

# **Annual Report 2011**

Blue Water Bridge Canada

**Canada** 

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## *Letter from the President and Chief Executive Officer*



Just as the unsettled economy across North America continues to challenge the delivery of our international services, it has also presented us with several opportunities to advance our mission to make our customers' gateway experience safe, efficient and enjoyable.

Representing a positive contribution to the region's economic recovery efforts, we completed a substantial portion of a \$110-million capital improvements program – the largest in our 73 years of operation. Overall, the program involved 11 projects, ranging from the construction of a streamlined Canadian plaza-Hwy 402 traffic link to the placement of additional variable message driver instruction signs. The improvements were given much-appreciated support, through \$9.3 million in matching funding from the Government of Canada's Economic Action Plan through the Gateways and Border Crossing Fund.

Officially opened in June, the four-floor Blue Water Bridge Corporate Centre was a key component of our plaza development program. The complex houses the secure border control facilities and administrative facilities of the Canada Border Services Agency and the Canadian Food Inspection Agency, as well as our own business offices and those of our commercial tenants. Its design and operation apply a sustainable development philosophy and will meet our needs well into the future. The centre is expected to earn a *Leadership in Energy and Environmental Design* certification, acknowledging its conformance with North American building and construction industry requirements and standards for cleaner and greener developments. The fact that the \$70-million project was completed on time and within budget confirms the capabilities and diligence of our Manager of Capital Projects Ed Teft and his team. They have done a stellar job orchestrating all of our development activities.

The completion of each successive element of our development program offers new benefits to our travelling customers and our host communities, as well as to those of us who work at the Canadian plaza. In addition, the improvements are giving us a solid foundation for plans for our next phase of long-term capital improvements. As part of our preparations, we have been surveying the opinions and attitudes of our commercial and non-commercial customers. Their input has offered us valuable insights into the types of services that could be incorporated into future bridge improvements.

Facing continuous pressure from an unsettled economy to do more with less, we have been encouraged to also take a more progressive view of how to conduct our business and deploy our employees. Internally, we are expanding skills development opportunities, while also challenging our employees to contribute to a more satisfying and productive workplace. Through our various working teams, we are bringing about positive change, in response to the findings of a 2010 satisfaction survey that helped us identify our strengths and weaknesses. Externally, we are working more closely with our U.S. counterpart, the Michigan Department of Transportation. Clearly, the need and potential for additional and more comprehensive joint ventures exist, with the returns coming in the form of further operational efficiencies and cost savings, as well as customer service improvements and host community benefits.

The outcomes of our various actions over the past year, whether taken unilaterally or in partnership with others, reflect our continued commitment to serve our stakeholders. In pursuing the strategic direction mapped out by our Board of Directors, we will continue to move towards our vision of being recognized by our customers as an essential part of their travel experience.

A handwritten signature in black ink, appearing to read 'Chuck Chrapko'.

Chuck Chrapko  
President and Chief Executive Officer

## *Letter from the Chairman*



When today's travellers cross the Blue Water Bridge, most are probably unaware that initial preparations for their safe passage were well underway decades ago. As part of our leadership role at Blue Water Bridge Canada, the Board of Directors sets the long-term strategic direction of the organization. Working within those parameters, our staff advances the plans that are ultimately lead to a myriad of bridge plaza improvements and additions. Our latest capital development program, which we have been planning since 1998, includes a new border security control and business centre and modern primary inspection booths, as well as the latest energy management and communications networking infrastructure, among others facets.

Even with the completion of this latest, record-setting phase of development, we are already proceeding to determine what the next 40-50 years of Blue Water Bridge improvements will look like. While predicting the future has never been an easy task, our current environment makes forecasting even more challenging. Projections about the extent and duration of the impacts of global circumstances on the recovery of our North American economy are among the many variables to be factored into our long-term plans. At the same time, we are confident that the economy will eventually recover. Through the economic transition, we are committed to remaining appropriately positioned within the regional mix of border services. Only through considered foresight and prudent planning can we continue to assure our customers of a modern international crossing that is second to none in safety, reliability and valued amenities.

Partnerships continue to play an important role in our progress. In June, we were very pleased to host a visit from the Honourable Steven Fletcher, Canada's Minister of State for Transport. Minister Fletcher helped us to mark the successful completion of our latest infrastructure improvements, which had been undertaken with federal government funding support. He also officiated at the opening of our new Blue Water Bridge Corporate Centre. During his visit, he took part in a number of discussions with us and our plaza partners concerning a wide range of border issues. Such exchanges with a most senior representative of our federal government partner go a long way in ensuring that we continue to move forward along a common route. In a similar fashion, further, indepth discussions were held throughout the year with our counterparts from the Michigan Department of Transportation, which owns and operates the U.S. side of our crossing. By further strengthening the bonds between us, we create new possibilities for cooperatively reducing our operating costs, increasing our efficiency and improving customer service. We recognize that an expanded working partnership with our bridge co-owner will ultimately put us in a better position to anticipate and effectively respond to the future demands of our customers, while also offering sustained value to our host communities.

It has been my pleasure to share my commitment to the long-term success of our international enterprise with a team of equally dedicated directors, our CEO Chuck Chrapko and our employees. Along with members Ann Gray and Cathy Newman, I extend a warm thank you to retiring director Rina Mukherjee and welcome Marcel Beaubien to our board table.

Blue Water Bridge Canada has a substantial record of success to its credit. We are very optimistic and enthusiastic about extending our plans further to a new horizon. In particular, we are eager to play an active role in the Beyond the Border initiatives, recently announced by our Prime Minister Harper and U.S. President Obama. It is our intention to meld our future plans with the new North American initiative, which is intended to encourage cross-border trade and reduce congestion without compromising security. We are ready to get underway immediately, since those objectives have served as guiding principles for the development of Blue Water Bridge for some time.

A handwritten signature in dark ink, appearing to read 'Ken James'.

Ken James, Chair  
Board of Directors

## Board of Directors



**Ken James**

Chairman of the Board  
Former federal MP, 1984 to 1993  
Former Councilor and Reeve of Township of Sarnia, 10 years



**Ann Gray**

Director, former Vice-Chair of the Board  
Freelance Lambton County law clerk  
Member, Ontario Association of Professional Searchers of Records  
Board Member & Treasurer, Fraternal Fellowship Association  
Former Chair, Board of Managers, St. Giles Presbyterian Church



**Cathy Newman, BAccS, CGA**

Raw Material and Packaging Inventory Planner, Nova Chemicals  
Former Chair, Sarnia Lambton Chapter, Certified General Accountants Association of Ontario  
Past Chair, Program Advisory Committee, Lambton College



**Marcel Beaubien**

Developer, builder, manager, small commercial complexes  
Former MPP, Province of Ontario  
Former Mayor, Town of Petrolia  
Former County Councillor, Lambton County

## Corporate Governance

BWBC is guided by a Board of four members appointed by the Governor in Council. The Board does not receive remuneration but is entitled to be reimbursed for travel, living and other necessary expenses incurred by them in the performance of the duties of BWBC under the Bridge Authority Act. The Minister of Transport, Infrastructure and Communities will recommend the nominee(s) to the Governor-in-Council for final approval and appointment, traditionally for a term of up to 3 years. As a parent Crown corporation, BWBC is accountable to Parliament through the Minister of Transport, Infrastructure and Communities. The Board members are knowledgeable individuals from the local community who are sensitive to BWBC's business needs. They understand the *Financial Administration Act* (FAA) requirements for Corporate Plans and Annual Reports and they work earnestly with management to ensure that BWBC's financial obligations are met within the guidelines of our mandate.

The Board takes an active role in the stewardship of the overall future direction in addition to addressing internal and external issues currently affecting Blue Water Bridge Canada. A chartered accounting firm, acting as the internal auditor, reports directly to the Audit Committee. Governance issues and practices continue to evolve and the Board strives to improve its due diligence and governance processes throughout the year. Board members regularly attend annual governance and stewardship sessions to keep up-to-date on the various issues.

## Background, Legislative Authority and Compliance

Blue Water Bridge Canada (BWBC) was created by a 1964 Act of Parliament (*Blue Water Bridge Authority Act*) where “it is deemed appropriate that an international bridge providing facilities for the carriage of highway traffic between Canada and the United States be operated on a joint international basis by a public authority having equal representation of members appointed from each of the two countries, and having power to levy tolls to meet the costs of operating and maintaining such a bridge”. At that time, in anticipation of such a merger to occur sometime in the future, the Canadian legislation initially established a corporation to be known as the Blue Water Bridge Authority to own (under federal control), operate and maintain the Canadian half of the highway toll bridge over the St. Clair River between Point Edward, Ontario and Port Huron Michigan. Similar legislation exists with the State of Michigan authorizing the American “Authority” to operate in the same way.

In accordance with the provisions of a 1928 Special Act of Parliament authorizing construction and operation of the Blue Water Bridge, ownership of the Canadian portion reverted, at no cost or expense, to the Federal Government from the State of Michigan in 1962. The Michigan Department of Transportation (MDOT) owns, operates and maintains the U.S. half of the bridge.

BWBC qualifies as a “parent Crown corporation” under the *Financial Administration Act* and regulations. As such, BWBC is required to submit an annual corporate plan outlining its business activities and investments, set BWBC’s objectives for the relevant period and the strategy to achieve such objectives. The *Financial Administration Act* (Canada) also requires that BWBC prepare and file annual operating and capital budgets, each of which require the approval of the Treasury Board on the recommendation of the Minister of Transport, Infrastructure and Communities. BWBC is obliged to prepare annual reports including audited financial statements for submission to Parliament via the Minister of Transport, Infrastructure and Communities.

The *Blue Water Bridge Authority Act*, and the *Customs Act*, section 6, require BWBC to provide, equip and maintain free of charge adequate buildings or other facilities for the proper interviewing, examination and detention of persons and goods by customs officers.

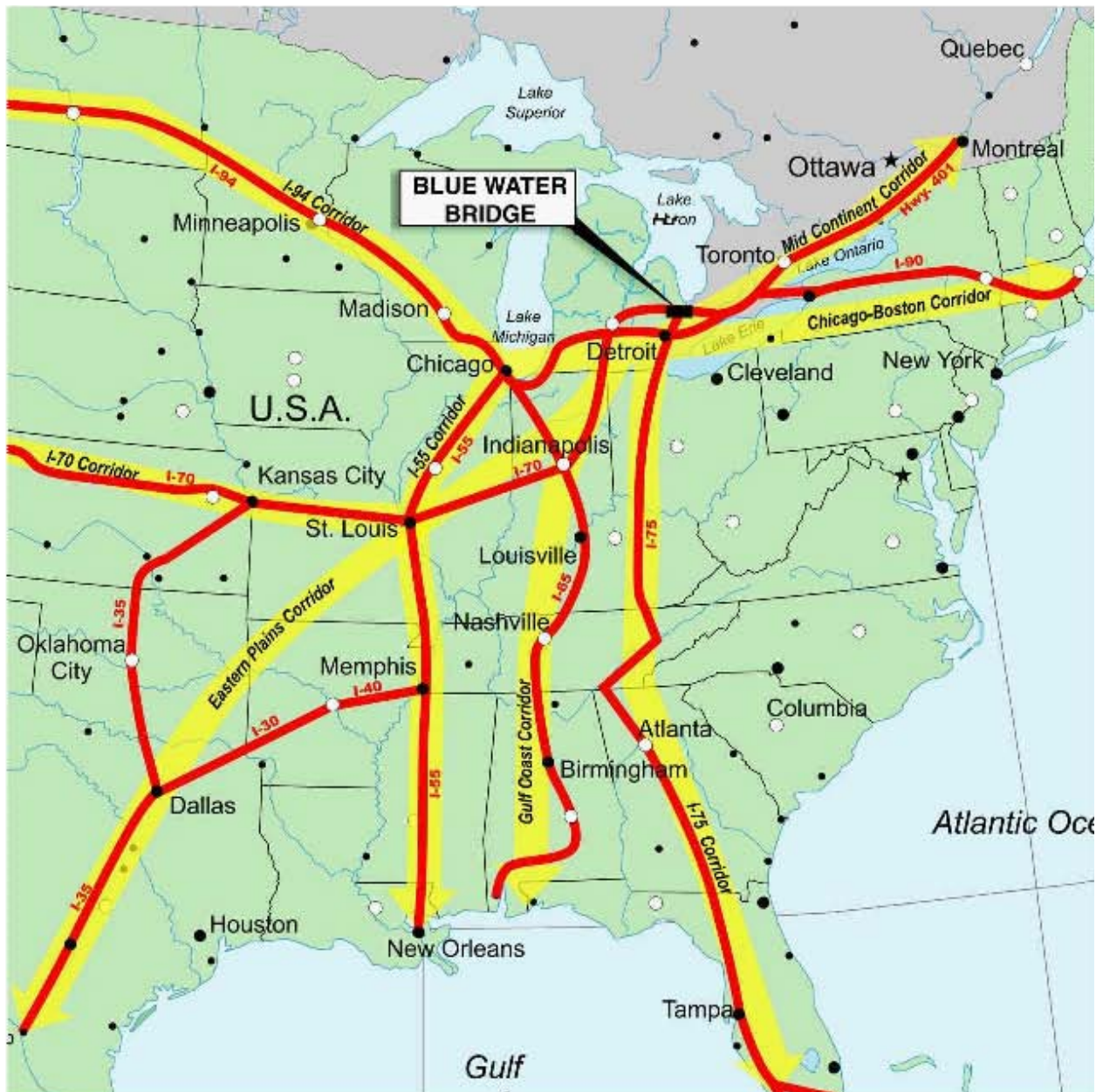
BWBC has taken active measures to ensure compliance with the *Official Languages Act* and continues to implement its obligations with the Treasury Board of Canada Secretariat to ensure compliance with the *Federal Identity Program*. As part of that compliance, The President of the Treasury Board and the Minister of Transport, Infrastructure and Communities agreed on an applied title for the organization – from Blue Water Bridge Authority to Blue Water Bridge Canada – effective September 2007. We have received confirmation from the Canada Public Service Agency that we have been successfully meeting our official languages obligations.

BWBC has operational relationships with: Ontario provincial authorities and particularly with the Ministry of Transportation; the Ontario Provincial Police, and; local municipalities, in particular Point Edward, Ontario upon which the bridge’s Canadian assets are sited.

Pursuant to the *Blue Water Bridge Authority Act*, BWBC is limited to charging tolls which provide for current revenues in an amount sufficient to pay BWBC’s reasonable current costs; to establish prudent reserve funds; to provide or replenish sinking funds in respect of outstanding bonds, and; to pay other expenses properly incurred by BWBC in its performance of duties under the Act. The *Canada Transportation Act* regulates the means of setting and publishing toll rates.



## Major Trade Routes



The Bridge is a major commercial traffic access point to the south-central United States. The Bridge connects Highway 402 in Ontario to I-94 and I-69 in Michigan, which provides southerly access to the following metropolitan areas: Detroit, Michigan; Indianapolis, Indiana; Madison, Wisconsin; Minneapolis, Minnesota, and; St. Louis, Missouri, covering the Gulf Coast Corridor and extending down through Florida.

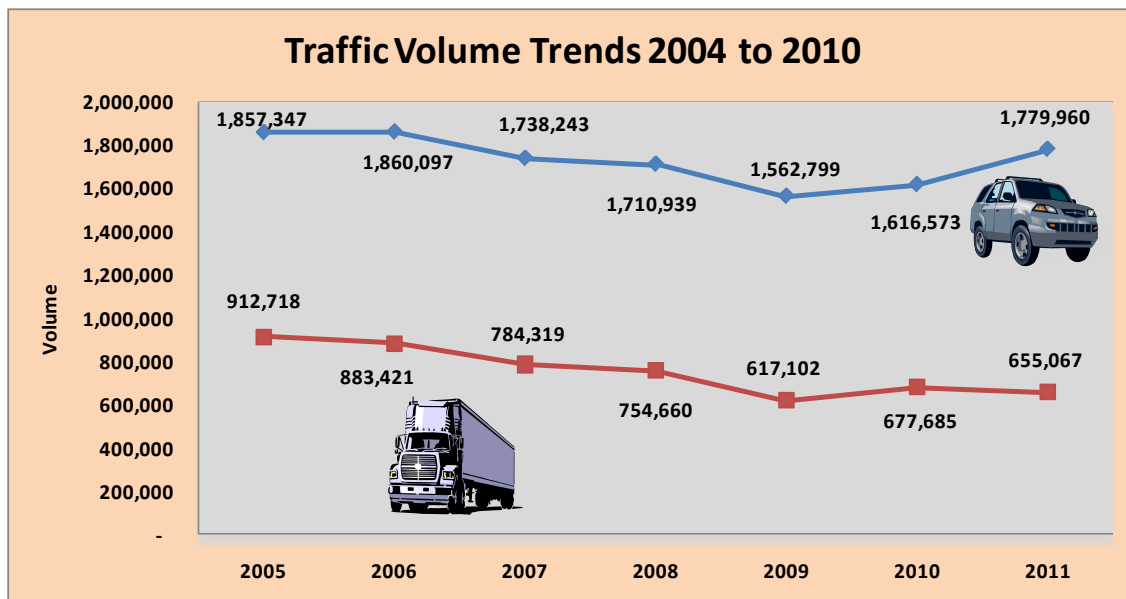
## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Factors Affecting Operations

BWBC exists as a self-funded and self-sustaining toll revenue agency legislated to maintain and improve the facilities for its travelers and tenants. It differs from most toll road corporations because it is located at an international border, subjected to the increased security (and political) concerns of its neighbor the United States. The increase in security has resulted in the “thickening” of the border with the resulting increased likelihood of traffic congestion and traveler inconvenience. Coupled with the most recent and deepest recession since the Great Depression and the fluctuations in the foreign exchange rate, toll revenues have decreased significantly.

