historical cost of asset acquisition includes the cost incurred to bring the asset to the condition and location necessary for its intended use.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*⁵ (Federal Control Standards) states that transactions should be complete—not understated—and promptly and accurately recorded. The Federal Control Standards also state that management should design an internal control system to provide reasonable assurance of prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets. They further state that information should be appropriate, current, complete, accurate, accessible, and provided on a timely basis.

Cause

As part of the conversion to the new financial management system, SLSDC's service provider did not develop new schedules for proper charge of depreciation expense for certain converted assets.

Furthermore, SLSDC controls were not suitably designed or operating effectively to ensure that:

- New assets were given appropriate useful lives;
- The proper level of review was performed when projects were closed from construction in progress and transferred to PP&E;
- Review and approval of disposal actions and posting to the property records were timely;
- Physical inventories were performed; and
- Floating navigational aids—buoys—were identified by serial number in the property records.

Effect

The net book value of SLSDC owned PP&E was overstated and actions were required to properly value PP&E and record additional depreciation expense.

SLSDC identified five additional assets with incorrect depreciation schedules. SLSDC posted the corrected net book values of the assets—reduced by approximately \$531,000—and worked with its service provider to develop a permanent solution. SLSDC identified 28 additional assets with incorrect or

⁵ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

inappropriate useful lives. SLSDC adjusted these assets' useful lives. The posted corrections reduced the net book values by approximately \$626,000.

To prevent erroneous inclusion of costs that should be capitalized to another asset, SLSDC established a new asset in its property records and shifted the capital costs to that asset.

Overall, the net book value of SLSDC PP&E was overstated by more than \$1.1 million.

Recommendations

We recommend that SLSDC management

1. Establish controls to ensure the appropriate useful lives of assets are recorded in the accounting system when new assets are placed into service.
2. Establish controls to review the nature and scope of projects prior to closure and conversion to PP&E to ensure that assets are properly recorded in the PP&E records.
3. Update asset disposal policy to better define procedures for disposal and establish specific parameters for timely completion.
4. Enhance certificates of disposal to include asset ID numbers to expedite disposal actions.
5. Perform a complete physical inventory of PP&E as required by SLSDC policy and research any differences identified.

Update the property records to include the serial numbers for buoys.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the SLSDC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 17-03. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of potential noncompliance, described below, that must be reported under generally accepted Government auditing standards or OMB Bulletin 17-03.

D. Potential Violation of 31 U.S.C. § 9107(b)

Background

The net income from SIBC bridge operations, after all operating expenses (the annual surplus), is divided equally between SLSDC and the Federal Bridge Corporation Limited (FBCL). Since 1993, surplus funds belonging to each of the owners are held by SIBC to fund future structural repair or projects authorized by the owners. A 2011 agreement between the SLSDC, FBCL and SIBC provides detailed authorization procedures for SIBC's use of these funds.

Condition

As of September 30, 2017, SIBC held \$3,171,712 on behalf of SLSDC in foreign bank and investment accounts. Without a waiver from the Secretary of Treasury, this could be a violation of 31 U.S.C. § 9107(b). We requested SLSDC provide a waiver; however, they did not.

Criteria

31 U.S.C. § 9107(b) requires the Secretary of the Treasury to keep the accounts of Government corporations, or if the Secretary approves, a Federal reserve bank or a bank designated as a depository or fiscal agent of the United States Government. The Secretary may waive the requirements of this subsection.

Cause

SLSDC did not have an account with Treasury in which to deposit proceeds from bridge operations, and chose to permit SIBC to hold SLSDC's funds so that that liquid assets would be readily available to SIBC to fund future bridge projects. The SLSDC is in contact with the U.S. Treasury Department regarding the historical treatment of the SIBC account. SLSDC is waiting for a determination from Treasury and does not believe it would be prudent to implement any change to the current practice before then.

Effect

When they are not in the custody of the U.S. Government, SLSDC's funds are at risk for possible misuse, misappropriation, and exchange rate losses.

Recommendations

We recommend that SLSDC management

1. Coordinate with the Department of the Treasury to determine the appropriate treatment and custody of its funds currently held by SIBC.

SLSDC's Responses to Findings

SLSDC's responses (see appendix) to our findings were not subject to the auditing procedures we applied to our audit of the financial statements and, therefore, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of SLSDC's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering SLSDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

#

EXHIBIT. MAJOR CONTRIBUTORS TO THIS REPORT

<u>Name</u>	<u>Title</u>
George Banks	Program Director
Kevin Kelly	Project Manager
Stephen Berkeridge, CPA	Senior Auditor
Angie Moultrie, CPA	Auditor
Anh Pham, CPA	Auditor
Amy Berks	Senior Counsel
Petra Swartzlander	Senior Statistician
Makesi Ormond	Statistician
Susan Neill	Writer-Editor

APPENDIX. AGENCY RESPONSE

U.S. Department
Of Transportation

**Saint Lawrence
Seaway Development
Corporation**

Memorandum

Subject: Management's Response to the OIG Audit Report on the SLSDC's Financial Statements for Fiscal Year 2017 **Date:** November 8, 2017

A handwritten signature in blue ink, reading "Craig H. Middlebrook".

From: Craig H. Middlebrook
Deputy Administrator

To: Calvin L. Scovel III
Inspector General
U.S. Department of Transportation

This memorandum represents the Saint Lawrence Seaway Development Corporation's (SLSDC) official response to the Office of Inspector General's (OIG) Independent Auditor's Report on Audited Financial Statements for Fiscal Year (FY) 2017, dated November 8, 2017. We are pleased that the OIG audit team that performed the SLSDC FY 2017 financial audit provided an unmodified audit opinion – the SLSDC's 54th consecutive unmodified audit opinion dating back to its first financial audit in 1955.

We concur with the three significant deficiencies identified in the audit report, and note that we have already implemented all recommendations related to the deficiencies, except for Recommendation C.6., which will be implemented in January 2018 after the next scheduled buoy run. Supporting documentation related to the SLSDC's remediation of these recommendations has been provided to the OIG financial audit team.

Related to the compliance matter highlighted in the audit report, the SLSDC reached out to officials at the U.S. Department of the Treasury's Bureau of the Fiscal Service in September 2017 for their guidance and historical understanding of the reserve use funds used to make repairs and improvements to the U.S. portion of the South Channel Span of the Seaway International Bridge. Treasury is aware of the issue and is expected to review the matter and enter into discussions with the SLSDC over the next several months to determine the appropriate treatment and custody of the funds. Until Treasury makes a determination on this issue, we believe it would not be prudent to implement any change to the current practices.