All the above factors are beyond BWBC’s direct control and have had a direct negative impact on the volume of traffic crossing the bridge spans. However, BWBC commits its financial resources towards reinvesting 100% of its revenues and debt financing into the infrastructure of its plaza complex and surrounding perimeter. BWBC also commits a significant part of its human resources towards the general strategies (to be discussed later in this report) such as the Government Relations Program, Customer Service Program, Community Relations Program, Employee Management Program and Cost Management Strategy – all meant to encourage people and trucking companies to cross at this border and to mitigate the concerns of Customs and Immigration agencies in both countries so that traffic can traverse efficiently without affecting the security concerns of either country.

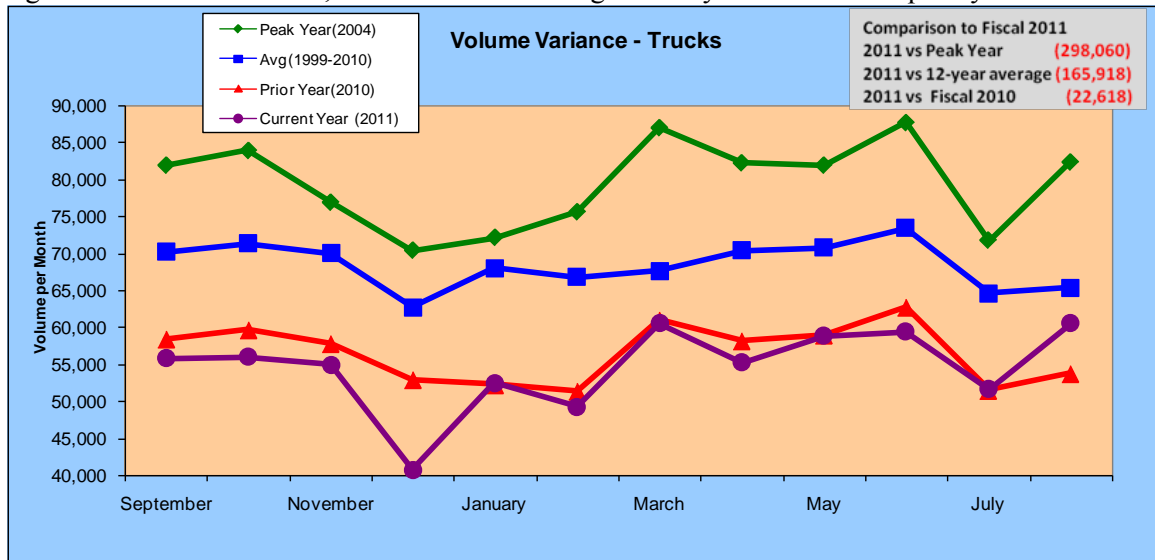
Historically, since becoming a parent Crown corporation in 2002, traffic volume peaked in fiscal 2004 and has been in decline every year since, except for fiscal 2010 and then, for fiscal 2011 car volume increased significantly but truck traffic declined.



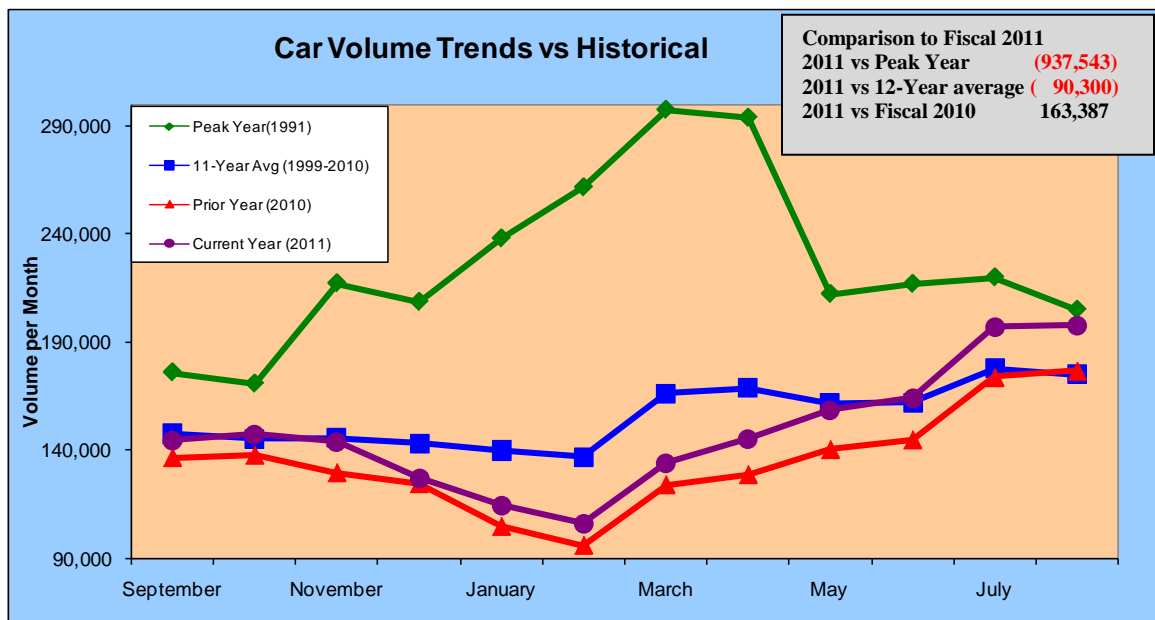
While technically the recession from 2009 is over, the economic recovery has been dreadfully slow. This is reflected in the truck volumes experienced for the first eleven months of fiscal 2011 wherein nine months had volume decreases over the same period the prior year and two months



were essentially even with the prior year. Only the twelfth month, August, experienced a significant increase. In fact, volumes have been significantly down from our peak year of 2004



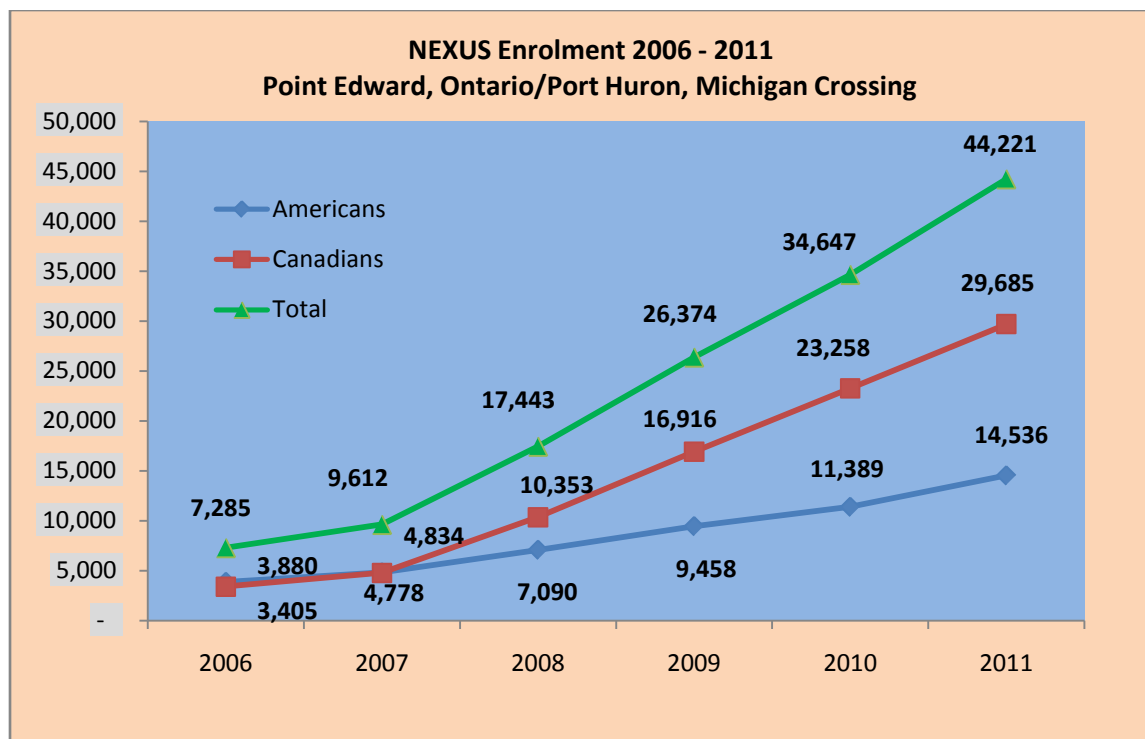
and fiscal 2011 is still well below the previous 12-year average by 165,918. Truck revenue represents approximately 70% of our toll revenue and at an average truck toll rate of \$17.35 this translates into \$2.9 million foregone annually.



While a Canadian dollar at par value with the American dollar encourages the volume of Canadian travellers to increase, the strengthening of the Canadian dollar dampens the actual cash (ie. the conversion of U.S. cash received into Canadian) we receive from the Americans. Our corporate plan sets the exchange rate applied to USD toll revenue at par with the American dollar. But against corporate plan the Canadian dollar in fiscal 2011 is 1.3 cents stronger and against prior year it is 5.76 cents stronger. Thus, when we convert the USD, BWBC is receiving less Canadian cash for that U.S. dollar.

In fiscal 2011, due to the strengthening of Canadian dollar being approximately at par or above that of the U.S. dollar, Canadians have been taking advantage of the cross-border shopping and vacation opportunities and Canadian car traffic has significantly increased over the prior year. Month-to-month volumes showed consistent increases of the same periods of the prior year with six of the months being at or above over the prior 12-year average and the final month approaching the August level in the peak year. Overall though, cars are still 90,300 lower than the 12-year average and at an average toll rate of \$2.76 this translates into approximately \$249 thousand foregone annually. Thus, combined with truck revenue forgone this has translated into approximately \$3.1 million per year less toll revenue being received annually.

BWBC has actively marketed and has had great success promoting the international NEXUS program for individual citizens. The recent strengthening of the Canadian dollar to par of that to the U.S. dollar has also encouraged a significant enrolment increase during fiscal 2011 and this has also accelerated the use of prepaid tokens over the prior year.



Annual Percentage Increase Nexus Enrolment				
2007	2008	2009	2010	2011
31.94%	81.47%	51.20%	31.37%	27.63%

This NEXUS program has helped to mitigate the traffic congestion over the years. If it had not been initiated, BWBC would have experienced an even steeper decline in vehicular traffic over the past six years. Many travelers would not have bothered to cross due to the increased security measures implemented which exacerbated the frequency of long traffic lineups and their fear of being stuck on the bridge spans for inordinate amounts of time.

During 2011 BWBC entered into discussions with CBSA to expand/adjust the Canadian NEXUS hours of operations which were originally set in 2002. With increasing enrollment and feedback received from customers we suggested that NEXUS hours be adjusted so that they open earlier in

the morning on weekends and close later in the day at 9 pm which better reflects customer usage. As a result of our consultations, CBP adjusted their NEXUS hours of operation in December 2009 at the request of BWBC and CBSA adjusted their NEXUS hours of operation in June 2011. The current schedule for NEXUS service is:

<b>NEXUS HOURS</b>	<b>Into Canada:</b>	<b>Into United States:</b>
<b>Mon-Fri</b>	7am to 8pm	6am to 9pm
<b>Weekends</b>	7am to 8pm	8am to 9pm
<b>Holidays</b>	7am to 8pm	8am to 9pm

### **Operating Results**

#### **Summary Review of Results:** (in thousands of dollars)

<b>FINANCIAL RESULTS</b>	<b>2011</b>	<b>Corp Plan</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues	<b>20,393</b>	<b>22,270</b>	<b>21,316</b>
Operating Expenses	<b>20,289</b>	<b>20,312</b>	<b>18,842</b>
Excess of Revenues over Expenses	<b>104</b>	<b>1,958</b>	<b>2,474</b>
Excess of Revenues over Expenses/Revenues	<b>0.5%</b>	<b>8.8%</b>	<b>11.6%</b>

Revenues were less than expected and lower than prior year due to a decrease in truck volumes that an increase in car traffic could only partially offset; an increase in the use of discounted tokens and prepaid commercial accounts; a stronger Canadian dollar negatively affecting toll revenue and U.S. cash balances, and; less interest income due to the redemption of investments to finance capital projects.

Expenses were slightly lower than corporate plan with depreciation being significantly lower than expected due to the delay in substantially completing the CBA Complex project and the ability to capitalize project department salaries and benefits. This was almost offset by an increase in consulting expenses and an increase in staffing; additional benefit costs as negotiated with the new collective agreement, and; the award of termination benefit packages.

Expenses were significantly higher than prior year due to the completion and commencement of depreciation of the CBA Complex and federal infrastructure projects; an increase in staffing, termination benefit packages; an increase in employee wages due to the new collective agreement, and an increase in maintenance and utility costs corresponding to the additional capital projects that were completed.

## Detailed Review of Results:

### Period over Period Comparisons

Years ended August 31, 2011 and 2010

(in thousands of dollars)

REVENUE	2011	2010	Increase (Decrease)	
	\$	\$	\$	%
Tolls	16,313	16,910	(597)	(3.5%)
Rental	2,455	2,461	(6)	(0.2%)
Currency Exchange	1,206	1,025	181	17.7%
Interest Income	401	908	(507)	(55.8%)
Sundry	18	12	6	50.0%
<b>Total Revenue</b>	<b>20,393</b>	<b>21,316</b>	<b>(923)</b>	<b>(4.3%)</b>

**Toll Revenue** decreased by \$597 or 3.5%. While car volumes increased by 163,387 vehicles (\$471 increase), truck volumes decreased by 22,619 (\$406 decrease) but this net gain could not overcome the effects of the strengthening of the Canadian dollar on U.S. dollar toll revenue collected (\$228 decrease) and USD cash holdings (\$38 decrease); the increase in discounted tokens (\$153 decrease) used by travelers; the increase in commercial prepaid discounts, change in axle mix and CAD/US traveler mix (\$219 decrease), and; decrease in escort fees (\$27 decrease).

**Rental Revenue** decreased slightly by \$6 within which duty free rental revenue decreased by \$23 partially offset by an increase in commercial rent by \$13 and storage by \$3.

**Currency Exchange Revenue** increased by \$181 due to the Canadian dollar being at par with the American dollar for an extended period of time which has encouraged an increase in car traffic to the United States coupled with the introduction of ATM machines, currency exchanging machines, credit card and debit card availability allowing for 24-hour, 365-day service to customers.

**Interest Income** decreased due to the redemption of investments to finance the capital projects which were completed during fiscal 2011.

EXPENSES	2011	2010	Increase (Decrease)	
	\$	\$	\$	%
Interest	5,838	5,959	(121)	(2.0%)
Amortization	5,417	4,588	829	18.1%
Human Resources	5,211	5,103	108	2.1%
General and administrative	2,200	1,730	470	27.2%
Maintenance	1,623	1,462	161	11.0%
	<b>20,289</b>	<b>18,842</b>	<b>1,447</b>	<b>7.7%</b>

**Interest Expense** would normally have been \$165 lower but the utilization of a line of credit to finance the federal infrastructure projects and the completion of the CBA Complex project added \$44 to this line item for a net decrease of \$121.

**Amortization** is higher due to the depreciation applied upon substantial completion of the \$70 million CBA Complex project in May 2011 and the \$18.3 million in federal infrastructure projects in March 2011.

**Human Resources** is higher due to the awarding of termination benefit packages (\$300 increase), annual increases (\$116 increase), additional staffing in accounting, tolls and administration departments and an increase in scheduled hours for currency exchange (\$56 increase); partially offset by the capitalization of some of project department's salaries and benefits (\$351 decrease).

**General and Administrative** is higher due to consultant fees for HST/GST recovery (\$417 increase), facilitation services (\$25 increase) and an ancillary revenue study (\$22 increase). Increases in cash shortages (\$27), insurance (\$26), public relations and advertising (\$15) were more than offset by decreases in municipal taxes (\$23), travel (\$20), meetings (\$15) and bank service charges (\$14).

**Maintenance** is higher due to increases in utilities primarily due to the additional building and infrastructure (\$123), additional bridge inspection costs (\$80 increase), paving (\$28 increase), pump house rehabilitation (\$44 increase), additional landscaping requirements (\$48 increase), shop supplies (\$65 increase), severe winter requiring additional snow removal costs (\$28 increase), janitorial supplies (\$19 increase) and fuel costs (\$15 increase). This is partially offset by a settlement received related to a 2008 environmental spill (\$51 decrease), less waste disposal (\$88 decrease), 2010 repairs to man-lift equipment (\$34 decrease) and 2010 repairs to Highway 402 pumping station (\$28 decrease).

**Corporate Plan Comparison**  
(in thousands of dollars)

REVENUE	2011	Corp Plan	Increase (Decrease)	
	\$	\$	\$	%
Tolls	16,313	17,955	(1,642)	(9.1%)
Rental	2,455	2,529	(74)	(2.9%)
Currency Exchange	1,206	1,338	(132)	(9.9%)
Interest Income	401	388	13	3.4%
Sundry	18	60	(42)	(70.0%)
<b>Total Revenue</b>	<b>20,393</b>	<b>22,270</b>	<b>(1,877)</b>	<b>(8.4%)</b>

**Toll Revenue** was less than expected by \$1,642 or 9.1%. At the time the corporate plan was being developed, monthly truck traffic was showing greater than 10% increases. This amount was forecast out for the first third of fiscal 2011 with 5% increases thereafter. In reality, truck traffic experienced an overall 3.3% decline in traffic (\$1,012 decrease) partially offset by car volume which was better than expected by 179,188 (\$546 increase). Commercial trucking accounts experienced a change in axle mix due to the significant reduction in garbage trucks crossing into Michigan and they took greater advantage of discounts on their prepaid accounts (\$868 decrease) as did car travelers (\$179 decrease). The Canadian dollar was stronger than anticipated which had a dampening effect on toll revenue (\$52 decrease) and it affected United States dollar cash holdings (\$46 decrease). Finally, escort fees were not as high as expected (\$39 decrease).

**Rental Revenue** decreased slightly by \$74 due to less variable rent received from the Duty Free Store (\$86 decrease). Commercial revenue was higher than expected (\$9 increase).

**Currency Exchange Revenue** was lower than expected by \$132. BWBC had anticipated even more customer traffic into currency exchange as a result of the strong Canadian dollar and the enhancements to customer service such as the introduction of ATM machines, currency exchanging machines and credit/debit card availability.

**Interest Income** increased slightly more than corporate plan by \$13 due to timing of cash received in bank accounts.

**Sundry Income** lower than expected due to additional ancillary revenue streams not yet developed.

EXPENSES	2011	Corp Plan	Increase (Decrease)	
	\$		\$	%
Interest	5,838	5,845	(7)	(0.1%)
Amortization	5,417	6,494	(1,077)	(16.6%)
Human Resources	5,211	5,180	31	0.6%
General and administrative	2,200	1,585	615	38.8%
Maintenance	1,623	1,207	416	34.5%
	<u>20,289</u>	<u>20,311</u>	<u>(22)</u>	<u>(0.1%)</u>

**Amortization** is lower than previously expected due to the delays in construction which pushed out the substantial completion of the \$70 million CBA Complex project to May 2011.

**Human Resources** is close to budget primarily because the award of termination benefits packages (\$300 increase) and additional staffing (\$82 increase) is generally offset by the capitalization of some of project department's salaries and benefits (\$351 decrease).

**General and Administrative** is higher due to consultant fees for HST/GST recovery (\$417 increase), facilitation services (\$25 increase) and an ancillary revenue study (\$22 increase). Increases in legal fees are due to collective bargaining costs (\$33 increase). Additional software licence requirements (\$28 increase), insurance is higher due to additional infrastructure (\$28 increase), a fiscal 2010 ATM cash shortage recognized in fiscal 2011 (\$26 increase), stationary (\$21 increase) and municipal taxes (\$20 increase).

**Maintenance** is higher due to increases in utilities primarily due to the additional building and infrastructure (\$146), additional bridge inspection costs (\$123 increase), paving (\$73 increase), pump house rehabilitation (\$44 increase), additional landscaping requirements (\$35 increase), shop supplies (\$43 increase), severe winter requiring additional snow removal costs (\$20 increase), plaza signs (\$15 increase) and janitorial supplies (\$15 increase). This is partially offset by less maintenance to buildings (\$62 decrease) and a settlement received related to a 2008 environmental spill (\$51 decrease).



## Controllable Overhead and Treasury Board's Cost Containment Guidelines

In order to properly assess cost containment it is necessary to derive from the total expenses on the income statement, the "controllable" costs that can be managed by BWBC.

In accordance with Treasury Board's 2010 directive, operating budgets are to be frozen at their fiscal 2011 levels and for the following two fiscal years (2012 and 2013). BWBC's corporate plan forecasts submitted last year and this year (Spring 2011), reflected and were in accordance with that directive. However, additional costs were incurred in the final month of fiscal 2011 such as the consultant fee for the HST/GST recovery of \$834 we have accrued to claim from the federal infrastructure projects. Also, termination benefits packages were awarded during the year. These are one-time costs and are not likely to be repeated in future years.

<b>Audit Trail to Controllable Overhead</b>			
	<b>Year To Date</b>	<b>Corp Plan YTD</b>	<b>Variance CY v. CP</b>
<b>Total Expenses per Income Statement</b>	<b>\$ 20,289</b>	<b>\$ 20,311</b>	<b>\$ (22)</b>
<b><u>Reverse:</u></b>			
Interest Expense	(5,838)	(5,845)	7
Depreciation	(5,417)	(6,494)	1,077
Employee Future Benefits Accrual	(438)	(395)	(43)
Municipal Taxes - Admin	(310)	(290)	(20)
Municipal Taxes - CX	(6)	(6)	-
Salaries/Benefits Amortized to Capital Projects	393	-	393
<b>Controllable Overhead</b>	<b>\$ 8,673</b>	<b>\$ 7,281</b>	<b>\$ 1,392</b>
			<b>19.1%</b>

Additional staffing was required to create efficiency in the plaza and to meet heavier workloads throughout the organization. For the accounting department, an additional accountant position was created. It was also necessary to refill two toll supervisory positions that had been vacant for more than a year. A new position was created in the administration department for a director of communications. Currency exchange department needed to increase scheduled hours to meet increased customer volume.

<b>Departmental Controllable Overhead</b>	<b>Fiscal 2011</b>	<b>Corp Plan</b>	<b>CY vs. CP</b>	<b>% vs. CP</b>
			<b>Increase (Decrease)</b>	
Board of Directors	\$ 59	\$ 53	\$ 6	11.32%
Accounting/HR/Office	\$ 599	\$ 639	\$ (40)	(6.26%)
Administration	\$ 2,431	\$ 1,514	\$ 917	60.57%
<b>Administrative Oversight</b>	<b>\$ 3,089</b>	<b>\$ 2,206</b>	<b>\$ 883</b>	<b>40.03%</b>
Janitorial	\$ 602	\$ 559	\$ 43	7.69%
Maintenance	\$ 1,777	\$ 1,510	\$ 267	17.68%
Project Management	\$ 670	\$ 672	\$ (2)	(0.30%)
<b>Infrastructure Support</b>	<b>\$ 3,049</b>	<b>\$ 2,741</b>	<b>\$ 308</b>	<b>11.24%</b>
Currency Exchange	\$ 594	\$ 525	\$ 69	13.14%
Tolls	\$ 1,745	\$ 1,639	\$ 106	6.47%
<b>Operations</b>	<b>\$ 2,339</b>	<b>\$ 2,164</b>	<b>\$ 175</b>	<b>8.09%</b>
<b>TIC/Brokers/Customs</b>	<b>\$ 196</b>	<b>\$ 170</b>	<b>\$ 26</b>	<b>15.29%</b>
<b>Total Controllable Overhead</b>	<b>\$ 8,673</b>	<b>\$ 7,281</b>	<b>\$ 1,392</b>	<b>19.12%</b>

There were additional maintenance costs such as utilities (primarily due to the new BWBCC building and other infrastructure), bridge inspections were more expensive (but within the contractual terms), toll booth asphalt work, pump house rehabilitation, additional landscaping requirements, shop supplies, additional snow removal costs, plaza signs and janitorial supplies all increased with the additional assets.

Much of the above was required to improve efficiency around the bridge plaza. BWBC has refocused senior management with two new positions: manager of communications and manager of program development. This was done to meet the future strategic challenges of BWBC. BWBC will strive to constrain its costs going forward through to 2013.

### **Investment and Capital Spending**

BWBC's primary focus for fiscal 2011 has been its "showcase" capital project - the \$70.0 million Customs, Brokers, Administration Complex (CBA) building project – and the completion of \$18.3 million of infrastructure projects half-funded from the federal government's Economic Action Plan initiative through the Gateways and Border Crossing Fund.

By May 2011, the centerpiece and cornerstone of our capital master plan, the CBA Complex building, renamed the Blue Water Bridge Corporate Centre, was substantially completed and by the end of June all the tenants moved into the facilities. This building fulfills the most up-to-date Statement of Requirements (SOR) of the Canada Border Services Agency (CBSA) and the Canada Food Inspection Agency (CFIA). It also accommodates the commercial brokers and the administration of BWBC in a building that will be an accredited Leadership in Energy and Environmental Design (LEED) structure; visually impressive with its size and "blue water" theme to the local community and to the travelers crossing the bridge spans. (Refer to Appendix "A" for a complete list of all the technological and environmental advances incorporated into this state-of-the-art building.)



At this juncture, with the completion of this "crown jewel" BWBC has begun the process to redefine its original master capital plan, part of which will include the demolition of the old building and begin the process of widening the plaza, adding fourteen additional primary inspection booths. It will also begin the process of redeveloping the plaza into a preferred place of

travel-through destination for both commercial and car travelers with its increased capacity and improved customer service facilities.

At the inception of the Federal Infrastructure Program, BWBC agreed to undertake eight capital projects totaling \$27 million as part of the federal infrastructure program. During the Spring 2010 BWBC forecast that it would reasonably complete \$20 million of infrastructure projects. By March 31<sup>st</sup>, 2011 BWBC was able to complete \$18.3 million worth of work. Nonetheless, the federal funding was very welcome and it assisted us to expedite some of the projects within our master capital plan which would not have been done for a few more years.

Of the projects completed, this program improves the safety and efficiency of the bridge spans and plaza. Combined with the CBA Complex Building project, this “extreme makeover” and the future demolition of the existing administration building will increase our capacity to improve traffic flow and road safety, excluding any improvements on the American side. Once the Michigan-side completes their \$586 million building project or its scaled-down version, Blue Water Bridge will be well-positioned with its excess capacity to take advantage of any future increase in traffic. The construction on the U.S. side has commenced with the highway widening portion started in 2011 and with its anticipated completion by the end of 2012. It is not likely that the actual American plaza expansion will commence until 2015.

A brief description and cost status of each infrastructure project is listed below:

**Plaza Widening to Highway 402 Widening**

*{Budget \$2.8M covering years 2009-2011; Claims submitted \$2.7M}*

Broadened the BWBC plaza to accommodate the widening of Highway 402 which is still being constructed by the Ontario Ministry of Transportation(MTO). With the provincial portion of the highway leading to the BWBC plaza being widened, for ease of future traffic flow, efficiency and safety, BWBC needed to match the widening through to the toll booths.

**Dynamic Message Signs Overhead Gantry 402 Approach to Plaza**

*{Budget \$1.7M covering years 2009-2011; Claims submitted \$1.8M}*

Dynamic Message signs on overhead gantries, pylon, cantilever supports and canopy roofs have been installed in various locations on the plaza to provide real time information to commercial and passenger traffic. These signs are programmed to provide information in real time conditions to assist with traffic control management and lane allocations. These signs are programmed for various scenarios to include emergency and incident information to the public, delay times by allowing motorists to take alternate travel routes, change departure times, or otherwise modify their travel plans to avoid incidents.

**Bridge Span 2 Infrastructure & Systems Upgrade**

*{Budget \$5.8M covering years 2009-2011; Claims submitted \$5.1M}*

Relocated and enhanced the electrical and communication equipment that used to experience several system failures to the existing infrastructure and installed a new electrical distribution system for the plaza. The electrical component included a plan to relocate the existing bridge electrical system from the existing Administration Building to under Span 2. The plan also included an emergency back up generator and new feeders to the adjacent buildings.

### **Customs Bi-Level and Traffic PIL Booths**

*{Budget \$1.7M covering year 2011; Claims submitted \$1.6M}*

With the redesign of the plaza, new booths were purchased to satisfy Canada Border Services Agency (CBSA) Statement of Requirements specifications. The new primary inspection booths have been designed to provide improved efficiency in order to facilitate trade and tourism. Seven new primary inspection booths have been designed, constructed and delivered to the plaza for future installation. Four bi-level booths will be installed in the CBA-Complex phase 1 project.

### **Plaza Electrical / Communication Infrastructure**

*{Budget \$3.8M covering year 2011; Claims submitted \$3.4M}*

Expanded the existing CBSA traffic parking lot, parking lot lighting, high water storm water outlet to the east storm water pond, and duct infrastructure connecting the south side of the plaza to the north side (under 402 highway approach to toll booths).

### **Eastbound Ramp Realignment**

*{Budget \$4.2M covering year 2011; Claims submitted \$3.7M}*

Existing operations have been relocated and facilities demolished in order to complete the realignment of the truck ramp, allowing Canada-bound trucks to access Highway 402 eastbound.

### **Sources of Capital**

In July 2002 BWBC issued at a face value of \$110 million, 6.41% private placement revenue bonds. Principal and interest are payable semi-annually and the bonds are due July 2027. The proceeds from the bond issue were used to refinance existing debt from the construction of a second bridge span and rehabilitation of the original bridge span plus to establish the Debt Service Reserve Fund and the Operating Maintenance and Contingency Reserve Fund as part of the debt covenant arrangements.

The remaining cash and investments at the end of 2002 totaled approximately \$50 million and were applied along with some of the cash generated from operations from 2003 to 2011 on the projects identified in the master capital plan. By 2011, almost all of our non-reserve investments matured and were redeemed.

The bond issue agreement requires that BWBC abides by the Toll Rate Covenant whereby BWBC will take all lawful measures to fix and establish toll rates and other charges such that The Gross Debt Service Coverage Ratio is equal to or greater than 1.25 with respect to each Fiscal Year and that the projected Debt Service Ratio is equal to or greater than 1.00 with respect to each Fiscal Year. As at August 31, 2011, the Gross Debt Service Coverage Ratio is 4.33 and the Debt Service Ratio is 1.42.

It was also necessary to draw down \$15 million from one of our credit facilities to finance the additional federal infrastructure projects; pay for the final costs remaining on the \$70 million CBA Complex project, and; have enough cash available to finance two capital projects in the Fall 2011. This line of credit has taken the form of a fixed rate loan, with four fixed rate, variable maturity term tranches, with an aggregated, average interest rate of 3.66%. Principal and interest payments are made monthly and the loan is due in July 2036.

In September 2011, BWBC announced that toll rates will be increased by \$0.25 effective October 1<sup>st</sup>, 2011 for cars and \$0.25 per axle on January 1<sup>st</sup>, 2012 for trucks. This was done to help improve our current ratio which is at 1.28 (1.54 – 2010) and mitigate potential operational cash

shortages due to the timing of invoices and the semi-annual principal and interest payments on the bond issue.

### **Standard & Poors' Bond Rating:**

Standard & Poors' (S&P) are lowering BWBC's long-term issuer credit and senior unsecured debt ratings from 'A' to 'A-', outlook negative. This downgrade reflects S&P's assessment of continued reductions in traffic volumes and a deteriorating financial risk profile and reflects their assessment of the operating and financial risks associated primarily with traffic levels that fluctuate with the economy.

S&P has noted the following credit strengths:

- A substantial ability to set toll rates which, unlike other rated bridge authorities within Canada, BWBC need only publish a notice of a toll rate increase at least 20 days before the effective date.
- A strategic location and service area with 93% of Ontario's exports going to the United States, BWBC is the second-busiest border crossing in Ontario for commercial vehicles. Plus, encroachment risk is low with the delay in final approval for the Detroit River International Crossing.
- Modest near-term capital expenditures. BWBC will significantly reduce capital expenditures over the next two years following the significant capital investment of \$79.1 million which occurred over the past three years.

S&P has also noted the following credit concerns:

- A narrow revenue stream that is sensitive to economic conditions. BWBC's revenue stream is associated with a single tolled asset, where commercial traffic accounts for about 70%-75% of total revenues. Travel had declined significantly through the recession, illustrating a demand profile heavily influenced by the economy. Furthermore, heightened border security and more rigorous clearance processes, such as passport requirements for vehicular traffic entering the U.S., have dampened passenger traffic and, to a lesser extent, commercial trade; and
- A weak financial risk profile. Significant decreases in traffic, particularly for commercial vehicle traffic during the economic downturn, have negatively affected toll revenues. This has affected the company's debt service coverage levels and, more generally, its financial risk profile. At fiscal year-end 2011 (Aug. 31), BWBC's debt service coverage ratio (DSCR), including principal and interest hit an unprecedented low of 1.2x, from levels of 1.6 or higher in previous years.

### **Liquidity and Cash Flows:**

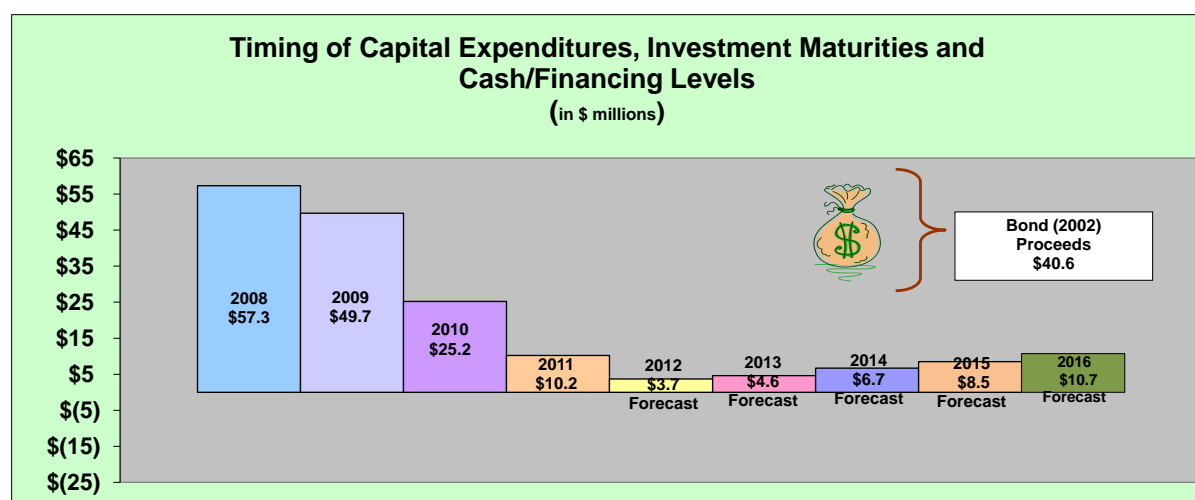
With almost \$14.0 million in cash at the beginning of the fiscal year, \$8.6 million in investments were redeemed, \$6.1 million in cash generated from operations during the year, \$5.9 million was received for federal infrastructure projects from the federal government and a \$15.0 million credit facility was drawn down to finance \$30.9 million in capital projects, pay down \$6.9 million in payables predominantly related to construction invoices or holdbacks and \$3.1 million in bond principal payments. Receivables increased primarily due to the \$0.8 million HST/GST claim on the federal infrastructure projects. Almost \$8.0 million remained in cash balances at the end of the year, some of which will be used to finance two major capital projects during the 1<sup>st</sup> or 2<sup>nd</sup> quarter in 2012.