We appreciate the professionalism and cooperation exhibited by the OIG financial audit team during the audit. The combined efforts and teamwork of the OIG and SLSDC staffs were critical to achieving the objectives of the financial audit process. Please refer any questions to Nancy Scott, Director, Financial Management and Administration/CFO.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Authority – The U.S. Saint Lawrence Seaway Development Corporation (SLSDC or Corporation), a wholly-owned government corporation and an operating administration of the U.S. Department of Transportation (USDOT or Department), 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 performing vessel traffic control operations in areas of the St. Lawrence River and Lake Ontario. In addition, the Corporation performs economic and trade development activities designed to enhance Great Lakes St. Lawrence Seaway System utilization.

The SLSDC directly interacts with numerous U.S. and Canadian government agencies and private industry to carry out its mission. The Corporation 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 waterway and lock operations, traffic management, navigation aids, safety, environmental programs, operation 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 St. Lawrence Seaway directly serves the eight-state, two-province region, which represents the world's third largest economy with economic output of nearly \$6 trillion annually. Maritime commerce on the Great Lakes Seaway System annually sustains more than 225,000 U.S. and Canadian jobs, \$14 billion in personal income, \$34 billion in transportation-related business revenue, \$6 billion in local purchases, and \$5 billion in federal, state, provincial, and local taxes. The binational waterway also provides approximately \$4 billion in annual transportation cost savings compared to competing rail and highway routes.

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

Mission Statement – The SLSDC operates and maintains the U.S. infrastructure and waters of the St. Lawrence Seaway, while performing trade development focused on driving economic activity 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 – Service // Leadership // Stewardship // Dependability // Commitment

Financial Highlights for Fiscal Year 2017

Each year, the SLSDC reports its financial position and results of operations, 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 investments in plant and equipment by charging tolls to commercial 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 St. Lawrence Seaway Management Corporation, or SLSMC), with the U.S. share remitted to the SLSDC. With the enactment of the Water Resources Development Act of 1986, P.L. 99-662, which created the Harbor Maintenance Trust Fund (HMTF), the SLSDC became an appropriated federal agency. Although the U.S. portion of Seaway tolls was still collected, the Act required the U.S. Treasury to rebate the U.S. toll collections to users. 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 need for the U.S. to negotiate Seaway toll levels with the SLSMC.

Selected Financial Indicators *				
<i>(in thousands of dollars)</i>				
For the Fiscal Years Ended September 30	2017	2016	Change	
			\$	%
Operating Revenues	28,753	17,742	11,012	62
Appropriations expended	28,166	17,139	11,027	64
Other	588	603	(15)	(2)
Operating Expenses	18,514	17,935	579	3
Personnel services and benefits	14,282	13,883	399	3
Other	4,232	4,052	180	4
Imputed Financing and Expenses				
Imputed financing	667	843	(176)	(21)
Imputed expenses	667	843	(176)	(21)
Total Assets	191,058	177,297	13,761	8
Time Deposits in Minority Banks	10,690	10,495	195	2
Short-term	8,620	8,513	107	1
Long-term	2,070	1,982	88	4
Interest Income from Minority Banks	89	74	16	21

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

Operating Revenues

Operating revenues, excluding imputed financing, totaled \$28.8 million in Fiscal Year (FY) 2017, an \$11 million increase. Appropriations expended, representing the amount of the HMTF expended for operating purposes, also increased \$11 million and other revenues decreased \$15,000.

Operating Expenses

Overall operating expenses of \$18.5 million, excluding depreciation, imputed expenses and worker's compensation benefits, increased by \$579,000. Personnel services and benefits increased \$399,000 and other costs increased \$180,000. Personnel services and benefits represented 77 percent of the Corporation's operating expenses in FY 2017.

Other costs of \$4.2 million included: \$2.8 million for other contractual services; \$935,000 for supplies and materials; \$191,000 for travel and transportation of persons and things; \$178,000 for rent, communications, and utilities; \$68,000 for equipment not capitalized; and \$13,000 for printing and reproduction.

The Corporation employed 131 people on September 30, 2017, including 1 temporary employee.

Imputed Financing and 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 \$191 million. Plant, property, and equipment are valued at \$144 million.

Time Deposits in Minority Banks and Interest Income

A key asset of the Corporation is time deposits in minority banks, totaling \$10.7 million at year-end, an increase of \$195,000. An increased investment level with higher interest rates led to a 21 percent increase in interest on deposits in minority banks. The interest income is an important financing source for the Corporation.

Unobligated Balance

The Corporation had an unobligated balance on September 30, 2017 of \$14.1 million, comprised of \$3.2 million of unused borrowing authority and \$10.9 million in financial

reserves. The reserve is maintained to finance emergency or extraordinary expenditures to ensure safe and uninterrupted use of the Seaway, a policy affirmed by the U.S. Department of Transportation, Office of Management and Budget, and the U.S. Congress in 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).

Agency Operations

Other-than-personnel expenditures for Agency Operations, not including undelivered orders, totaled \$4.2 million. Specific operating expenditures for Agency Operations included \$1.5 million for general office charges; \$1.2 million for special operating projects; \$320,000 for general operating expenses; \$233,000 for equipment, vehicle, and vessel maintenance; \$218,000 for trade development; \$201,000 for lock inspection and maintenance; \$185,000 for building maintenance; and \$153,000 for training and conferences.

SLSDC's Asset Renewal Program

As part of its FY 2009 budget request to Congress, the SLSDC developed an Asset Renewal Program (ARP) to address the long-term asset renewal needs of the U.S. Seaway infrastructure. A perpetual infrastructure asset such as a lock requires a capital investment equivalent to its original cost over its design life, which is typically 50 years, in order to sustain itself. The U.S. portion of the St. Lawrence Seaway was built in the late 1950s at an original cost of \$130 million. Prior to the start of the ARP in FY 2009, only \$47 million in capital expenditures had been invested in the U.S. Seaway locks since they opened in 1959. Through the first nine years of ARP funding (FYs 2009-2017), the SLSDC has obligated \$139 million on 48 separate projects.

The projects included in the ARP address various needs for the two U.S. Seaway locks, the Seaway International Bridge connecting Ontario and New York, maintenance dredging, operational systems, and Corporation facilities and equipment. None of these investments will result in increases to the authorized depth or width of the navigation channel or to the size of the two existing U.S. locks.

Other-than-personnel ARP expenditures in FY 2017, not including undelivered orders, totaled \$7.2 million and included: \$6.3 million to install hands-free mooring system technology at Eisenhower Lock; \$376,000 for concrete rehabilitation at Eisenhower Lock; \$243,000 to replace culvert valves; and \$243,000 for upgrades to the gatelifter.