<b>Summarized Cash Flow Statement</b>		
	<b>Current Year Fiscal 2011</b>	<b>Prior Year Fiscal 2010</b>
<b>Cash Generated from Operations</b>	<b>6,132</b>	<b>7,173</b>
<b>Net Decr. (Incr) Receivables &amp; Prepaids</b>	<b>(787)</b>	<b>(344)</b>
<b>Net (Decr.) Incr. Payables &amp; Deferred Revenue</b>	<b>(6,807)</b>	<b>4,992</b>
<b>Net Redemption of Investments</b>	<b>9,074</b>	<b>29,528</b>
<b>Changes in Restricted Investments</b>	<b>(468)</b>	<b>3,017</b>
<b>Decrease in Bond Principal</b>	<b>(3,089)</b>	<b>(2,900)</b>
<b>Increase in Bank Indebtedness</b>	<b>14,970</b>	<b>-</b>
	<b>-</b>	<b>-</b>
<b>Purchase of Capital Assets</b>	<b>(24,997)</b>	<b>(36,395)</b>
<b>Proceeds on Disposal of Property</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) in Cash</b>	<b>(5,972)</b>	<b>5,071</b>
<b>Cash Position, beginning balance</b>	<b>13,961</b>	<b>8,890</b>
<b>Cash Position, ending balance</b>	<b>7,988</b>	<b>13,961</b>
<b>Net Cash &amp; Investment Increase (Decrease)</b>	<b>(15,046)</b>	<b>(24,457)</b>

Although our current working capital position looks healthy and that available cash shows that it will grow steadily through to 2016, it should be noted that the future projections (Corporate Plan 2012-2016) for capital spending have been purposely conservative at approximately \$1.0 million per year until such time as BWBC completes its comprehensive strategic review and revises its master capital plan in the Fall and Winter of 2011/2012.

Cash generated from operations over the past 15 years, the bond proceeds and the 2011 drawdown on the credit facility have financed the construction of not only our major construction identified through the master capital plan but also other capital expenditures (ie. software systems, trucks, plaza improvements, etc...)



Over the next 5 years (2012-2016), the existing cash and investment balances, in tandem with continued, expected positive cash generated from operations, will partially finance the planned



capital projects, with the remaining costs of planned capital projects to be covered by a long-term capital loan and other financing if required.

Major Construction and the Master Capital Plan - 20 Year Span			
Year of Completion	Structure	Cost ('000's)	
Major Construction and Master Plan - Completed Projects			
1997	2nd Bridge Span	\$	59,885
1999	1st Bridge Span	\$	26,921
2001	Maintenance Building	\$	3,029
2002	Duty Free Store	\$	5,282
2005	Tourist Information Centre	\$	3,984
2007	Truck Ramp	\$	11,724
Sub-Total		\$	110,825
Master Capital Plan - Projects in Progress			
2011	CBA Building Complex	\$	69,975
2011	Federal Infrastructure Program	\$	18,336
Funded portion by Federal government		\$	(9,168)
Sub-Total		\$	79,143
Master Capital Plan - Future Projects			
2013-2015	CBSA Building	to be determined	
2015-2016	Currency Exchange / Public Washrooms	to be determined	
2016-2017	Toll Building	to be determined	
Sub-Total		\$	-
Major Construction Projects		\$	189,968 +

As a federal parent Crown corporation, we generate profits specifically for the purpose of maintaining the bridge spans, plaza and facilities and to fully fund other capital projects. As such, over the long-term, 100% of all cash generated and invested will be fully spent to fulfill our federal mandate.

While management has struggled to maintain its “controllable” costs in 2011 to Treasury Board’s Cost Containment Guidelines, the BWBC Board of Directors has the authority to direct management to further decrease expenses; delay construction on other projects, and/or; increase revenue through toll rate adjustments as has been implemented in October 2011 for cars and January 2012 for trucks.

We have exercised the option of transferring funds from our non-restricted major maintenance fund (MMF) and will continue to do so until the remaining \$2.2 million in MMF is depleted. Historically, construction schedules have been stretched out and traffic volumes have usually come in higher than expected (2010 being a prime example), resulting in better than expected cash flows.

#### **Current Issues and Future Outlook:**

***“Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness.”***

BWBC is looking forward to the release of the action plan with respect to the February 4<sup>th</sup>, 2011 announcement by Prime Minister Harper and President Obama. BWBC has made formal submissions to the “Beyond the Border Working Group” on how to make the vision a success.

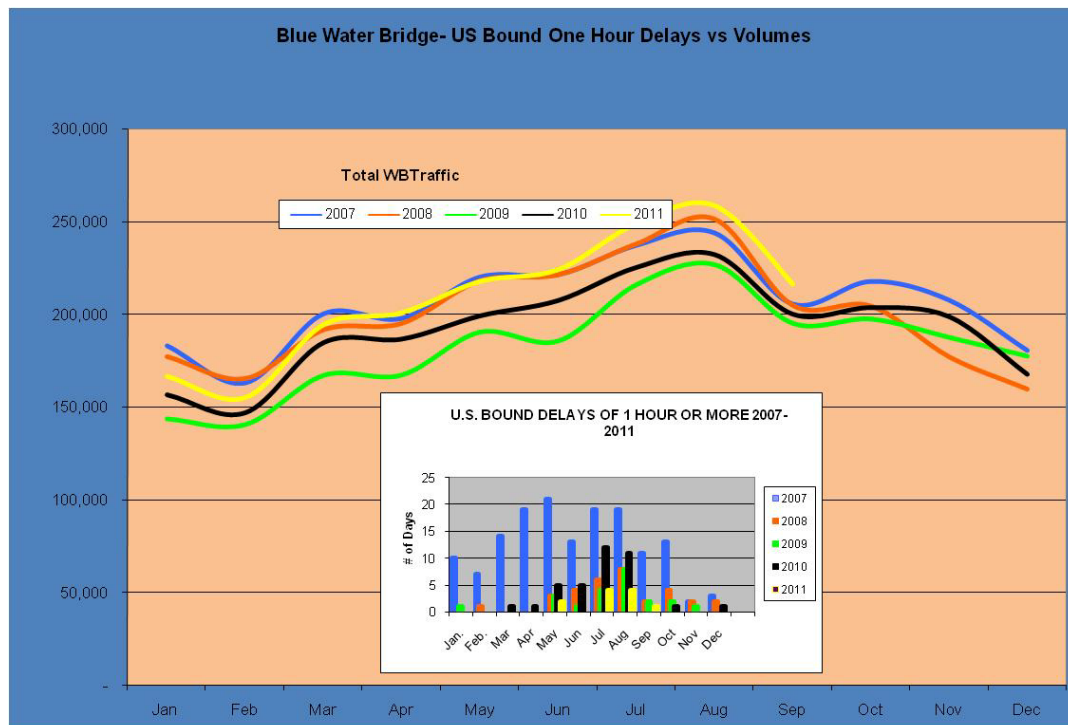
Once the action items are made public BWBC will embrace the initiatives and work closely with the working group to ensure its success.

### ***Issues with the Canada Border Services Agency (CBSA) and U.S. Customs Border Protection (CBP)***

During fiscal 2007, there were approximately 140 days where there was a delay of one hour or more at the border. Understandably, there was considerable criticism coming from Canadian border users, both from the traveling public and commercial users, criticizing CBP for their lack of staffing and scheduling. The general public and commercial traffic endured excessive traffic congestion along the border and long delays to be processed through the U.S. Customs Border Protection (CBP). BWBC's government affairs efforts led to the creation of a task force to address these issues with CBP.

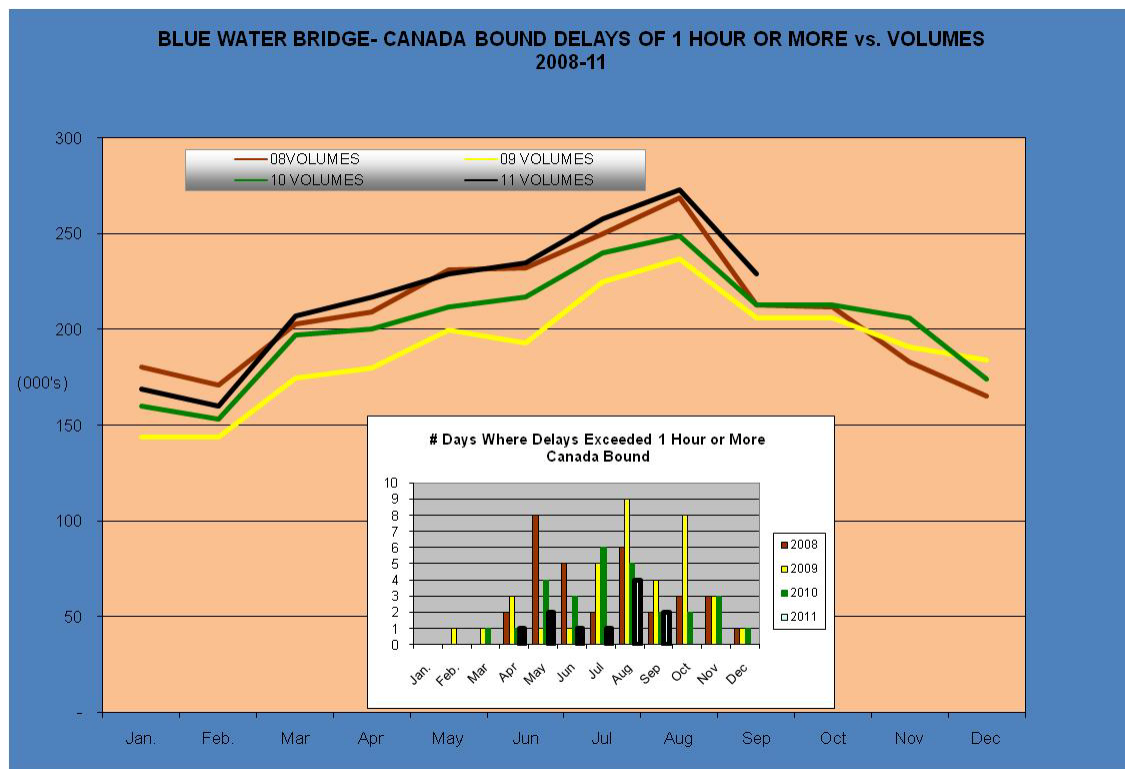
A deliberate, formal initiative in 2007/2008 to engage the cross-border agencies - CBP, CBSA and MDOT - resulted in meetings being periodically held to discuss interim capacity enhancements and improvements in inter-agency cooperation. This strategy contributed towards reducing excessive border wait times down to 27 days until 2010 when excessive waits occurred on 40 days during the year due to the introduction of WHTI and increased document (passport, NEXUS, enhanced drivers licences) requirements and verification. Discussions continued into Fiscal 2011 some of which might have contributed to a reduction of excessive delays occurring to only 12 days in fiscal 2011.

Similarly, for traffic headed into Canada excessive traffic delays (congestion) of more than one hour were even worse. On the Canadian side, during 2009, CBSA fully staffed all ten primary inspection lanes (PILs) only once in spite of the fact that there were fourteen days in July and August where delays were measured at one hour or more. In 2009 there were 30 days with excessive delays; in 2010 it increased to 36 days.



Through our Government Relations efforts BWBC was asked to be a part of a task force with CBSA to address these excessive wait times, particularly with the pending elimination of the summer student program and budget constraints within the CBSA. We were extremely pleased with the efforts of CBSA in summer 2011. They made some adjustments to scheduling and increased the use of overtime which effectively reduced delays during the peak summer travel periods. In fiscal 2011 travelers experienced delays of one hour or more on only 17 days. BWBC continues to be a member of the task force and meets regularly with CBSA in a cooperative effort in finding new solutions to ensure border wait times are kept to a minimum.

BWBC government relations successes are due to the participation in many border related conferences and organizations in an effort to ensure that the Blue Water Bridge (U.S. and Canadian) is a safe, efficient and enjoyable experience for all its customers.



The need for increased capacity in inspection lanes on the Port Huron Plaza is clearly indicated in the chart below. The heaviest traffic across Canada per PIL booth is experienced at the Port Huron / Sarnia border. (Note: 2009 is the most recent data we have available.) The U.S. bridge plaza project which includes 20 PIL booths with room for another 10 will help to alleviate this capacity issue but it will not be completed until at least 2017. Thus, the discussions with CBP regarding interim capacity improvements as mentioned earlier are crucial.

PORT	2009 US Bound Volumes		Total U.S. Bound	Total Number of Annual Vehicles	
	Cars	Trucks		CBP Pils	Per Pil
BLUE WATER BRIDGE	1,571,472	620,482	2,191,954	13	168,612
PEACE BRIDGE	2,371,828	580,370	2,952,198	18	164,011
QUEENSTON LEWISTON			1,590,409	10	159,041
PAC HIGHWAY	1,350,196	310,000	1,660,196	15	110,680
AMBASSADOR BRIDGE	2,123,212	1,174,614	3,297,826	32	103,057
DETROIT WINDSOR TUNNEL	1,221,485	12,267	1,233,752	13	94,904
PEACE ARCH	1,492,435	-	1,492,435	16	93,277
RAINBOW BRIDGE	1,461,426	-	1,461,426	17	85,966
WHIRLPOOL BRIDGE	169,409		169,409	2	84,705
THOUSAND ISLANDS	667,703	176,268	843,971	11	76,725
CHAMPLAIN	1,040,154	294,970	1,335,124	19	70,270
SAULT STE MARIE			-	5	-
SEAWAY INTL			-	9	-

BWBC has constructed at its expense, a \$70 million state-of-the-art building to CBSA's stringent Statement of Requirements (SOR). As part of the Master Capital Plan and the Federal Infrastructure Program, we constructed fourteen (14) additional primary inspection booths for CBSA costing \$1.6 million.

BWBC maintains a good relationship with the local CBSA and CBP management teams and we fully realize the constraints through which both agencies must operate. BWBC wishes to diplomatically advocate on behalf of CBSA. Based on our own experience with toll operations we have made several constructive suggestions which we believe should improve the safety, customer service and efficiency for all stakeholders here at the Blue Water Bridge plaza without interfering with the security mandate of CBSA. We believe it would be helpful to:

1. Allow front-line CBSA supervisors to authorize the use of overtime when required. All primary inspection lanes should be open during peak volume periods.
2. Examine the scheduling of shifts and assignments so that sufficient resources are available for peak volume periods.
3. Introduce RFID (proximity card) technology, as was installed by the U.S. CBP, which assists in expediting vehicle processing.
4. Contribute to the marketing of "Trusted Traveler" programs, such as NEXUS, which require extensive marketing efforts, proper staffing at processing and enrolment centres.
5. Increase the NEXUS lane operating hours to a minimum twelve (12) hours per day to start to approach the effort put forth by the U.S. CBP. U.S. Nexus is open 15 hours a day during the week. BWBC would prefer CBSA to staff the Nexus lane matching the same schedule administered by CBP.

### **Section 6 of the Customs Act**

BWBC's obligation under subsection 6(1) of the *Customs Act* is to provide "adequate buildings, accommodation or other facilities for the proper detention and examination of imported goods and the proper search of persons by customs officers." However, over the years we have been providing additional services for which we have not received compensation such as maintenance, snow removal, janitorial and other miscellaneous day-to-day services.

In coordination with the PBOA, BWBC has communicated with CBSA to seek their cooperation in obtaining a judicial ruling which will definitively allocate costs and liabilities pursuant to Section 6 of the Customs Act.

### **Environmental Study**

An independent study was conducted during the summer 2011 by an independent industrial hygiene and environmental consultant firm. This was an air monitoring study for diesel and gasoline exhaust – in particular, diesel particulate matter (DPM), respirable particulate, nitrogen oxides and carbon monoxide. Studies were conducted at the toll booths and at the approaches to the toll booths to ensure BWBC employees are not endangered by short or long-term exposure to such pollution. The conclusions drawn were that where levels were found they were well below the occupational exposure limits for CO, NOX and respirable particulate...listed in the “Regulation respecting Control of Exposure to Biological or Chemical Agents”, (Ontario Regulation 833).

### **Collective Agreement**

The previous collective agreement had expired November 6, 2010. Negotiations for the new collective agreement had been conducted throughout 2011. Bargaining sessions were respectful and progressed positively throughout the process culminating in a ratified agreement signed in October 2011. Unlike previous 3-year agreements, this collective agreement is for 4 years and included wage increases of 1.5% for each of the first two years and 2.75% for each of the last two years; part-time employees had their average weekly hours increased from 30 to 36 hours and were provided with fulltime benefits; sick days and shift differential rates were increased, and; there were other adjustments to the terms of the previous agreement. The two-tier wage structure remains although there was a one-time incremental adjustment to janitorial two-tier wage rate scale to approach the wage rates being offered in the local economy.

BWBC considers that the favourable outcome of the signed agreement reflects the positive and progressive direction that the organization continues to pursue. As the details of the agreement suggest, we recognize that the current business environment will continue to challenge us over the shorter term, as we respond to an unsettled economy. Yet, we anticipate a gradual improvement in the economy, however slow, and are laying the groundwork through the agreement’s escalating adjustments in wages and its expanded benefits provisions. These concrete improvements should be viewed by all of our employees as firm indicators of our positive outlook of the future.

Overall, the agreement further encourages our productive working relationship with our PSAC representatives. It also adds strength to our ongoing initiatives to improve our workplace and our services, which will continue to benefit everyone at BWBC and those we serve.

## ***Fiscal 2010/2011 Strategic Objectives***

2010/2011 Goals			
2010-2011 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Program Action plans, with performance based monitoring and auditing components	<b>Dashboard Performance Measurement Indicators by April 2010.</b>	<b>Dashboards for:</b> - Capital Projects - Customer Relations and Marketing - Government Relations - Community Relations - Employee management action - Finance	Completed Completed  Completed, Approved Completed, Approved  Completed Deferred
Financial Controls	<b>Install Purchase Order Module</b>  <b>Install Capital Project Costing Module</b>	<b>Implementation</b>  <b>Implementation by Q4 2012/13</b>	Completed
Develop a sustainable development program	<b>Prepare an outline of program components and associated implementation schedule</b>	<b>Sustainable development program</b>	<b>Environmental Sustainability Policy and Program Paper Drafted</b>
New Business Revenue Opportunities	<b>Identification of possible new ventures and new sources of revenue</b>	<b>Ancillary Revenue Study Report to the Board</b>	Completed
Identification of exposures and risks	<b>Report to the Board describing the nature and level of exposures faced and insured or mitigated by existing insurance or BWBC policies.</b>  <b>Provide recommendations for future action concerning each policy/area of risk.</b>	<b>Delivery of report</b>  <b>Delivery of recommendations</b>	Completed and approved  Completed
Improving Board-CEO Relationship	<b>Identification of opportunities to build a positive relationship with the CEO.</b>  <b>Review formal self-evaluation to identify points of concern &amp; recommendations</b>  <b>Review information on education, training and leadership development and consider approval to enroll.</b>	<b>Identification of opportunities</b>  <b>Formal report</b>  <b>Identification of educational, training and leadership development opportunities</b>	Completed  Completed  In Progress



## ***Fiscal 2011/2012 Strategic Objectives***

2011/2012 Goals			
2011-2012 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Compliance with Budget 2010 Cost Containment Measures	Operating Costs to be maintained at 2010-11 Corporate Plan Levels set (April 2010) for 2012 and 2013	Expense levels; variance analysis	
Establish a Revised Master Capital Plan Strategy 2012-2016	Identification of major capital projects by Fall 2011	Formal Report Action Plan	
Develop Employee Management Program	From the employee survey, develop recommendations and action plans to improve the workplace environment	# of recommendations # of action plans # of completions	

## **General Strategies**

### **Government Relations Program**

BWBC recognizes that it must build upon and strengthen its relationships with all levels of governments, agencies and associated stakeholders on both sides of the border in order to ensure a safe, efficient and enjoyable experience for BWBC customers.

#### **Background**

The events of the summer of 2007 provided the catalyst for BWBC to dedicate the resources required to address the issue of unacceptable wait times. U.S. bound, BWBC customers experienced 2-3 hour delays throughout July and August 2007 on a regular basis. The wait times caused numerous hardships as customers found themselves in unexpected gridlock without food, water, medication and the availability of washroom facilities. Commuters, many of whom were Canadian nurses working in the U.S. were late for work; others missed flights, family and sporting events. Crossing the border into the United States was becoming a “hassle” to both U.S. and Canadian travelers. Commercial traffic was also being affected as the long car queues obstructed their access to the bridge plaza threatening just in time deliveries. Trusted traveler programs users such as FAST and NEXUS which normally clear the border in an expeditious manner were also victims of the congestion and delays. Other border crossings were experiencing similar delays not seen since the events of 9-11. Local, regional and national media attention spoke of the “thickening” of the border.

CBSA has a significant impact locally on the attitudes and efficiency of travelers entering Canada via the Blue Water Bridge. BWBC intends to maintain a positive and productive relationship with CBSA to ensure BWBC understands and accommodates the border-based needs of the CBSA. BWBC will sustain the lines of communication to ensure CBSA representatives appreciate the needs and concerns of BWBC’s customers and the realities and importance of maintaining an efficient border crossing.

BWBC recognized that trade and tourism were not only being affected by these delays in the short term but very possibly in the long term. As Canadian and American customers perceive the increased likelihood of delays at the border, it will be ingrained in the public psyche to not even consider a trip to or from Michigan and Ontario.

### **Research**

An analysis of the lengthy delays experienced in the summer of 2007 indicated that processing times by U.S. Customs and Border Protection had increased not only at the Blue Water Bridge but at all Ontario border crossings with the States of Michigan and New York. Data was gathered from the BWBC Toll System, Toll Supervisor reports and log entries. The results clearly indicated that the delays to US bound traffic were more frequent than previous summer periods yet volumes were appreciably lower. In calendar year 2007 there were 151 days where delays of one hour or more were recorded according to Toll Supervisor's log entries. Similarly, in 2009, with traffic volumes down significantly from 2008, the frequency of unacceptable traffic delays increased. There has been improvement in 2010 and continued vigilance to make traffic crossing efficient while maintaining homeland security is required.

The mission of a safe, efficient and enjoyable border crossing experience is BWBC's primary concern with the issue of the "thickening" of the Canada/U.S. border to be addressed in our own small but effective way with both governments and the departments that oversee Customs enforcement.

### **Plan**

Strengthen and build upon relationships in order to educate, inform and offer solutions to legislators, bureaucrats and Customs officials on facilitating the flow of legitimate trade and travel across our borders while maintaining security. This will be achieved by maintaining memberships in and participating in border focused organizations such as CAN/AM BTA, the Public Borders Operators Association (PBOA), Sarnia Lambton Chamber of Commerce Transportation Committee and the Transportation Border Working Group and the Border Commercial Consultative Committee.

The plan also includes engaging and providing information to members of Government in particular to ensure they will become more pro active in addressing the "thickening" of the border within the Canadian Government and with their U.S. counterparts. BWBC will ensure that any opportunity to make presentations, participate in panel discussions or symposiums and studies that will assist in achieving its' goal are taken advantage of to the fullest. Relationships with local Canada Border Service Agency and US Customs and Border Protection officials will also be strengthened in an effort to work cooperatively with one another to find solutions that will facilitate the flow of traffic across the BWB. Maintaining an open line of communication with officials at Transport Canada, the Canadian Consulate in Detroit, the U.S. Consulate in Toronto and the Canadian Embassy in Washington is also included in this plan.

Within its government affairs strategy, BWBC will often advocate on behalf of not only itself but also for those of our stakeholders. In April 2011, BWBC's Vice President of Operations testified in Congress before the House Committee on Homeland Security – Sub-Committee on Border and Maritime Security in Washington D.C. in support of the American Plaza Expansion initiative. Our traffic congestion on the Canadian side is a direct result of the bottleneck on the small American plaza. The testimony described the geographic, physical and financial constraints and the best solution to overcome our challenges and the efforts we make to bring these issues to the attention of those agencies that have the ability to improve policies and processes at the international border level.

**Obstacles to Success**

There are variables that are outside our control that may hinder the success of the goal put forth in this plan. Another terrorist attack in the United States or one in Canada will certainly affect the efficient flow of traffic across our borders. A change in the leadership of the United States and new tougher border policies and requirements may also cause the border to “thicken”. Efforts to promote trusted traveler programs such as FAST and NEXUS will mitigate some of these issues.

**Performance Tracking**

The plan will be monitored and evaluated by comparing the number of days where delays for US bound traffic was one hour or more. This information will be compiled by the Operations Department in the same manner as was done in 2007 in order to ensure continuity. The results will be compared on a monthly basis from the previous year and will be reported monthly to BWBC Board of Directors. This method will be used since no other previous base line had been established against which to measure wait times.

**Community Relations Program Plan, Fiscal 2011-2013****Plan Purpose & Background:**

BWBC recognizes that hosting one of North America’s busiest international crossings offers both benefits and challenges for our host communities in Lambton County. The purpose of the Community Relations Program is to build and sustain community understanding, appreciation and support for its operations, so that it can continue to efficiently and effectively meet its service mission and achieve its vision. A responsible, proactive and multi-dimensional community relations program will also enable us to contribute to an improved quality of life in Lambton County.

BWBC recognizes that positive and productive relationships with many and varied stakeholders, that is, those individuals and groups that might affect or be affected by the organization’s plans or actions. It is critical to understand that positive stakeholder relations can only be built on open, honest and timely communications, consistently reinforced by responsible actions, which will earn the organization the public’s respect and trust. Internal stakeholders are equally important. Our Transport Canada partner, our local member of parliament and our employees will need to be informed supporters of the program, to varying degrees. In particular, our employees will be encouraged to actively contribute to our community betterment plans and activities.

BWBC community relations programs and activities will encompass information, education and opinion gathering components. Concerning the latter aspect, BWBC recognizes that its plans, services and performance would benefit from community stakeholder input, at the planning stage, and from feedback, as we evaluate the effectiveness of our activities. Our community relations program will reflect a social-economic-environmental approach to business management. In this regard, our interests will be widespread, including transportation system efficiency and effectiveness, public security and safety, youth development, community social and cultural betterment, as well as community use of BWBC lands, resources and expertise.

## **Marketing/Customer Service Program Plan, Fiscal 2011-2013**

### **Plan Purpose & Background:**

Since the opening of the original span over the St. Clair River between Point Edward, ON and Port Huron, MI, in 1938, the Blue Water Bridge has established itself as a major ground transportation link between Canada and the United States. Toll revenues have provided a solid source of income for BWBC, covering ongoing operations and capital investments without the need for Canadian government subsidies. As such, it is important that a plan be in place that will contribute to the sound financial standing of the Blue Water Bridge, by ensuring that BWBC's services remain aligned with customer needs and preferences and making cross-border travelers aware of its features and benefits.

The customer service component of the plan will assist BWBC to sustain the numbers and increase the loyalty of its existing customer base. An emphasis will be placed on the organization's stated role of providing a service that is safe, efficient and enjoyable for our customers, so as to earn the Blue Water Bridge the status of being recognized as an essential part of their travel experience. The customer service element will include information, education and opinion gathering components, engaging employees, customers and other stakeholders in the use and further development of existing, proposed and potential services and facilities.

The complementary marketing component of the plan will support BWBC's legislated ability and historical practice of generating revenues to cover the costs of meeting its mandate. The function will pursue avenues of identifying potential customers and increasing their awareness of, and appreciation for, the bridge's features and benefits. The marketing segment of the plan will also identify customer needs and preferences, which could lead to traveler facility and service improvements, or new revenue-generating opportunities.

### **Employee Management Program Strategy**

BWBC has historically had good working relationships with the employees and representing union. Strategies are being put in place to maintain this harmonious relationship which includes the continuation of regular Union/Management meetings.

We take particular pride in our employees who continually go beyond the scope of their jobs to provide an efficient and customer-friendly plaza, well appreciated by the many people who have crossed the bridge spans and by the many people who work on the plaza. As well, BWBC continues to provide mandatory, voluntary and personal training including higher education to our employees.

Salary administration and job descriptions have been subjected to a formal review by an independent salary administration consultant. Job descriptions have been re-written and re-evaluated to ensure that job responsibilities correspond with equitable pay both internally and externally.

Our Mutual Respect policy was revised in 2007. Workshops were conducted with all employees to develop and rollout the program. Monitoring and progress reporting will be overseen by the HR Manager who will periodically report to the management team.

BWBC plans to incorporate improvements into the employee management program by the end of 2011-2012, that will strengthen and augment the measures currently being implemented and address the following areas of specific interest to the Board:

- Expand employee organizational orientation activities to ensure employees become familiar with how the board's mission, vision and values statements and various program policies are linked to their daily responsibilities
- Implement an employee orientation program in place explaining our mission and vision and various program policies (not just an initial orientation). BWBC will expand the role of the Customer Service Manager to train & educate employees on an ongoing basis of the mission and vision and how employees can contribute to the organization in their daily roles in fulfilling the Mission and Vision
- Review all policies; add, edit and delete policies so that remaining policies are compatible with the mission and vision and values statement
- Present an up-to-date assessment of the employee organization/reporting structure to assure the Board that an appropriate number of properly qualified personnel exists, or is proposed within the five-year personnel resources allocation plan, to effectively meet the current and anticipated demands on the organization
- Report on the findings and future actions related to the latest salary and wage structure evaluation, to assure the board of the BWBC's continued ability to retain and attract suitably qualified employees. Report on the Hay Compensation Structure for Non-Union Jobs that was performed in 2007 and set timelines for future salary evaluations.
- The report will identify areas of success and provide specific recommendations for further improving employee relations and productivity. Management will have a formal employee satisfaction survey conducted which will include the above bullet points. The survey will be conducted with all BWBC employees to find out their level of satisfaction with the organization.
- Report on the status of succession planning to assure the board that measures are in place to encourage the retention of key personnel and to ensure the effective continuation of operations should they leave BWBC employment. The report should also identify the measures that have been put in place to maintain operations as employees retire from employment.

### **Managing our Risks:**

BWBC's management of its risks is governed by a Risk Management policy which sets out the Board's responsibilities to:

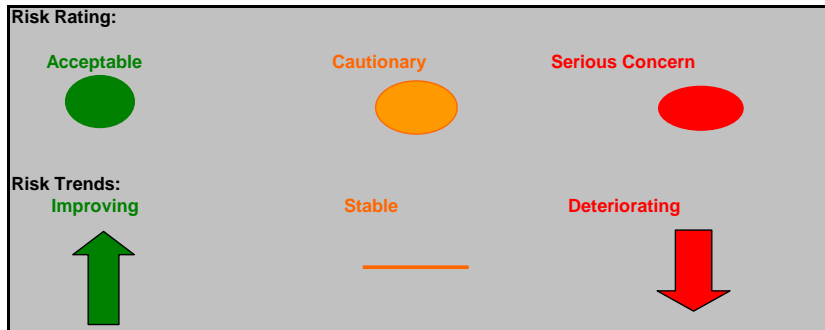
- Understand the significant risks to which BWBC is exposed
- Establish appropriate and prudent risk management policies for those risks, review the policies regularly, and satisfy the Board on an annual basis that the policies continue to be appropriate and prudent
- Obtain reasonable assurance, on a regular and annual basis that the policies continue to be appropriate and prudent
- Obtain reasonable assurance, on a regular and annual basis, that the Corporation has an effective risk management process and that risk management policies are being administered, maintained and updated as required.

The Board's Audit Committee is mandated to assist in carrying out these responsibilities and has established expectations of management with respect to supporting the Board in fulfilling its risk management responsibilities. Management's risk management process and results are subject to validation by BWBC's internal audit function.

BWBC's Internal Auditor, Ernst & Young, conducted an "Enterprise Risk Management Workshop" during the summer of 2010. From this exercise the Board and senior management identified our 12 top risks with the following order of ranking:

1. Managing Market Share
2. Deterioration in Government Relations
3. Inadequate Succession Planning
4. Breakdown in Community Support
5. Regulatory Intervention
6. Inadequate Bridge Maintenance
7. Failure to Sustain Competition
8. Lack of Product and Market Innovation
9. Cost/Schedule Overruns
10. Failure in Use of Technology
11. Inability to Repay Debt Covenants
12. Inadequate Contract Management





## Overview of BWBC's Assessment of its Significant Risks

**BWBC's Operational Risk:** BWBC's risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

**Safety and Security Risk:** The risk that BWBC fails to ensure the safety of its personnel and the security and integrity of its assets, including the confidentiality of its information.

**Business Continuity Risk:** The risk that a disruption impacting BWBC's personnel, information, premises, technology or operations will impede its ability to achieve its statutory objects and conduct of its affairs.

**Process Risk:** The risk resulting from the incorrect execution of a breakdown in, or a gap in, a policy, practice or control respecting BWBC's processes.

**Structural Risk:** The risk that the structure of the bridge spans will be compromised due to environmental effects and traffic stresses.

**Information Risk:** The risk that timely, accurate and relevant information is not available to facilitate informed decision making and/or the exercise of effective oversight.

**Legal/Compliance Risk:** The risk that BWBC fails to identify, consider, fulfill or comply with its legal and other obligations and requirements, in the conduct of its affairs.

**People Risk:** The risk resulting from inadequacies in the competencies, capacity or performance, or from the inappropriate treatment of BWBC employees.

**Technology Risk:** The risk that BWBC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.

**Reputation Risk:** The risk of an event significantly affecting stakeholders' perceived trust and confidence in BWBC, creating a public backlash which could result in a financial or other loss to BWBC.

Rating	Trend

**BWBC's Financial Risk:** BWBC's risk associated with managing its assets and liabilities.

**Liquidity/Solvency Risk:** The risk that funds will not be available to BWBC to honour its cash obligations as they arise.

**Event Risk:** The risk of loss to BWBC of events beyond its control such as economic downturns, security alerts and emergencies and other unforeseen events.

**Market Risk:** The risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly by BWBC, as a result of changes in market rates (such as interest rates and foreign exchange rates) or prices.