In FY 2017, the SLSDC obligated \$27.9 million in other-than-personnel on 11 ARP projects for Year Nine of its ARP, which primarily included obligations of \$19 million to upgrade the floating plant; \$8.1 million to continue installation of hands-free mooring

system technology at Eisenhower Lock; and \$648,000 to repair concrete at Eisenhower Lock.

Details on ARP projects with FY 2017 expenditures:

ARP Project No. 12: Corporation Equipment – Upgrade/Replace Floating Plant – Electronic Marine Systems completed a contract to upgrade the ballast equipment control system for the crane barge/gatelifter. NKB & Ram-Tech was also awarded a contract to inspect and repair the hoisting system for the crane barge/gatelifter during the 2017 navigation season. TechCrane was awarded a contract to design, manufacture and install a replacement crane for the buoy tender barge during the 2018 navigation season. Gulf Islands Shipyards was awarded a contract to begin the construction of a new ice breaking class tug. This work includes the final production engineering, hull construction and procurement of engines and propulsion units.

ARP Project No. 23: Both Locks – Install Hands Free Mooring (HFM) System Technology – Tioga Construction was awarded a contract to complete the installation of the HFM slots and railings at Snell Lock in two phases including demolition work during the 2018 winter shutdown period and slot construction work during the 2019 winter shutdown period. The HFM units for Snell Lock were received from the manufacturer during the 2017 navigation season. The HFM units for Eisenhower Lock have been rescheduled for installation and commissioning during the 2018 navigation season.

ARP Project No. 29: Eisenhower Lock – Walls, Sill and Culverts – Two contracts were awarded to repair deteriorated concrete with dry-mix shotcrete at the interior surface areas of the filling and emptying culverts on both sides of Eisenhower Lock. Shotcrete Montana completed the shotcrete repairs for the south culvert during the 2017 winter shutdown period, and Patterson-Stevens will complete the shotcrete repairs for the north culvert during the 2018 winter shutdown period.

Operational Initiatives

\$27.9 Million Spent in FY 2017 on SLSDC ARP Infrastructure Projects

During FY 2017, the SLSDC continued to rehabilitate and modernize the U.S. Seaway infrastructure through its Asset Renewal Program (ARP). The ARP was started in FY 2009 to rehabilitate and modernize the SLSDC's lock infrastructure, vessels, facilities, and equipment in Massena, N.Y.

In FY 2017, the SLSDC obligated \$27.9 million on 11 ARP projects, including \$19 million for the SLSDC's tugboat replacement project (*included \$9.2 million in recovered funds from FY 2016*) and \$8.1 million for civil construction work as part of the installation of hands-free mooring system technology at Snell Lock. Through the first nine years of ARP funding (FYs 2009-2017), the SLSDC has obligated \$139 million on 48 separate projects.

The start of the ARP in 2009 represented the first time in the SLSDC's 50-year history that a comprehensive effort had been undertaken to modernize the Seaway infrastructure, including rehabilitation of and improvements to the U.S.-operated locks, the navigation channels, the Seaway International Bridge, and other Corporation facilities and assets located in Upstate New York. None of the ARP projects increase the authorized depth or width of the navigation channel or the size of the lock facilities.

The SLSDC's ARP is resulting in not only modernized infrastructure and new equipment to ensure the long-term reliability of the St. Lawrence Seaway, but it is also having a positive and significant impact on the Upstate New York economy. In fact, approximately half of the ARP funds obligated during the program's first nine years were awarded to contractors and companies within the region. In addition to these contracts, the ARP is producing \$1.5-\$2.5 million in additional economic benefits to the region (local permanent and temporary hires, local spending on supplies and equipment, lodging, meals, etc.) each year.

The completion of ARP projects will extend the life of the U.S. Seaway infrastructure and reduce the risk of system delays to commercial navigation caused by lock equipment malfunction. In addition, several ARP projects will involve the implementation of new and improved technologies for the operation of the Seaway infrastructure, resulting in reduced maintenance needs and operating costs to Seaway users.

SLSDC Maintains 100 Percent Inspections of Foreign Vessels Entering the St. Lawrence Seaway

Under the Enhanced Seaway Inspection (ESI) program, the SLSDC inspects all ocean vessels on their initial transit into the St. Lawrence Seaway. The inspection focuses on safety and environmental protection issues and occurs in Montreal, Que., before the vessel enters the Seaway and U.S. waters. The SLSDC and the U.S. Coast Guard (USCG)

signed a Memorandum of Understanding (MOU) in March 1997 to develop this program of coordinated vessel inspection and associated enforcement activities. This MOU was also developed in conjunction with the Canadian SLSMC and Transport Canada and continues to guide Seaway maritime policies and procedures. The ESI program expedites the safe transit of shipping through the Great Lakes St. Lawrence Seaway System, while maintaining strict environmental standards.

ESI inspections are jointly performed by SLSDC and SLSMC marine inspectors. Each inspection covers both Seaway-specific fittings as well as port state control items identified by the USCG and Transport Canada as required for Great Lakes-Seaway vessel transits. In the event major deficiencies are identified, Transport Canada and the USCG are notified and the vessel is detained in Montreal until all deficiencies are cleared.

The proactive approach and continued improvement of the inspection program has been successful in reducing the number and frequency of incidents both on the St. Lawrence River and in and around the lock facilities. In addition, the inspection program has eliminated the practice of duplicative inspections, allowing for a more seamless and efficient transit of the Seaway.

The SLSDC's goal for performing inspections of all foreign-flag vessels on their initial Seaway transit each year was achieved during the 2016 navigation season, with 245 inspections conducted by SLSDC personnel. As of September 30, 192 vessel inspections had been completed during the 2017 navigation season.

Federal Report Highlights Continued Effectiveness of the Great Lakes Seaway System Ballast Water Inspection Program

In January 2017, a new report showed the continued effectiveness of the current Great Lakes Seaway ballast water management regime during the 2016 navigation season. This was evident in both the number of ballast tank inspections of oceangoing commercial ships entering the Great Lakes St. Lawrence Seaway System from outside U.S. or Canadian waters, as well as the extent of compliance with ballast water management requirements.

The *2016 Summary of Great Lakes Seaway Ballast Water Working Group* examined the U.S.-Canada Great Lakes Seaway System ballast water ship inspection program. During 2016, 100 percent of the ships bound for the Great Lakes from outside the Exclusive Economic Zone (EEZ) received a ballast tank exam prior to entering the St. Lawrence Seaway for the seventh consecutive year. Vessels that had not conducted a ballast water exchange or flush were required to either retain the ballast water and residuals on board, treat the ballast water in an environmentally sound and approved manner, or return to sea to conduct a ballast water exchange. In total, 8,488 ballast tanks were assessed during 466 inbound ocean vessel transits. Inspectors found that 99 percent of all ballast tanks were in compliance with required salinity levels.