**Competitive Risk:** The risk that changes and improvements made by our competitors or by changes in government policy that might significantly affect traffic volumes.


### **Critical Accounting Policies and Future Policy Changes:**

Other than the “Summary of Significant Accounting Policies” identified in Note 3 of the Financial Statements and, expanding on Note 2 of the financial statements there is the convergence with International Financial Reporting Standards (IFRS).

In December 2009, the Public Sector Accounting Board released an amendment to the “Introduction to Public Sector Accounting Standards” which clarifies the source of Generally Accepted Accounting Principles (GAAP) for government organizations like Blue Water Bridge Canada. Classified as an Other Government Business Enterprise, BWBC was required to assess whether International Financial Reporting Standards (IFRS) are the most appropriate basis of accounting for the organization or whether the Public Sector Accounting Handbook should be adopted. Management concluded that IFRS is the most appropriate basis of accounting.

The BWBC IFRS transition plan is comprised of three phases: scoping, development and implementation. The scoping and development phases were completed in the 2008-2009 fiscal year and the implementation phase commenced in 2009-2010. During the 2010-2011 fiscal year, BWBC continues the implementation phase of the project, which includes:

- finalizing the implementation of remediation plans to address action items identified during the development phase;
- generating both the Canadian GAAP and IFRS balances (IFRS balances required for comparative figures for 2011/12 quarterly and annual IFRS financial statements);
- obtaining Audit Committee approval for IFRS accounting policy recommendations and IFRS 1 elections;
- quantifying and recording reconciliation adjustments between the Canadian GAAP and IFRS;
- preparing an opening IFRS Balance Sheet at September 1, 2010; and
- delivering IFRS awareness and technical training sessions to staff and members of BWBC Board of Directors and Audit Committee.

BWBC is receiving assistance with its IFRS conversion from the accounting firm PricewaterhouseCoopers (PwC). BWBC and PwC have kept the Office of the Auditor General (OAG) fully informed of its progress and identified the issues – componentization of assets and related depreciation – which have been addressed. BWBC is on schedule to have comparative statements completed for fiscal year 2010/2011. There have not been any problems with the IFRS implementation.

A draft of the IFRS opening balance sheet adjustments will be prepared in November 2011 and it is apparent that retained earnings will be increased by a one-time adjustment of \$44.4 million due to the fair value assessment for the bridge spans (\$43 million); reinstatement of the long-term debt bond transaction costs (\$0.8 million), and; recognition of the cumulative actuarial losses on the employee future benefits liability (\$0.6 million). The following table provides a summary of key activities remaining for the IFRS transition project:

Year	Required Activities
2011/12	<ul style="list-style-type: none"> <li>• Effective September 1, 2011, account for all transactions using IFRS.</li> <li>• Prepare the first set of IFRS quarterly financial statements for the period ending November 30, 2011 and for each quarter going forward.</li> <li>• Prepare the first annual set of IFRS financial statements for the year ending August 31, 2012.</li> <li>• Monitor all proposed and continuing projects of the International Accounting Standards Board, giving consideration to any changes expected to impact BWBC.</li> <li>• Continue to communicate changes and provide training as required.</li> </ul>

### **Internal Controls:**

During fiscal 2011, our internal auditors, Ernst and Young, conducted an “Enterprise Risk Management” Workshop and three internal audits: (1.) Currency Exchange Audit; (2.) Financial Statement Close Audit, and; (3.) Federal Infrastructure Claims Audit.

A currency exchange audit was conducted to review physical security measures around the Automated Teller Machines (ATMs), currency exchange centre and currency storage areas and to provide assurance to management that currency and/or monetary instruments at the currency exchange department are controlled, accounted for and deposited in a timely manner and in accordance with authorities and applicable regulations.

A financial statement close audit was conducted to provide assurance that the financial close process, including monthly, quarterly and yearly closes, includes appropriate controls to provide reasonable assurance that the financial information produced is reliable, timely and complete. The purchases, payables and disbursements process was audited in detail to determine that adequate controls are in place to ensure that accounts payable and related expenses are fairly stated.

The bulk of the annual compliance audit of the federal infrastructure program has been completed and the program’s final internal audit report should be signed off by December 2011. Its purpose has been to provide independent and objective assurances that:

- (1.) The management framework is appropriate, provides due consideration to risk assessment and management, and ensures compliance with the terms and conditions of the Agreement;
- (2.) The funds are spent for the purposes intended, and;
- (3.) Prompt and timely corrective action is taken in response to audit findings.

## FIVE YEAR REVIEW

<b>Statement of Operations, Comprehensive Income and Equity</b>					
for the year ended August 31st ( In Thousands )					
	<b>2011</b>	<b>2010</b>	<b>2009 (Restated)</b>	<b>2008</b>	<b>2007 (Restated)</b>
	\$	\$	\$	\$	\$
<b>Revenue</b>					
Tolls and Services	16,313	16,910	15,465	17,100	17,872
Facility Rentals	2,455	2,462	2,586	2,618	2,937
Currency Exchange Department	1,206	1,025	1,101	1,202	941
Interest and Sundry Revenues	419	919	2,106	2,710	2,634
Gain on disposal of property, plant and equipment	-	-	67	-	-
<b>Total Revenue</b>	<b>20,393</b>	<b>21,316</b>	<b>21,325</b>	<b>23,630</b>	<b>24,384</b>
<b>Expenses</b>					
Interest on long-term debt	5,838	5,959	6,138	6,306	6,464
Amortization	5,264	4,438	4,204	3,983	3,633
Human Resources	5,211	5,135	6,065	5,515	5,763
General and administrative	2,200	1,699	1,576	2,142	2,109
Maintenance & other expenses	1,623	1,462	1,242	1,458	1,620
Amortization of intangible assets	153	149	149	-	-
Loss on disposal of property, plant and equipment	-	-	-	-	1,018
	<b>20,289</b>	<b>18,842</b>	<b>19,374</b>	<b>19,404</b>	<b>20,607</b>
<b>Excess of revenues over expenses and comprehensive income</b>	<b>104</b>	<b>2,474</b>	<b>1,951</b>	<b>4,226</b>	<b>3,777</b>
<b>Balance Sheet</b>					
<b>Assets</b>					
<b>Current</b>					
Cash	7,988	13,961	8,890	16,116	20,629
Accounts receivable	2,248	1,515	1,109	1,678	1,224
Short-term investments	1,070	7,920	32,671	17,778	22,844
Prepaid expenses	373	319	381	369	300
	<b>11,679</b>	<b>23,715</b>	<b>43,051</b>	<b>35,941</b>	<b>44,997</b>
<b>Deferred Charges</b>	-	-	-	-	576
<b>Property, plant and equipment</b>	<b>181,480</b>	<b>161,801</b>	<b>129,876</b>	<b>120,522</b>	<b>119,858</b>
<b>Restricted assets</b>	<b>5,629</b>	<b>5,160</b>	<b>8,177</b>	<b>8,682</b>	<b>8,362</b>
<b>Long-term investments</b>	<b>1,117</b>	<b>3,341</b>	<b>8,118</b>	<b>23,389</b>	<b>14,593</b>
<b>Intangible assets</b>	<b>270</b>	<b>368</b>	<b>486</b>	<b>-</b>	<b>-</b>
	<b>200,175</b>	<b>194,385</b>	<b>189,708</b>	<b>188,534</b>	<b>188,386</b>
<b>Liabilities and Equity</b>					
<b>Current</b>					
Current portion of long-term debt	3,290	3,089	2,900	2,723	2,556
Accounts payable and accrued liabilities	2,850	6,374	4,641	2,278	2,890
Deferred Revenue	1,643	1,524	1,303	1,483	1,694
Holdbacks payable	992	4,394	1,356	-	439
Current portion of bank loan payable	375	-	-	-	-
	<b>9,150</b>	<b>15,381</b>	<b>10,200</b>	<b>6,484</b>	<b>7,579</b>
<b>Employee future benefits liability</b>	<b>4,752</b>	<b>4,140</b>	<b>4,029</b>	<b>3,419</b>	<b>2,987</b>
<b>Long-term debt - Bank loan</b>	<b>14,595</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Long-term debt - Bond Issue</b>	<b>84,823</b>	<b>88,113</b>	<b>91,202</b>	<b>94,102</b>	<b>96,825</b>
	<b>113,320</b>	<b>107,634</b>	<b>105,431</b>	<b>104,005</b>	<b>107,391</b>
<b>Equity</b>	<b>86,855</b>	<b>86,751</b>	<b>84,277</b>	<b>84,529</b>	<b>80,995</b>
	<b>200,175</b>	<b>194,385</b>	<b>189,708</b>	<b>188,534</b>	<b>188,386</b>

**Blue Water Bridge Canada  
Financial Statements  
For the year ended August 31, 2011**

**Canada** 

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## **Management's Responsibility for the Financial Statements**

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### **MANAGEMENT'S REPORT**

The financial statements and all other information contained herein are the responsibility of management and have been reviewed and approved by the Directors of Blue Water Bridge Canada. These financial statements, which include amounts based on management's best estimates as determined through experience and judgment, have been properly prepared and are in accordance with Canadian generally accepted accounting principles.

Management of Blue Water Bridge Canada maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Blue Water Bridge Authority Act* and the by-laws of Blue Water Bridge Canada.

The Auditor General of Canada conducts an independent audit of the annual financial statements and reports on the audit to the Minister of Transport, Infrastructure and Communities.

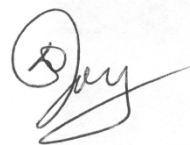
The Board of Directors' Audit Committee, which consists of four members, none of whom is an officer of Blue Water Bridge Canada, reviews and advises the Board on the financial statements and the Auditor General's report thereto. The Audit Committee meets with management on a regular basis and occasionally with the Office of the Auditor General of Canada to discuss the financial reporting process as well as auditing, accounting and reporting issues.



Chuck Chrapko  
President and CEO

Sarnia, Ontario  
Canada

November 8, 2011



David Joy, BA, CGA  
Chief Financial Officer





## INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

### Report on the Financial Statements

I have audited the accompanying financial statements of the Blue Water Bridge Authority, which comprise the balance sheet as at 31 August 2011, and the statement of operations, comprehensive income and equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 fraud or error. 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Blue Water Bridge Authority as at 31 August 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

### Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Blue Water Bridge Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Blue Water Bridge Authority Act* and the by-laws of the Blue Water Bridge Authority.

Maurice Laplante, CA  
Assistant Auditor General  
for the Interim Auditor General of Canada

8 November 2011  
Ottawa, Canada

**Blue Water Bridge Canada  
Financial Statements**

**Balance Sheet**

As at August 31 2011 2010

**Assets**

**Current**

Cash (Note 4)	\$ 7,987,690	\$ 13,960,797
Short-term investments (Note 5)	1,069,906	7,920,167
Accounts receivable	2,247,859	1,514,750
Prepaid expenses	373,439	318,940
	<u>11,678,894</u>	<u>23,714,654</u>

Long-term investments (Note 5) 1,117,387 3,340,906

Property, plant and equipment (Note 6) 181,480,466 161,801,357

Intangible Assets (Note 7) 269,578 368,292

**Restricted assets (Note 10)**

Debt service reserve fund	3,405,935	3,470,933
Operating and maintenance contingency fund	2,222,877	1,689,381
	<u>5,628,812</u>	<u>5,160,314</u>

\$ 200,175,137 \$ 194,385,523

**Liabilities**

**Current**

Accounts payable and accrued liabilities	\$ 2,850,345	\$ 6,373,813
Holdbacks payable	992,116	4,394,015
Deferred revenue (Note 12)	1,642,495	1,524,167
Current portion of bank loan payable (Note 11)	375,391	
Current portion of bonds payable (Note 14)	3,289,999	3,088,832
	<u>9,150,346</u>	<u>15,380,827</u>

Employee future benefits liability (Note 13) 4,751,588 4,140,415

**Long-term debt**

Bank loan payable (Note 11)	14,594,766	
Bonds payable (Note 14)	84,823,406	88,113,405
	<u>99,418,172</u>	<u>88,113,405</u>
	113,320,106	107,634,647

**Equity**

Retained Earnings	86,855,031	86,750,876
	<u>\$ 200,175,137</u>	<u>\$ 194,385,523</u>


Contingencies (Note 17) and Commitments (Note 18)

The accompanying notes form an integral part of the financial statements.

Approved by the Board of Directors:

On behalf of Management:

 Director  
 Director

 Chief Financial Officer

**Blue Water Bridge Canada**  
**Financial Statements**

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**Statement of Operations, Comprehensive Income and Equity**

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2011                      2010

**For the year ended August 31**

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**Revenues**

Tolls and services	\$     16,313,008	\$    16,910,416
Facility rentals (Note 15)	2,455,481	2,461,474
Currency exchange department (Note 16)	1,205,663	1,024,573
Interest and Sundry	419,115	919,472
	<u>20,393,267</u>	<u>21,315,935</u>

**Expenses**

Interest on long-term debt	5,838,159	5,959,440
Amortization of property, plant and equipment	5,263,903	4,438,298
Human resources (Note 22)	5,210,696	5,102,820
General and administrative (Note 22)	2,200,267	1,730,153
Maintenance and other expenses (Note 22)	1,623,024	1,461,821
Amortization of intangible assets	153,063	149,189
	<u>20,289,112</u>	<u>18,841,721</u>

<b>Excess of revenues over expenses and comprehensive income</b>	<b>\$       104,155</b>	<b>\$    2,474,214</b>
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<b>Retained Earnings, beginning of year</b>	<b>\$     86,750,876</b>	<b>\$    84,276,662</b>
<b>Excess of revenues over expenses and comprehensive income</b>	<u><b>104,155</b></u>	<u><b>2,474,214</b></u>
<b>Retained Earnings, end of year</b>	<b>\$     86,855,031</b>	<b>\$    86,750,876</b>

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The accompanying notes form an integral part of the financial statements.

**Blue Water Bridge Canada**  
**Financial Statements**

## **Statement of Cash Flows**

**For the year ended August 31** **2011** 2010

<b>Cash Flows from operating activities</b>		
Excess of revenues over expenses and comprehensive income	\$ 104,155	\$ 2,474,214
Adjustments for items not affecting cash		
Amortization of property, plant and equipment	5,263,903	4,438,298
Amortization of intangible assets	153,063	149,189
Employee future benefits liability	611,173	110,987
Foreign exchange loss	45,641	8,092
	<u>6,177,935</u>	<u>7,180,780</u>
Changes in non-cash working capital items		
Interest on short and long-term investments	(14,673)	746,989
Accounts receivable	(733,109)	(406,539)
Prepaid expenses	(54,498)	62,260
Accounts payable and accrued liabilities	(3,523,469)	1,732,930
Holdbacks payable	(3,401,899)	3,038,138
Deferred revenue	118,328	221,154
	<u>(7,609,320)</u>	<u>5,394,932</u>
<b>Net cash provided by operating activities</b>	<b>(1,431,385)</b>	<b>12,575,712</b>
<b>Cash Flows from investing activities</b>		
Purchase of property, plant and equipment	(30,850,990)	(38,789,823)
Purchase of intangible assets	(54,348)	(31,978)
Investments		
Matured investments	9,088,451	50,772,002
Investments purchased	-	(21,990,717)
Restricted assets		
Matured investments	375,000	4,137,679
Investments purchased	(843,499)	(1,120,513)
	<u>(22,285,386)</u>	<u>(7,023,350)</u>
<b>Net cash used in investing activities</b>		
<b>Cash Flows from financing activities</b>		
Funding received from federal government - infrastructure	5,907,980	2,426,451
Increase in long-term debt - bank loan - current portion	375,391	
Increase in long-term debt - bank loan	14,594,766	
Increase in long-term debt - bond principal - current portion	201,167	188,867
Decrease in long-term debt - bond principal	(3,289,999)	(3,088,832)
<b>Net cash used in financing activities</b>	<b>17,789,305</b>	<b>(473,514)</b>
<b>Foreign exchange loss on cash held in foreign currency</b>	<b>(45,641)</b>	<b>(8,092)</b>
<b>(Decrease) Increase in cash during the year</b>	<b>(5,973,107)</b>	<b>5,070,756</b>
<b>Cash, beginning of year</b>	<b>13,960,797</b>	<b>8,890,041</b>
<b>Cash, end of year</b>	<b>\$ 7,987,690</b>	<b>\$ 13,960,797</b>

Supplemental disclosure of cash flow information:

<b>Interest paid</b>	<b>\$ 5,797,346</b>	<b>\$ 5,986,212</b>
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The accompanying notes form an integral part of the financial statements.

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**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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## **Notes to the Financial Statements**

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### **1. Authority and Objective**

Blue Water Bridge Canada (BWBC), legally known as the Blue Water Bridge Authority, as established by the *Blue Water Bridge Authority Act* (Canada) on May 21, 1964; as per Section 22, BWBC is not an agent of Her Majesty in right of Canada. On April 26, 2002 BWBC became a Crown corporation, and as such, is listed under Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. In October 2007 the Minister of Transport, Infrastructure and Communities confirmed that the new operating title of Blue Water Bridge Canada was approved and registered by the *Federal Identity Program*.

The Blue Water Bridge complex includes the Canadian portion of two international toll bridges connecting Point Edward, Ontario, Canada with Port Huron, Michigan, USA. The westbound bridge was completed in October, 1938 and the eastbound bridge in July, 1997. Under the direction and guidance of the Minister of Transport, Infrastructure and Communities, the mandate of Blue Water Bridge Canada is to operate, maintain and repair the Canadian halves of the two bridges, approaches and structures.