The effectiveness of the Seaway's ballast water inspection program has been publicly

credited as a key factor in preventing the discovery of establishment of any new species in the Great Lakes since 2006 – the longest such period of non-detection on record.

The report was prepared by the Great Lakes Seaway Ballast Water Working Group (BWWG), which includes representatives of the SLSDC, Canadian SLSMC, the USCG's Ninth District, and Transport Canada. The group coordinates U.S. and Canadian enforcement and compliance efforts to reduce the introduction of aquatic invasive species in the Great Lakes via ships' ballast water.

SLSDC Participates in Annual Emergency Exercise

The SLSDC sustains an Emergency Response Plan that enhances the Corporation's ability to respond to any vessel incident. The SLSDC works closely with local, tribal, state, and federal agencies to prepare for a quick and safe response to mitigate the impact of an accident or spill on the local environment and on Seaway trade and commerce. Annual training and drills are practiced to ensure that resources are adequate for an effective response. Most training and drills include the participation of federal, state, and local response agencies and environmental groups. Since 1992, the SLSDC has participated and/or hosted 37 annual emergency exercises.

On August 22-23, 2017, the SLSDC participated in emergency response exercises in Clayton and Hogansburg, N.Y. On the first day, the response team completed a boom deployment exercise, deploying 2,400 feet of boom in 75 minutes. On the second day, a vessel grounding tabletop exercise was conducted at the Akwesasne Mohawk Tribe's Volunteer Fire Department. Multiple agencies participated, including the U.S. Coast Guard, U.S. Customs and Border Protection, New York State Police, St. Regis Mohawk Tribal Council, and St. Lawrence and Franklin County Emergency Services.

SLSDC Continues to Support Binational "Green Marine" Program; Achieves High Level of Environmental Performance

In FY 2017, the SLSDC continued to financially support and participate 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.

The objective of the Green Marine program, which was launched in October 2007, is to build and maintain strong relations with key stakeholders and to develop a greater awareness of the maritime industry's activities, benefits, and challenges. To accomplish this, Green Marine activities are directed towards strengthening the industry's environmental standards and performance through a process of continuous improvement. The program focuses on helping the maritime industry represent itself uniformly, strengthening industry involvement in regulatory processes, and improving regulatory outcomes.

All Green Marine participants must complete a yearly self-evaluation to demonstrate their environmental performance based on numerous criteria and undergo an independent third-party verification to confirm the results and provide input and guidance on reaching the highest level. The performance indicators range on a scale from 1 to 5, with 1 representing regulatory compliance and 5 reflecting leadership and excellence.

For the 2016 rating period, the SLSDC and Canadian SLSMC had their results published as a single entry by Green Marine to reflect the binational nature of the Seaway and the collaborative work by both entities in pursuing environmental excellence. The

SLSDC/SLSMC scored a 4.1 for Greenhouse Gases and Community Impact, and earned a perfect score of 5.0 for Environmental Leadership and Spill Prevention.

Trade and Economic Development Initiatives

Six U.S. Ports Earn SLSDC's Robert J. Lewis Pacesetter Award

In FY 2017, the SLSDC celebrated six U.S. Great Lakes Seaway System ports with the 25th annual Robert J. Lewis Pacesetter Award for registering increases in international cargo tonnage shipped through their ports during the 2016 navigation season compared to 2015.

The six ports that won the Pacesetter Award for 2016 were Port of Green Bay (Wis.); Port of Duluth (Minn.)-Superior (Wis.); Toledo-Lucas County Port Authority (Ohio); Port of Milwaukee (Wis.); Port of Buffalo (N.Y.); and Ogdensburg Bridge and Port Authority (N.Y.).

Established in 1992, the SLSDC Pacesetter Award annually recognizes the economic development achievements of those U.S. Great Lakes Seaway System ports that increase international tonnage shipped through the St. Lawrence Seaway in comparison to the previous year. Since the award was first issued 25 years ago, the SLSDC has distributed more than 125 Pacesetter Awards to 14 different U.S. Great Lakes Seaway ports.

SLSDC Co-Leads Great Lakes Stakeholders Participation at Breakbulk Europe Conference

The SLSDC and the Canadian SLSMC co-led a binational delegation of Great Lakes Seaway System stakeholders at the annual Breakbulk Europe Conference and Exhibition in April 2017. Over 8,000 participants attended Breakbulk Europe 2017, including more than 400 international exhibitors, sponsors, and industry experts. Breakbulk and project cargo represents the fastest growing cargo sector for Great Lakes Seaway commercial maritime traffic.

Organizations represented in the 2017 Highway H₂O delegation to Breakbulk Europe included the SLSDC, Canadian SLSMC, and port officials from Burns Harbor (Ind.), Cleveland (Ohio), Hamilton (Ont.), Oswego (N.Y.), Thunder Bay (Ont.), and Valleyfield (Que.). These groups collaborated to jointly promote shipping and to identify new and important trade opportunities throughout the Great Lakes Seaway System.

SLSDC Co-Sponsors Annual Highway H₂O Conference

The SLSDC co-sponsored and participated in the 12th Annual Highway H₂O Conference in Toronto, Ont., November 16-17, 2016. Conference speakers shared insights on economic activities and cargo trends, infrastructure developments that capture business opportunities, and innovation throughout the global maritime industry.

The theme of the conference was "Shipping Simplified," one of Hwy H₂O's main marketing themes in 2016. It was the best attended conference in the event's 12-year

history, welcoming over 160 attendees from multiple countries, including the United States, Canada, Belgium, and the United Kingdom. The conference included presentations from Deputy Administrator Craig Middlebrook and Great Lakes Regional Representative Adam Schlicht.

SLSDC Participates at Annual Seatrade Cruise Shipping Exhibition

In coordination with the Great Lakes Cruising Coalition, the SLSDC and several other Great Lakes Seaway System stakeholders participated in the annual Seatrade Cruise Shipping Exhibition, March 13-16, 2017, in Ft. Lauderdale, Fla. The goal of attending and exhibiting at the conference was to market and promote the Great Lakes St. Lawrence Seaway System to cruise ship owners and operators.

The Great Lakes Seaway System booth was prominently displayed and delegation members were approached by multiple cruise ship owners, operators, charterers, and influencers with specific initiatives to bring added cruise inventory into the Great Lakes. Discussions focused on the current state of affairs for the cruise ships *Pearl Mist*, *Victory I*, and her sister ship the *Victory II*, which will make its Great Lakes Seaway System debut in 2018. Other discussions focused on three additional cruise lines that are expected to tour the Great Lakes in the next few years – Ponant Cruise Lines, Silversea Cruises, and Absolute Nevada LLC, the newest owner of the cruise ship *Americana*, formerly the *Yorktown*, which last sailed the Great Lakes in 2013.

SLSDC and SLSMC Host Annual Stakeholder Appreciation Reception

In conjunction with the industry events surrounding the annual Montreal Marine Club dinner, the SLSDC and SLSMC sponsored its annual trade promotion and stakeholders' appreciation reception in Montreal, Que., December 1, 2016. This event allows the Seaway Corporations to promote ongoing and future marketing efforts designed to raise the profile of the System and to increase tonnage and vessel activity. This event is also an opportunity to thank stakeholders for their continued support of the Great Lakes Seaway System. This year's reception was well-attended with over 275 stakeholders representing 10 different countries and three continents.

Management Initiatives

SLSDC Employees and Teams Receive USDOT Secretarial Awards

On October 6, 2016, U.S. Transportation Secretary Anthony Foxx honored several SLSDC employees and work teams at the 49th annual U.S. Department of Transportation (DOT) Secretary's Awards Ceremony in Washington, D.C. At the event, the Secretary recognized employees and teams across DOT who performed their duties in an exemplary manner to meet the Department's strategic goals and accomplish its mission.

Secretary Foxx awarded a Meritorious Achievement Award to Nancy Scott, Director of the Office of Financial Management and Chief Financial Officer, for her outstanding contributions to the advancement of the Department's financial management goals through the development and implementation of a new financial management system. Matt Trego, Marine Transportation Specialist/Ship Inspector, received the Secretary's Excellence Award for outstanding contributions to the Binational Seaway Ship Inspection Program.

In addition, the SLSDC received several team awards. Ryan Chatland, Chief of Lock Operations, accepted a Secretarial Team Award on behalf of the SLSDC's *Saint Laurent* Incident Team, recognizing the Corporation team for their timely and effective response to the *Saint Laurent* passenger cruise ship incident, which struck a concrete bumper inside the SLSDC's Eisenhower Lock in Massena, N.Y., in June 2015, with 274 passengers and crew on board. David Sanford, Civil Engineer, accepted a Secretarial Transportation Safety Award on behalf the SLSDC's Lock Wall Fall Protection Team for their outstanding contributions to the design and installation of an innovative Lock Wall Fall Protection System. Finally, Joy Pasquariello, Public Affairs Specialist, received a Secretary's Team Award for her outstanding collaboration in the planning and execution of the Department's 50th Anniversary events.

SLSDC and SLSMC Continue to Work Collaboratively on Joint Strategic and Business Development Initiatives

During FY 2017, the SLSDC and SLSMC continued work on their joint strategic and business development initiative to ensure that the two Seaway governing entities continue to improve customer service and reduce costs. SLSDC and SLSMC officials met twice in FY 2017 – telephonically on January 11, 2017, and in St. Catherines, Ont., September 13-14, 2017.

SLSDC and SLSMC senior managers delivered presentations in the areas of stakeholder engagement, business growth, and operational initiatives. Group discussions focused on coordination between the two agencies for continued service improvement, including follow-up on a number of priorities established at earlier binational sessions. Other topics at the meetings included: an update on the hands-free mooring project; alignment of asset renewal plans; implementation of ballast water regulations in the U.S. and Canada;

utilization of the Highway H₂O marketing brand; organizational changes; and a review of joint outreach activities.

SLSDC Maintains ISO 9001:2008 Certification

In April 2017, the SLSDC successfully completed a two-day surveillance audit of its International Standards Organization (ISO) 9001:2008 certified quality management system, conducted by Lloyds Register of Quality Assurance, an independent accrediting agency. The ISO 9001:2008 standard focuses on self-assessment, ongoing improvements, and performance metrics. The review found that the SLSDC successfully carried out any corrective/preventive actions as warranted and detailed in the management system.

In 1998, the SLSDC began the process of certifying its operational business practices through internationally recognized ISO standards. 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's certification is internationally recognized and complements the agency's marketing and trade development efforts overseas. Customer feedback is taken seriously and improvements are made as a result. Maintaining ISO certification has kept Corporation 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.

SLSDC Participates in Great Lakes Seaway Partnership “Capital Day” Event in Columbus, Ohio

The SLSDC, as a member of the Great Lakes Seaway Partnership, participated in “Capital Day” events in Ohio in January 2017. On January 25, the SLSDC and Partnership members met with Ohio Lieutenant Governor Mary Taylor, Ohio cabinet officials, and public and private leaders from across the state in Columbus. The Partnership's Capital Days events are intended to educate state officials about the Great Lakes St. Lawrence Seaway System and to inform state policymakers with a better understanding of the importance of the binational waterway to the state economy.

The Partnership, created in June 2015, brings together leading U.S. and Canadian maritime organizations working to enhance public understanding of the benefits of commercial shipping in the Great Lakes Seaway region of North America. The organization manages an education-focused communications program, sponsors research, and works closely with media, policy makers, community groups, allied industries, environmental stakeholders, and the general public to highlight the positive attributes of marine transportation.

SLSDC FY 2017 Key Performance Measures and Results

Enhanced Seaway Inspections — “Inspect 100 percent of ocean vessels during their first Seaway inbound transit at Montreal, Que., outside of U.S. waters, each navigation season.” The goal was achieved during the 2016 season, with 245 vessel inspections conducted by SLSDC personnel. In 2017, through September 30, 192 vessel inspections had been completed.

System Reliability — “Ensure the reliability 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 system reliability. System reliability during the 2017 navigation season, through September 30, was 99.0 percent. Final FY 2017 system reliability was 98.7 percent.

Lock Availability — “Minimize vessel delays due to lock equipment failure or malfunction.” The goal each year is 99 percent lock availability. Lock availability during the 2017 season, through September 30, was 99.99 percent. Final FY 2017 lock-related delays totaled 5 hours, 2 minutes, which produced a 99.93 percent availability rate.

Administrative Expenses — “Reduce the administrative overhead expense ratio of total operating expenses, excluding ARP projects, depreciation, and imputed expenses, to 23 percent or lower.” The administrative expense ratio goal was met in FY 2017 at 20 percent.

Financial Reserve Balance — “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 2017 with a year-end balance of \$10.7 million.



U.S. Department
Of Transportation

**Saint Lawrence
Seaway Development
Corporation**

Memorandum

Subject: Federal Managers' Financial Integrity Act
(FMFIA) Assurance Statement

Date: November 2, 2017

A handwritten signature in blue ink, appearing to read "C. H. Middlebrook", on a light-colored background.