The *Blue Water Bridge Authority Act* and section 6 of the *Customs Act*, require Blue Water Bridge Canada to provide, equip and maintain, free of charge, adequate buildings, accommodations or other facilities for the proper detention and examination of imported goods or for the proper search of persons by customs and immigration officers.

### **2. Future Accounting Changes**

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that publicly accountable enterprises will prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. Since BWBC is considered a Government Business Enterprise for the reason that it has the ability to sustain its current operations and generate additional revenue as it deems necessary, then it will move to IFRS. With this in mind, BWBC is set for an IFRS changeover date at September 1, 2011 with the first IFRS statements being issued at August 31, 2012. At this time, a conversion plan has been finalized to reasonably determine the impact of this anticipated accounting change on BWBC’s financial results and position. BWBC intends to restate beginning balances of September 1, 2010 accordingly.

### **3. Summary of Significant Accounting Policies**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are set out below:

#### **a) Financial Instruments**

Financial instruments are measured at fair value on initial recognition. The measurement of financial instruments in subsequent periods depends on their classification. The classification of BWBC’s financial instruments is presented in the following table:

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**3. Summary of Significant Accounting Policies continued...**

Categories	Financial Instruments
Financial assets held for trading	Cash
Financial assets held to maturity	Short-term investments Long-term investments Restricted assets
Loans and receivables	Accounts receivable
Other Financial liabilities	Accounts payable Holdbacks payable Long-term debt

Financial assets held for trading are recognized at fair value on the balance sheet. Gains and losses arising from the change in fair value are recognized in the Statement of Operations, Comprehensive Income and Equity for the period in which they arise.

Financial assets held to maturity are measured at amortized cost. Interest is recognized using the effective interest rate method and recognized under Interest and Sundry in the Statement of Operations, Comprehensive Income and Equity. Financial assets held-to-maturity are classified as non-current assets, except for those with maturities that are less than 12 months from the end of the reporting period, which are classified as current assets. Restricted assets are classified as non-current in accordance with the timing of their intended use.

Assets classified as loans and receivables are recorded at amortized cost using the effective interest rate method, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Other financial liabilities are measured at amortized cost using the effective interest method.

All financial instruments measured at fair value will be categorized into one of three hierarchy levels as described for disclosure below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

The BWBC financial instruments are for the most part categorized at Level 1 as the fair value is measured at prices identical to instruments in active markets except for some accounts receivables and payables which are valued at their stated invoiced or contractual dollar amounts.



**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**3. Summary of Significant Accounting Policies continued...**

**b) Property, Plant and Equipment**

Property, plant and equipment is presented on the Balance Sheet as cost less accumulated depreciation.

Land is not depreciated. Depreciation on other assets is calculated using the methods and estimated useful lives below. Depreciation rates based on the estimated useful life of an asset are as follows:

Bridge – first span		Straight line for 50 years
Bridge – second span		Straight line for 75 years
Truck Ramp		Straight line for 50 years
Buildings	5%	Diminishing balance basis
Buildings & Booths identified for demolition		Remaining life, straight line, 1 to 10 years
Buildings – leased Duty Free	5%	Diminishing balance basis
Buildings – residential (including land)		No amortization
Equipment	10%	Diminishing balance basis
Equipment – computer		Straight line for 5 years
Property improvements	10-20%	Diminishing balance basis
Vehicles and construction equipment	20%	Diminishing balance basis

Residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period, or more often if events or circumstances dictate.

Ten buildings and all booths have been identified for demolition in accordance with the master capital plan. Depreciation has been accelerated to depreciate the remaining net book value over the period of time through to the planned date of demolition.

No depreciation on buildings-residential is recorded. The total acquisition cost of the buildings – residential will be transferred to the land account when these buildings are demolished.

Construction in process is not depreciated. When projects are significantly completed and put in use, the costs are transferred to the appropriate asset account and depreciation is initiated.

**c) Intangible Assets**

BWBC's intangible assets are comprised mainly of acquired software. The software is recorded at cost at the acquisition date, and it is subsequently carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the estimated useful lives (five years). The estimated useful life and amortization method are reviewed at the end of each fiscal year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets are assessed for impairment during the annual review of intangible assets' useful lives.

## **Notes to the Financial Statements**

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### **3. Summary of Significant Accounting Policies continued...**

#### **d) Revenue**

*Toll and services* revenues are recognized and recorded at the time the tolls are collected when the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

*Facility rentals* revenues are recognized and recorded in the periods in which they are earned. These revenues include lease payments received from tenants such as commercial custom brokers, private coffee shops, and a duty free store.

*Currency exchange department* revenues are recorded and recognized at the time the currency exchange transaction is completed. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

*Interest* is recognized and recorded in the period in which it is earned. The primary component of revenue in this category is bond interest.

Deferred revenues are comprised of tolls paid in advance by passenger vehicle users and commercial trucking companies.

#### **e) Foreign Currency Translation**

Foreign currency transactions and account balances are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated through the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in the Statement of Operations, Comprehensive Income and Equity in the current period.

#### **f) Employee Future Benefits**

BWBC provides post-retirement benefits including health care, dental care, employee assistance, and life insurance to eligible employees and their dependents upon meeting certain requirements. The obligation and the cost of these benefits are determined on an actuarial basis using the projected unit credit method prorated on service and management's best estimate assumptions. The discount rate used to determine the accrued benefit obligation is based on market rates for long-term high quality bonds. BWBC uses an August 31 measurement date.

The net cost consists of the actuarially determined benefits for the current year's service, imputed interest on projected obligations and the amortization of actuarial gains or losses over the expected average remaining service life. Actuarial gains or losses are amortized over the employees' average remaining service life (16 years; 2010 - 16 years) only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the accrued benefit obligation at that date. These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

## **Notes to the Financial Statements**

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### **3. Summary of Significant Accounting Policies continued...**

#### **f) Employee Future Benefits continued...**

A change in the Accrued Benefit Obligation arising from a change in the benefits provided is considered to be a past service cost. Past service costs are tracked separately and amortized on a straight-line basis over the average expected period to full eligibility as of the effective date of the change. The elimination of the health care deductible at March 1, 2010 constituted a past service cost and the additional obligation arising from this change is currently being amortized over a period of 8 years.

BWBC also provides defined contribution pension benefits to its employees. BWBC's contributions reflect the full benefit cost of the employer and they are charged to operations during the year in which the services are rendered.

#### **g) Federal, Provincial and Municipal Government Assistance**

Federal, provincial and municipal government assistance is recorded as a reduction of the cost of the asset acquired when there is a reasonable assurance that the requirements for the approved grants are met.

#### **h) Measurement Uncertainty**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year.

Employee-related liabilities and the useful life expectancy for property, plant and equipment are the most significant items where estimates are used. Actual results could differ significantly from management's best estimates as additional information becomes available in the future.

### **4. Cash**

BWBC's bank accounts are currently held at one Canadian chartered bank. Cash (including on hand) includes US \$2,112,271 (2010 - US \$2,041,724) which has been translated to its Canadian equivalent of \$2,066,646 as at August 31, 2011 (2010 - \$2,172,191).

### **5. Investments**

BWBC invests in the money market. The investments are mainly composed of secure and low-risk government and corporate bonds, guaranteed investment certificates, treasury bills, and bankers acceptances. These investments are held-to-maturity in four separate investment accounts.

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**5. Investments continued...**

**a) Short-term Investments**

The portfolio is composed of Government and corporate bonds maturing in the 2012 financial year.

As at	August 31, 2011	August 31, 2010
<b>General Investments (Carrying amount)</b>		
Cash	\$ -	\$ 62
Financial Institutions	-	5,764,733
	<u>-</u>	<u>5,764,795</u>
<b>Major Maintenance Fund (Carrying amount)</b>		
Cash	\$ -	\$ 11
Financial Institutions	1,069,906	2,155,361
	<u>1,069,906</u>	<u>2,155,372</u>
	<u>\$ 1,069,906</u>	<u>\$ 7,920,167</u>
<b>Fair Value</b>		
General Investments	\$ -	\$ 5,770,056
Major Maintenance Fund	1,079,710	2,197,389
	<u>\$ 1,079,710</u>	<u>\$ 7,967,445</u>
<b>Average Rate of Return - %</b>	<u>2.52</u>	<u>2.84</u>
<b>Average Term to Maturity - days</b>	<u>274.0</u>	<u>109.5</u>

**b) Long-term Investments**

The portfolio is composed of Government and corporate bonds.

As at	August 31, 2011	August 31, 2010
<b>Major Maintenance Fund (Carrying amount)</b>		
Government	\$ 1,117,387	\$ 3,340,906
	<u>\$ 1,117,387</u>	<u>\$ 3,340,906</u>
<b>Fair Value</b>		
Major Maintenance Fund	\$ 1,202,433	\$ 3,574,673
	<u>\$ 1,202,433</u>	<u>\$ 3,574,673</u>
<b>Average Rate of Return - %</b>	<u>4.50</u>	<u>4.42</u>
<b>Average Term to Maturity - days</b>	<u>2.75</u>	<u>3.08</u>

The fair value of the investments was determined using quoted market prices.

The Major Maintenance Fund was established voluntarily by BWBC in order to provide funds for the major restoration cost of recoating and painting of the bridges and to provide funds for any major restorative bridge repair work. However, this portfolio has been and will continue to be wound down as the investments mature in order to finance the more immediate projects and priorities within the master capital plan.

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**6. Property, Plant, and Equipment**

	<b>August 31, 2011</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$ 7,963,429	\$ -	\$ 7,963,429
Bridges & Truck Ramp	100,470,707	18,901,453	81,569,254
Buildings	74,578,887	12,439,185	62,139,702
Buildings-booths	5,842,544	2,808,144	3,034,400
Buildings-leased Duty Free	5,281,899	2,058,135	3,223,764
Buildings-residential (including land)	621,729	-	621,729
Equipment	12,175,457	2,484,941	9,690,516
Construction in process	3,867,485	-	3,867,485
Property improvements	18,750,001	9,621,687	9,128,314
Vehicles and construction equipment	1,766,069	1,524,196	241,873
	<u>\$ 231,318,207</u>	<u>\$ 49,837,741</u>	<u>\$ 181,480,466</u>

	<b>August 31, 2010</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$ 7,963,429	\$ -	\$ 7,963,429
Bridges & Truck Ramp	98,778,548	17,272,521	81,506,027
Buildings	18,434,220	10,883,178	7,551,042
Buildings-booths	3,123,218	2,626,054	497,164
Buildings-leased Duty Free	5,281,899	1,877,997	3,403,902
Buildings-residential (including land)	621,729	-	621,729
Equipment	6,101,456	4,214,932	1,886,524
Construction in process	55,490,964	-	55,490,964
Property improvements	8,813,665	6,226,034	2,587,631
Vehicles and construction equipment	1,766,069	1,473,124	292,945
	<u>\$ 206,375,197</u>	<u>\$ 44,573,840</u>	<u>\$ 161,801,357</u>

**7. Intangible Assets**

	<b>August 31, 2011</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Computer Software	\$ <u>990,478</u>	\$ <u>720,900</u>	\$ <u>269,578</u>

	<b>August 31, 2010</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Computer Software	\$ <u>936,130</u>	\$ <u>567,838</u>	\$ <u>368,292</u>

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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## **Notes to the Financial Statements**

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### **8. Rehabilitation of the Bridge**

The Blue Water Bridge is comprised of two spans. The original bridge (first span) was constructed in 1938 and underwent a major rehabilitation in 1999. The useful life of the rehabilitation is estimated to be 50 years, at which time the bridge could be demolished or rehabilitated for a second time. The second span was constructed in 1997 and has a useful life of 75 years, at which time it is estimated that a major rehabilitation could extend its useful life for 50 years. Rehabilitations of a bridge span can extend the life of the bridge indefinitely, making any eventual full demolition improbable. Such major rehabilitation projects will be considered first and undertaken to avoid future demolition of any bridge span.

The replacement cost for both Canadian halves of the bridge spans is estimated by an independent engineering firm to total \$156.3 million.

### **9. Government Funding**

The federal government, a related party, announced funding for BWBC through the Economic Action Plan initiative. BWBC receives funding for infrastructure projects from the federal government which will reimburse BWBC 50% of the costs for the infrastructure projects up to \$10 million (for total spending of \$20 million). As at August 31<sup>st</sup>, 2011, \$18,336,312 of eligible expenditures has been incurred by BWBC on infrastructure projects; federal funds received since the implementation of the Economic Action Plan initiative in the amount of \$7,502,509 (for \$15,005,018 expended). At August 31, 2011 an amount of \$1,665,649 is included in accounts receivable for infrastructure claims to receive from the federal government.

Comparatively, at August 31<sup>st</sup>, 2010, \$4,853,900 of eligible expenditures was incurred by BWBC on infrastructure projects; federal funds received in the amount of \$1,207,716 (for \$2,415,432 expended). At August 31<sup>st</sup>, 2010 and an amount of \$1,219,234 was included in accounts receivable for claims to be submitted for work completed up to August 31, 2010.

### **10. Restricted Assets**

In accordance with the Master Trust Indenture, BWBC has established a Debt Service Reserve Fund and an Operating and Maintenance Fund.

#### **Debt Service Reserve Fund**

On the issuance of the bonds, BWBC established the Debt Service Reserve Fund in the amount of \$4.5 million. Thereafter the bond covenant requires that the Debt Service Reserve Fund be established at the level according to the following:

Gross Debt Service Coverage Ratio	Debt Service Reserve Fund amount
> 3.00	No amount
> 2.00 and < 3.00	25% of the Debt Service Amount
< 2.00	50% of the Debt Service Amount



**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**10. Restricted Assets continued...**

Gross Debt Service Coverage Ratio means, on any date, the sum of free cash flow for a twelve month period and the revenue account balance (cash plus all investments plus credit facilities) divided by the sum of the net interest amount and the total principal reduction amount for the twelve month period.

Debt Service Amount means, on any date, the sum of the projected net interest amount and the projected total principal reduction amount for the twelve month period commencing on the first day of the month.

As at August 31, 2011, the Gross Debt Service Coverage Ratio is 4.33 (2010 - 8.68).

In anticipation of lower coverage ratios in the future as a result of the drawdown in investments to finance capital projects, a balance will be maintained at a level equivalent to that required as if the Gross Debt Service Coverage Ratio was greater than 2.00 but less than 3.00. This would require a minimum reserve fund of \$2,221,545. As at August 31, 2011, the Debt Service Amount is \$3,405,935 (2010 - \$3,470,933). Thus, a balance of \$3.4 million will be voluntarily maintained.

**Debt Service Reserve Fund**

<b>As at</b>	<u><b>August 31, 2011</b></u>	<u><b>August 31, 2010</b></u>
<b>Carrying amount</b>		
Investments		
Cash	17	
Government	\$ 3,405,918	\$ 3,470,933
	<u>3,405,935</u>	<u>3,470,933</u>
<b>Fair Value</b>		
Investments	\$ 3,542,713	\$ 3,510,839
<b>Average Rate of Return - %</b>	<u>3.61</u>	<u>2.53</u>
<b>Average Term to Maturity - Years</b>	<u>1.50</u>	<u>1.39</u>

**Operating and Maintenance Contingency Fund**

On the issuance of the bonds, BWBC established an Operating and Maintenance Contingency Reserve Fund in the amount of \$2.0 million. Thereafter the reserve must be at least equal to twenty-five percent (25%) of the Operating and Maintenance expenses incurred by BWBC. Operating and Maintenance expenses do not include amortization or the interest on any borrowings. As at August 31, 2011, the required minimum balance is established at \$2,058,487 (\$1,875,482 in 2010).

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**10. Restricted Assets continued...**

**Operating and Maintenance Contingency Fund**

As at	August 31, 2011	August 31, 2010
<b>Carrying amount</b>		
Investments		
Cash	11,529	
Government	314,598	300,397
Financial Institutions	\$ 1,896,750	\$ 1,388,984
	<u>2,222,877</u>	<u>1,689,381</u>
<b>Fair Value</b>		
Investments	\$ 2,258,209	\$ 1,712,588
<b>Average Rate of Return - %</b>	<u>2.91</u>	<u>2.97</u>
<b>Average Term to Maturity - Years</b>	<u>2.34</u>	<u>3.10</u>

The fair value of the investments was determined using quoted market prices.

**11. Credit Facilities**

BWBC maintains two separate credit facilities with a Canadian chartered bank in the total amount of \$30 million (2010 - \$30 million). As at August 31, 2011, there was a balance of \$14,970,157 (2010 - \$0). The maximum amount that BWBC can borrow is \$125 million with Ministerial approval.

Principal and interest payments for the next five years and thereafter are shown as follows:

	Year	Principal	Interest	Total
<b>Current</b>				
	2012	375,391	542,157	917,548
<b>Long-term</b>				
	2013	390,206	527,342	917,548
	2014	404,068	513,480	917,548
	2015	418,954	498,594	917,548
	2016	433,946	483,602	917,548
	Thereafter	12,947,593	5,327,682	18,275,275
		<u>14,594,766</u>	<u>7,350,700</u>	<u>21,945,466</u>
		<u>14,970,157</u>	<u>7,892,857</u>	<u>22,863,014</u>

**12. Deferred Revenue**

Deferred revenue of \$1,642,495 (\$1,524,167 - 2010) represents the balance, at year end, for tolls paid in advance by passenger vehicles of \$694,098 (\$551,156 - 2010); and commercial trucking companies of \$948,397 (\$973,011- 2010).