From: Craig H. Middlebrook
Deputy Administrator

To: Louis C. King
Assistant Inspector General for Financial and
Information Technology Audits

Pursuant to Section 306 of the Chief Financial Officers Act of 1990, the Saint Lawrence Seaway Development Corporation (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, 2017, 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 laws;
- 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, 2017, 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 2017 and prior years.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash		
Held by U.S. Treasury	\$ 31,520,567	\$ 21,270,913
Held in banks and on hand	5,450	-
Short-term time deposits in minority banks (Note 3)	8,620,000	8,513,000
Accounts receivable (Note 4)	69,736	48,707
Due from SIBC (Note 6)	3,171,712	2,885,741
Inventories (Note 2)	404,968	403,003
Other current assets (Note 4)	15,415	15,415
Total current assets	<u>43,807,848</u>	<u>33,136,779</u>
Long-Term Investments		
Long-term time deposits in minority banks (Note 3)	<u>2,070,000</u>	<u>1,982,000</u>
Plant, Property and Equipment		
Plant in service (Note 5)	229,969,194	227,296,253
Less: Accumulated depreciation	<u>(115,863,956)</u>	<u>(111,396,828)</u>
Net plant in service	114,105,238	115,899,425
Information Software, net	1,172,856	1,404,585
Work in progress	<u>29,125,952</u>	<u>24,113,088</u>
	<u>144,404,046</u>	<u>141,417,098</u>
Other Assets		
Lock spare parts (Note 2)	<u>776,116</u>	<u>761,589</u>
Total assets	<u>\$ 191,058,010</u>	<u>\$ 177,297,466</u>

See Notes to Financial Statements

(Continued)

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2017 and 2016

Liabilities and Equity of the U.S. Government	2017	2016
Current Liabilities		
Accounts payable	\$ 2,420,919	\$ 2,269,560
Accrued annual leave (Note 2)	861,685	880,869
Accrued payroll costs	518,083	507,435
Other Current Liabilities	<u>5,450</u>	<u>-</u>
Total current liabilities	<u>3,806,137</u>	<u>3,657,864</u>
Actuarial Liabilities		
Worker's compensation benefits (Note 2)	<u>4,330,027</u>	<u>3,891,382</u>
Total liabilities	<u>8,136,164</u>	<u>7,549,246</u>
Equity of the U.S. Government		
Invested capital (Note 2)	159,603,283	156,605,801
Cumulative results of operations	20,146,851	10,256,678
Cumulative results of SIBC restricted use fund (Note 6)	3,171,712	-
Prior period adjustment cumulative results of operations SIBC (Note 6)	<u>-</u>	<u>2,885,741</u>
	<u>182,921,846</u>	<u>169,748,220</u>
Total liabilities and equity of the U.S. Government	<u>\$ 191,058,010</u>	<u>\$ 177,297,466</u>

See Notes to Financial Statements

(Concluded)

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF OPERATIONS AND CHANGES
IN CUMULATIVE RESULTS OF OPERATIONS
For the Years Ended September 30, 2017 and 2016

	2017	2016
Operating Revenues		
Appropriations expended	\$ 28,165,729	\$ 17,138,917
Imputed financing (Note 9)	667,194	843,365
Other (Note 7)	587,768	602,566
Total operating revenues	<u>29,420,691</u>	<u>18,584,848</u>
Operating Expenses (Note 8)		
Locks and marine operations	5,720,185	5,750,012
Maintenance and engineering	5,964,686	5,729,456
General and development	2,501,951	1,740,240
Administrative expenses	4,327,259	4,715,303
Depreciation	5,074,789	3,785,808
Imputed expenses (Note 9)	667,194	843,365
Worker's compensation benefits (Note 2)	438,645	(186,232)
Total operating expenses	<u>24,694,708</u>	<u>22,377,952</u>
Operating gain (loss)	4,725,983	(3,793,104)
Other Financing Sources		
Interest on deposits in minority banks	89,401	73,616
Transfer from invested capital for depreciation	5,074,789	3,785,808
Total other financing sources	<u>5,164,190</u>	<u>3,859,424</u>
Operating revenues and other financing sources over operating expenses	9,890,173	66,320
Beginning cumulative results of operations	<u>10,256,678</u>	<u>10,190,358</u>
Ending cumulative results of operations	<u>\$ 20,146,851</u>	<u>\$ 10,256,678</u>
SIBC Restricted Use Fund Activity (Note 6)		
Interest earned	37,420	33,024
Allocation of annual surplus	184,978	131,497
Foreign currency exchange	147,361	60,509
Total SIBC revenues	<u>369,759</u>	<u>225,030</u>
Bridge repairs	<u>83,788</u>	<u>245,093</u>
SIBC restricted fund gain (loss)	285,971	(20,063)
Beginning cumulative results of SIBC restricted use fund	<u>2,885,741</u>	<u>2,905,804</u>
Ending cumulative results of SIBC restricted use fund	<u>\$ 3,171,712</u>	<u>\$ 2,885,741</u>

See Notes to Financial Statements

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Operating revenues and other financing sources over operating expenses	\$ 9,890,173	\$ 66,320
Adjustments to reconcile operating revenues and other financing sources over operating expenses to net cash provided by (used in) operating activities:		
Depreciation	5,074,789	3,785,808
Transfer from invested capital for depreciation	(5,074,789)	(3,785,808)
Net (gain) loss on property disposals	(28,442)	30,947
Change in assets and liabilities:		
Accounts receivable	(21,029)	13,902
Inventories	(1,965)	(103,525)
Other current assets	-	2,505
Other assets	(14,942)	(104,483)
Accounts payable	151,359	(747,672)
Accrued liabilities	(8,536)	97,413
Other Current Liabilities	5,450	-
Actuarial Liabilities (Note 2)	438,645	(186,232)
Net cash provided by (used in) operating activities	<u>10,410,714</u>	<u>(930,825)</u>
Cash flows from investing activities:		
Proceeds from plant, property and equipment disposals	39,390	-
Acquisition of plant, property and equipment	(7,862,271)	(11,261,083)
Net increase in time deposits	(195,000)	(288,000)
Net cash used in investing activities	<u>(8,017,881)</u>	<u>(11,549,083)</u>
Cash flows from financing activities:		
Appropriations for plant, property and equipment	<u>7,862,271</u>	<u>11,261,083</u>
Net increase (decrease) in cash	10,255,104	(1,218,825)
Cash at beginning of year	<u>21,270,913</u>	<u>22,489,738</u>
Cash at end of year	<u>\$ 31,526,017</u>	<u>\$ 21,270,913</u>

See Notes to Financial Statements

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENT OF BUDGETARY RESOURCES AND ACTUAL EXPENSES (NOTE 12)
For the Year Ended September 30, 2017

	----- Budget -----		
	Resources	Obligations	Expenses
Saint Lawrence Seaway Development Corporation Fund	\$ 61,131,456	\$ 47,078,432	\$ 24,694,708
Budget Reconciliation:			
Total expenses			24,694,708
Adjustments			
Add:			
Capital acquisitions			7,862,271
Increase in inventories			1,965
Deduct:			
Depreciation			(5,074,789)
Imputed expenses			(667,194)
Workers' compensation benefits			(438,645)
Increase in other assets			14,942
Decrease in net plant in service, property disposals			(10,949)
Less reimbursements:			
Trust funds			(36,028,000)
Revenues from non-federal sources			<u>(677,169)</u>
Accrued expenditures			<u>\$ (10,322,860)</u>

See Notes to Financial Statements

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
STATEMENTS OF CHANGES IN EQUITY OF THE U.S. GOVERNMENT
For the Years Ended September 30, 2017 and 2016

	Invested Capital	Unexpended Appropriations	Cumulative Results of Operations	Cumulative Results of SIBC Restricted Use Fund
Balance, September 30, 2015	\$ 148,798,397	\$ -	\$ 10,190,358	\$ 2,905,804
Appropriations expended	-	(17,138,917)	17,138,917	-
Fiscal Year 2016 appropriations	-	28,400,000	-	-
Other financing sources	332,129	-	1,519,547	225,030
Operating expenses, excluding depreciation and imputed expenses	-	-	(17,935,011)	(245,093)
Depreciation expense	-	-	(3,785,808)	-
Imputed expenses	-	-	(843,365)	-
Workers' compensation actuarial	-	-	186,232	-
Transfer from invested capital for depreciation	(3,785,808)	-	3,785,808	-
Capital expenditures	11,261,083	(11,261,083)	-	-
Balance, September 30, 2016	156,605,801	-	10,256,678	2,885,741
Appropriations expended	-	(28,165,729)	28,165,729	-
Fiscal Year 2017 appropriations	-	36,028,000	-	-
Other financing sources	210,000	-	1,344,363	369,759
Operating expenses, excluding depreciation and imputed expenses	-	-	(18,514,080)	(83,788)
Depreciation expense	-	-	(5,074,789)	-
Imputed expenses	-	-	(667,194)	-
Workers' compensation actuarial	-	-	(438,645)	-
Transfer from invested capital for depreciation	(5,074,789)	-	5,074,789	-
Capital expenditures	7,862,271	(7,862,271)	-	-
Balance, September 30, 2017	<u>\$ 159,603,283</u>	<u>\$ -</u>	<u>\$ 20,146,851</u>	<u>\$ 3,171,712</u>

See Notes to Financial Statements

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended September 30, 2017 and 2016

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.

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, improvements and betterments costing \$5,000 or more are capitalized when they have an expected useful life of two years or more. 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. The accumulated depreciation for FY 2017 includes unplanned depreciation to adjust the net book values of some assets.

Lock spare parts consists of inventory items valued at the lower of cost or market with cost being determined using the weighted-average method.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended September 30, 2017 and 2016

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 financial statements. The liability recorded of \$4,330,027 and \$3,891,382 at September 30, 2017 and 2016, respectively, reflects the actuarial liability as determined by the Department of Labor.

A change was made in FY 2017 in the presentation of the workers' compensation actuarial in the financial statements. Previous to FY 2017 the cumulative deferred charge was presented as an asset and liability. In FY 2017 the cumulative deferred charge of \$4,330,027 is presented as a liability. The change in the cumulative deferred charge of \$438,645 and \$-186,232 for FY 2017 and FY 2016, respectively, is presented as an operating expense. The FY 2015 cumulative liability of \$4,077,614 was subtracted from the beginning cumulative results of operations FY 2016 to accurately reflect the expense incurred previous to FY 2016.

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 \$39,978,000 for FY 2017, \$36,028,000 from the Fund (Public Laws 115-31); \$3,200,000 from the Corporation's unobligated balance and \$750,000 from non-federal revenues. FY 2017 funding includes year nine of a 10-year Asset Renewal Plan. Actual obligations, in contrast to the accrued costs stated in the Statement of Operations, totaled \$47,078,432 for FY 2017. The Corporation's unobligated balance at September 30, 2017 totaled \$14.1 million including \$3.2 million unused borrowing authority. For FY 2018, the Corporation is currently operating on a Continuing Resolution based on the FY 2017 level of \$36,028,000. In addition, authority to obligate \$650,000 of non-federal revenues has been apportioned by OMB for FY 2018.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended September 30, 2017 and 2016

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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, 2017 and 2016 are as follows:

	2017	2016
Due from concession contracts	\$ 35,869	\$ 34,682
Other	24,926	8,424
Interest on deposits in minority banks	<u>8,940</u>	<u>5,601</u>
	69,736	48,707
Prepaid Contracts		
	<u>15,415</u>	<u>15,415</u>
Total	<u><u>\$ 85,151</u></u>	<u><u>\$ 64,122</u></u>

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended September 30, 2017 and 2016

Note 5. Plant in Service

Plant in service as of September 30, 2017 and 2016 is as follows:

Plant in Service	Estimated Life (Years)	2017		2016	
		Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Locks and guidewalls	40 - 100	\$ 123,960,147	\$ 55,014,296	\$121,500,369	\$ 52,747,181
Channels and canals	95	36,870,221	20,650,162	36,870,221	20,263,073
Buildings, grounds and utilities	50	24,186,607	11,160,909	24,067,599	10,138,068
Permanent operating equipment	5 - 40	21,309,506	12,124,602	21,215,350	11,747,810
Roads and bridges	50	13,913,141	10,904,184	13,913,141	10,573,431
Land rights & relocations	95	5,639,064	3,182,413	5,639,064	3,123,210
Navigation aids	10 - 40	3,223,183	2,827,391	3,223,183	2,804,055
Lands in fee	N/A	867,326	-	867,326	-
Total plant in service		<u>\$ 229,969,194</u>	<u>\$115,863,956</u>	<u>\$227,296,253</u>	<u>\$111,396,828</u>

The U.S. portion of the St. Lawrence Seaway was built in the late 1950s. The Corporation developed, as part of its FY 2009 budget request to Congress, a ten-year Asset Renewal Program (ARP) estimated at \$186 million to address the long-term asset renewal needs of the aging U.S. Seaway Infrastructure. The ARP includes various needs for the two U.S. Seaway Locks, the Seaway International Bridge, maintenance dredging, operational systems, and Corporation facilities and equipment. The total amount that has been expended and/or committed (including undelivered orders) in the program through September 30, 2017, excluding personnel compensation, amounted to \$138,521,797.

Plant in Service includes costs of certain features of the South Channel Span of the Seaway International Bridge, 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.

Included in Plant in Service at September 30, 2017 is the cost of a financial management system implemented by the Corporation during FY 2015 and a travel management system implemented in FY 2016. The total cost of both systems is \$1,725,204 and is being amortized over 7 years. Total amortization for the year ended September 30, 2017 amounted to \$552,348.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended September 30, 2017 and 2016

Note 6. Due from the Seaway International Bridge Corporation, Ltd. (SIBC)

The Corporation owns, on behalf of the U.S. Government, 68 percent of the South Channel Span of the Seaway International Bridge operated by the SIBC, a wholly owned subsidiary of The Federal Bridge Corporation Ltd., a federal Crown Corporation of Canada. To maintain oversight of the SIBC, the Corporation designates four senior Corporation officials to serve on the eight member SIBC Board of Directors. The net annual income from the SIBC, after all operating expenses, is divided equally between the Corporation and The Federal Bridge Corporation Ltd. The Corporation's portion, if any, is held by the SIBC solely to fund structural repair or project costs to the South Channel Span as provided in the Corporation's enabling act (33 U.S.C. 984(a)(12)). Accordingly, SIBC holds, on behalf of the Corporation, cash which is restricted to use on expenses for the South Channel Span as follows:

	2017	2016
Beginning Balance, 10/1	\$ 2,885,741	\$ 2,905,804
Interest Earned	37,420	33,024
Allocation of Annual Surplus	184,978	131,497
Bridge Repairs	(83,788)	(245,093)
Foreign Currency Exchange	147,361	60,509
Ending Balance, 9/30	<u>\$ 3,171,712</u>	<u>\$ 2,885,741</u>
Amount restricted for future		
South Channel Span repairs	<u>\$ 3,171,712</u>	<u>\$ 2,885,741</u>

A restatement was made in FY 2017 in the recording of the SIBC restricted use fund. In FY 2016 the balance was disclosed as an asset, Due from SIBC, and a liability, Reserve for future bridge repairs SIBC. In FY 2017 the balance is disclosed as an asset, Due from SIBC, and equity, Cumulative results of SIBC restricted use fund. The activity for FY 2017 and FY 2016 is disclosed on the Statement of Operations and Changes in Cumulative Results of Operations and a prior period adjustment to the cumulative results of operations SIBC has been presented in FY 2016.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended September 30, 2017 and 2016

Note 7. Other Revenues

Other revenues for the years ended September 30, 2017 and 2016 consist of the following:

	2017	2016
Concession operations	\$ 327,242	\$ 388,113
Miscellaneous	71,846	67,913
Pleasure craft/non-commercial tolls	68,259	79,109
Rental of administration building	46,989	46,951
Gain on property disposals	39,390	0
Payments for damages to locks, net	18,817	2,517
Rebates	<u>15,225</u>	<u>17,963</u>
Total	<u>\$ 587,768</u>	<u>\$ 602,566</u>

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, 2017 and 2016 are as follows:

	2017	2016
Personnel services and benefits	\$ 14,282,476	\$ 13,883,041
Contractual services	2,845,689	2,401,235
Supplies and materials	935,437	1,138,316
Rental, communications and utilities	178,491	156,945
Travel and transportation	190,623	240,695
Equipment not capitalized	57,431	69,354
Printing and reproduction	12,984	14,478
Loss on property disposals	<u>10,949</u>	<u>30,947</u>
Subtotal	18,514,080	17,935,011
Depreciation expense	5,074,789	3,785,808
Imputed expenses	667,194	843,365
Total operating expenses	<u>\$ 24,256,063</u>	<u>\$ 22,564,184</u>

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended September 30, 2017 and 2016

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.

The Corporation paid contributions to the retirement plans and Social Security for the years ended September 30, 2017 and 2016 as follows:

	2017	2016
Federal Employees Retirement System:		
Automatic contributions	\$ 1,278,419	\$ 1,241,706
Matching contributions	335,025	315,121
Social Security	604,403	572,188
Civil Service Retirement System	59,598	64,464
Total	<u>\$ 2,277,445</u>	<u>\$ 2,193,479</u>

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, they offset each other with no impact upon the Corporation's net position. The imputed financing and offsetting imputed expense amounts for the years ended September 30, 2017 and 2016 were \$667,194 and \$843,365, respectively.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended September 30, 2017 and 2016

Note 10. Related Party Transactions

The Corporation receives rental payments for office space at its administration building in Massena, New York. For the years ended September 30, 2017 and 2016, revenue totaled \$42,553 and \$42,264 for space provided to the U.S. Coast Guard.

The Corporation leases office space in Washington, D.C. under the terms of an Intra-agency Agreement (IAA) with the Federal Aviation Administration. Costs for the years ended September 30, 2017 and 2016 of \$392,682 and \$373,983, respectively, are included in the reimbursable agreements listed below.

The Corporation has entered into reimbursable agreements with certain federal agencies to provide services and equipment to the Corporation. Reimbursable agreements with federal agencies for FY 2017 and FY 2016 were as follows:

	2017	2016
Department of Interior	\$ 616,186	25,260
Federal Aviation Administration	405,777	\$ 387,324
Federal Highway Administration	44,960	58,298
Department of Commerce	8,388	9,197
General Services Administration	595	6,895
Federal Occupational Health	270	261
Office of Personnel Management	<u>0</u>	<u>900</u>
Total	<u>\$ 1,076,176</u>	<u>\$ 488,135</u>

Accounts payable and accrued payroll benefits at September 30, 2017 and 2016 include \$1,486,939 and \$1,473,489 respectively, of amounts payable to the U.S. Government.

In fiscal years 2017 and 2016, the Corporation incurred costs of \$104,306 and \$106,068, respectively, to the Canadian St. Lawrence Seaway Management Corporation for administrative services related to tolls and statistics.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended September 30, 2017 and 2016

Note 11. Contingencies and Commitments

As of September 30, 2017, no material claims are pending against the Corporation. In addition to the current liabilities at September 30, 2017 and 2016 there were undelivered orders and contracts amounting to \$27,572,271 and \$16,161,924, respectively.

The Corporation leases office space in Washington, D.C. under the terms of an IAA with the Federal Aviation Administration which is subject to annual funding obligations.

The Corporation also provides office space to several agencies under various lease agreements. The lease 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 \$61,131,456 consist of the Corporation's unobligated balance of \$15,146,125 brought forward October 1, 2016, and reimbursements earned of \$36,684,602, and recoveries of prior year's obligations of \$9,300,729.

* * * * *