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**13. Employee Future Benefits**

**a) Pension benefit**

BWBC has contracted an outside life insurance firm to operate and administer an employee pension plan. Employees of BWBC may voluntarily join the pension plan, subject to eligibility requirements. The pension plan, which is a defined-contribution pension plan, is funded on a money-purchase basis with members contributing 6.5% of their annual earnings. In accordance with the plan, BWBC is required to contribute an amount equal to the member's required contribution. During the year, BWBC's pension contributions amounted to \$203,727 (2010 - \$196,691).

**b) Severance Packages**

Other than the special termination benefits disclosed in Note 13 d), no severance packages were awarded in fiscal 2011. One employee received a severance package in 2010 totaling \$61,155. As at August 31, 2011, \$22,650 (2010 - \$121,742) of the severance cost is included in accounts payable and \$0 (2010 - \$22,650) recognized in the employee future benefits liability.

**c) Other benefits**

Other than the pension plan, BWBC provides post-retirement benefits to its eligible employees through health, dental, life insurance and an employee assistance program. Benefit costs related to current service are charged to the Statement of Operations, Comprehensive Income and Equity as services are rendered.

The following table sets forth the status of the post-retirement non-pension related benefit plan:

<b>For the year ended August 31</b>	<b>2011</b>	<b>2010</b>
<b>Change in accrued benefit obligation</b>		
Accrued benefit obligation, beginning of year	\$ 4,711,117	\$ 3,808,250
Current service cost	164,329	137,632
Interest cost	265,598	263,773
Amendments (elimination of health care deductible)	-	14,000
Actuarial loss (gain)	112,442	577,740
Net cost for the year	542,369	993,145
Benefits paid	(93,689)	(90,278)
Accrued benefit obligation, end of year	\$ 5,159,797	\$ 4,711,117

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**13. Employee Future Benefits continued...**

The following table reconciles the unamortized net actuarial loss at the end of the year:

<b>For the year ended August 31</b>	<b>2011</b>	<b>2010</b>
<b>Unamortized net actuarial loss</b>		
Unamortized net actuarial loss, beginning of year	\$ 580,227	\$ 2,487
Actuarial loss (gain) experienced during the year	112,442	577,740
Actuarial loss recognized during the year	<u>(6,820)</u>	<u>-</u>
Unamortized net actuarial loss, end of year	<u>\$ 685,849</u>	<u>\$ 580,227</u>

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The following table reconciles the accrued benefit obligation of the benefit plan to the accrued benefit liability recorded in the financial statements:

<b>For the year ended August 31</b>	<b>2011</b>	<b>2010</b>
Accrued benefit obligation	\$ 5,159,797	\$ 4,711,117
Special termination benefits payable	289,015	
Severances Payable	-	22,650
Unamortized past service costs	(11,375)	(13,125)
Unamortized net actuarial loss	<u>(685,849)</u>	<u>(580,227)</u>
Accrued benefit liability	<u>\$ 4,751,588</u>	<u>\$ 4,140,415</u>

The last actuarial valuation was performed as at August 31, 2011. BWBC intends to have its next valuation performed as at August 31, 2012. The accrued benefit liability is reported on the Balance Sheet as: Employee future benefits liability.

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**13. Employee Future Benefits continued...**

**c) Other benefits continued...**

The following table shows the elements of defined benefits cost recognized during the year:

<b>For the year ended August 31</b>	<b>2011</b>	<b>2010</b>
<b>Elements of defined benefit costs recognized in the year</b>		
Current service costs	\$ 164,329	\$ 137,632
Interest cost	265,598	263,773
Actuarial (gains) losses	112,442	577,740
Plan amendments		14,000
	<hr/>	<hr/>
<b>Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs</b>	<b>542,369</b>	<b>993,145</b>
Difference between actuarial loss recognized and actuarial loss/gain on Accrued Benefit Obligation	(105,622)	(577,740)
Difference between amortization of past service cost and actual plan amendment cost	1,750	(13,125)
	<hr/>	<hr/>
<b>Defined benefit costs recognized</b>	<b>\$ 438,497</b>	<b>\$ 402,280</b>

**Assumptions**

<b>For the year ended August 31</b>	<b>2011</b>	<b>2010</b>
Weighted average assumptions as at August 31:		
Discount Rate, accrued benefit obligation	5.25%	5.50%
Discount Rate, benefit cost	5.50%	6.75%
Estimated per capita claims costs escalation rates:		
General inflation	2.50%	2.70%
Dental and vision care	3.70%	3.70%
Employee assistance program	2.50%	2.70%

The assumed health care cost trend rate for the next 8 years is 8%, 6% thereafter (2010 – 8% for the next 8 years, 6% thereafter).

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**13. Employee Future Benefits continued...**

**c) Other benefits continued...**

Sensitivity analysis

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One Percent	
	Increase	Decrease
Total of service and interest cost	\$ 104,436	\$ 79,395
Accrued benefit obligation	1,061,228	833,113

**d) Special termination benefits**

In recognition of past valued service, a special termination benefit of \$289,015 was awarded in fiscal 2011 to one employee. It is recognized in fiscal 2011 as a long-term liability to be drawn down upon declaration of retirement by the employee, which is expected to occur beyond the next twelve-month period.

**14. Long-term Debt**

On July 9, 2002 BWBC issued at a face value of \$110 million, 6.41% Revenue Bonds, payable semi-annually, Series 2002-1, due July 9, 2027.

Principal and interest payments for the next five years and thereafter are shown as follows:

	Year	Principal	Interest	Total
<b>Current</b>				
	2012	\$ 3,289,999	5,596,179	8,886,178
<b>Long-term</b>				
	2013	3,504,267	5,381,910	8,886,177
	2014	3,732,490	5,153,687	8,886,177
	2015	3,975,577	4,910,600	8,886,177
	2016	4,234,495	4,651,682	8,886,177
	Thereafter	69,376,577	28,371,377	97,747,954
		84,823,406	48,469,256	133,292,662
		<u>\$ 88,113,405</u>	<u>\$ 54,065,435</u>	<u>\$ 142,178,840</u>

BWBC maintains a covenant with the Trustee and Bondholders that so long as there is any amount payable under the Master Trust Indenture, or any Bonds outstanding or any obligations under the indenture that:

- a) The principal and interest will be duly paid on the due dates.

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**14. Long-term Debt continued...**

- b) Insurance will be maintained in such types and amounts in accordance with sound business practices and standards in the industry.
- c) BWBC shall maintain its corporate existence pursuant to the *Blue Water Bridge Authority Act* and maintain its existence as a parent Crown corporation under the *Financial Administration Act* subject to its right to reorganize, merge or amalgamate in accordance with the Master Trust Indenture.
- d) Except for borrowings arising as a result of movements in the termination values of swap agreements and any purchase money obligations not exceeding \$2 million in the aggregate at any time, BWBC shall not create, incur, assume or otherwise become liable for any additional indebtedness unless it is pursuant to a supplemental Indenture. As at August 31, 2011 BWBC has no active swap agreement.
- e) The aggregate of all borrowings, subordinated debt and purchase money obligations does not exceed any limitations on the amount of borrowings outstanding imposed upon BWBC pursuant to the *Blue Water Bridge Authority Act*.
- f) Toll Rate Covenant – BWBC will take all lawful measures to fix and establish toll rates and other charges so that:

The Gross Debt Service Coverage Ratio is equal to or greater than 1.25 with respect to each Fiscal Year and that the projected Debt Service Ratio is equal to or greater than 1.00 with respect to each Fiscal Year.

As at August 31, 2011, the Gross Debt Service Coverage Ratio (as defined in note 10) is 4.33 (2010– 8.68) and the Debt Service Ratio is 1.42 (2010 – 1.74). If the ratios do not meet the preceding guidelines BWBC shall take all steps permitted under the *Blue Water Bridge Authority Act* to increase toll rates as may be necessary to achieve such ratios in the next succeeding Fiscal Year.

As a result of the provisions of Section 13 of the *Blue Water Bridge Authority Act*, the Government of Canada is not liable for any borrowings by BWBC.

A discounted cash flow method, using a discount rate equal to the prevailing market rate of interest for bonds having similar terms and conditions, was used to determine the fair value of the bonds. The fair value as at August 31, 2011 is \$103,122,071 (2010 - \$105,593,990).

**15. Facility Rentals**

BWBC has entered into a long-term operating lease with The Blue Water Bridge Duty Free Shop Inc. BWBC provides the building and the Duty Free Shop Inc. operates the commercial facility. BWBC receives a fixed rent per month and contingent revenues based on a percentage of sales.



**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**15. Facility Rentals continued...**

Canada Border Services Agency's (CBSA) special investigations unit, a related party, rented space from BWBC in the amount of \$22,570 and \$27,084 for fiscal 2011 and 2010, respectively. Since moving into Blue Water Bridge Corporate Centre in June of 2011, space has been provided for CBSA's special investigations unit free of charge.

**16. Currency Exchange Department**

BWBC operates a currency exchange department. The department's primary activity is to convert Canadian and American dollars for travelers. The Currency Exchange department generated net income of \$490,377 in 2011 (2010 - \$316,028).

**17. Contingencies**

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements. There are no outstanding legal actions against BWBC at year end (2010 - none).

**18. Commitments**

BWBC has awarded construction contracts for the Blue Water Bridge Corporate Centre (formally Customs/Brokers/Agricultural Complex) in the accumulated amount of \$69,975,082 at August 31, 2011 (2010 - \$64,798,794). BWBC has no outstanding commitment for the Blue Water Bridge Corporate Centre at August 31, 2011; however, BWBC had an outstanding commitment of \$17,734,995 at August 31, 2010. Federal infrastructure projects have completed in Fiscal 2011 showing no outstanding commitment at August 31, 2011 (outstanding commitment \$8,178,847 at August 31, 2010). Maintenance and other awarded contracts total \$486,481 and \$1,498,018 respectively (outstanding commitment \$402,261 at August 31, 2011 and \$989,713 at August 31, 2010). The outstanding commitment amounts will be paid in full within the next year.

**19. Capital Management**

BWBC defines its capital structure as its retained earnings. BWBC is governed by the *Financial Administration Act* and is not subject to any external capital restriction.

BWBC is not authorized to modify its financial structure without pre-approval by the Government. BWBC must obtain authorization from the Government to negotiate any borrowings. As at August 31, 2011 federal approval has been provided for: (a) its existing bond issue payable; (b) borrowings of up to \$15 million for short-term working capital requirements, and; (c) borrowings of an additional \$15 million for the purpose of funding capital expenditures that were accelerated due to funding received as part of the Gateways and Border Crossings Fund under *Budget 2009: Canada's Economic Action Plan*.

## **Notes to the Financial Statements**

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### **19. Capital Management continued...**

BWBC manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes related to capital management during the years ended August 31, 2011 and August 31, 2010.

### **20. Financial Instruments**

#### **a) Financial Risk Management**

All the following risks have no significant impact on BWBC's financial statements.

##### **i. Credit risk:**

Credit risk is the risk of financial loss to BWBC associated with the counterparty's failure to fulfill its financial obligations and arises principally from BWBC's accounts receivable and its investments in money market funds. BWBC is subject to credit risk on the value of its accounts receivable \$2,247,859 at August 31, 2011 and \$1,514,750 at August 31, 2010. BWBC is also subject to credit risk in the value of its investments \$7,816,088 at August 31, 2011 and \$16,421,387 at August 31, 2010. BWBC has determined that the risk is not significant.

##### **a) Accounts receivable**

BWBC is exposed to credit risk from customers in the normal course of business. The accounts receivable are net of applicable allowance for doubtful accounts, which is established based on specific risk associated with individual client and other relevant information. Of the accounts receivable, \$1,665,647 at August 31, 2011 and \$1,219,235 at August 31, 2010 relates to funds expected to be received from the federal government under the infrastructure program; \$249,753 at August 31, 2011 and \$254,263 at August 31, 2010 relates to receivables from BWBC tenants and other receivables equal \$332,459 at August 31, 2011 and \$41,252 at August 31, 2010.

##### **b) Investments**

BWBC manages its exposure to credit risk arising from investments by following its investment policy which limits BWBC's investments to cash equivalents thereby significantly lowering credit risk. The cash equivalents consist of units in money market funds whose objective is to earn interest income while preserving capital and maintaining liquidity. The sums are invested in treasury bills or other debt obligations of, or guaranteed by the Canadian federal or provincial governments, Canadian chartered banks, Canadian loan or trust companies or Canadian corporations.

##### **ii. Liquidity/Solvency risk**

Liquidity/Solvency risk is the risk that funds will not be available to BWBC to honour its cash obligations as they arise. BWBC manages liquidity risk through the management of its cash and investments. BWBC has determined that the risk is not significant because of the high quality of its investments and its formal financial forecasting mechanisms.

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**20. Financial Instruments continued...**

The BWBC liabilities as at August 31, 2011 are:

	Carrying Amount of Liability at August 31, 2011	Less than 3 months	3 to 6 Months	6 months to 1 year	Greater than 1 year
Accounts Payable	1,070,079	1,070,079			
Accrued Charges	673,909	673,909			
Accrued Bond Interest Payable	813,445	813,445			
Accrued Salaries and Benefits	292,912	292,912			
Construction Holdbacks	992,116	992,116			
Bank Loans Payable	14,970,157	91,583	92,680	191,128	14,594,766
Bond Debt	88,113,405	-		3,289,999	84,823,406
	<b>106,926,023</b>	<b>3,934,044</b>	<b>92,680</b>	<b>3,481,127</b>	<b>99,418,172</b>

BWBC is responsible for the retirement of \$110 million, 6.41% Revenue Bonds, due July 9<sup>th</sup>, 2027. Bond covenants are in place to ensure adequate liquidity over the duration of the bond issue. During this period of time, in the event temporary operating cash deficiencies occur, resulting from the timing of capital expenditure payments, a \$15 million credit facility is in place. BWBC's borrowing may not exceed \$125 million. As per the Minister of Finance's approval of the borrowing plan, this line of credit is not to be used to cover cash shortages resulting from operating losses. Due to the requirement to finance the federal infrastructure program coupled with the current decline in traffic volumes, BWBC was granted permission by the Minister of Finance to put into place another credit facility for \$15 million on a fixed rate, long-term basis with periodic payments of interest and principal not to exceed a maturity of 25 years.

It is possible that future financial results and required federal infrastructure priorities may impinge or strain BWBC's ability to satisfy existing bond covenants and require the utilization of the existing line of credit or the utilization of additional long-term debt. However, BWBC manages this risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a forecast of BWBC's liquidity position, to ensure adequacy and efficient use of cash resources. In the event that future cash deficiencies are identified, BWBC has the authority through the *Blue Water Bridge Authority Act* (Canada) to fix and charge tolls based on a pre-set formula; negotiate with our chartered bank, and; coordinate financial remediation solutions with Transport Canada.

In September 2011, Standard and Poor's graded its bond rating for BWBC at "A-".

**iii. Market risk**

Market risk is the risk that changes in market price, such as foreign exchange rates and interest rates, will affect BWBC's income or the value of its holdings of financial instruments. The fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific

## **Notes to the Financial Statements**

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### **20. Financial Instruments continued...**

#### **iii. Market risk continued...**

to the individual financial instrument of its issuer, or factors affecting all similar financial instruments traded in the market.

##### **a) Interest rate risk**

A variation in interest rates would not significantly affect investment income and would not have a significant effect on the financial statements as all investments are held to maturity. At this time, our bond debt and bank loan interest rates are fixed and not likely to be converted. Of our \$30 million in credit facilities, \$15 million remains unused. Thus, a variation in interest rates of 1% will have no effect on the financial statements at this time.

##### **b) Foreign exchange risk**

A variation in exchange rates from year-to-year would significantly affect toll revenue income. The 5.8 per cent average strengthening of the Canadian dollar over the duration of fiscal year 2011 produced a decrease in toll revenue income of \$228,311 (2010 - \$607,449 increase in income). For BWBC's USD cash holdings (Note 5) a one per cent change in exchange rate would produce \$21,123 gain or loss (2010 - \$20,417).

#### **b) Fair value**

The carrying amounts of BWBC's cash, accounts receivable, restricted assets and accounts payable and accrued liabilities approximate their fair values due to their short term maturity.

### **21. Comparative Figures**

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

**Blue Water Bridge Canada**  
**Financial Statements – For the year ended August 31, 2011**

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**Notes to the Financial Statements**

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**22. Expenses**

<b>For the year ended August 31</b>	<b>2011</b>	<b>2010</b>
<b>Human Resources</b>		
<b>Salaries and wages</b>		
Toll collectors	\$ 1,364,949	\$ 1,245,987
Administrative and office	1,027,559	773,380
Maintenance	597,196	636,074
Janitorial	394,480	363,270
Currency exchange department	377,779	362,733
Project management	216,734	489,495
	<u>3,978,697</u>	<u>3,870,939</u>
<b>Benefits</b>		
Health Insurance	\$ 692,439	\$ 687,415
Employee pension	338,161	335,075
Employee health taxes	74,440	79,297
Employment insurance	60,983	52,087
Workplace Safety and Insurance Board	33,316	45,489
Critical Illness	20,231	17,012
Other	12,429	15,506
	<u>1,231,999</u>	<u>1,231,881</u>
	<u>\$ 5,210,696</u>	<u>\$ 5,102,820</u>
<b>General and Administrative</b>		
Consultants	\$ 554,470	\$ 89,109
Insurance	373,186	347,360
Municipal taxes	315,346	338,474
Accounting, audit and legal	180,512	171,761
Computer services and supplies	126,927	128,411
Stationary	90,317	99,441
Public relations and advertising	81,288	66,399
Travel	69,012	89,185
Telephone	67,189	60,165
Bank charges	63,479	77,310
Office and miscellaneous	53,657	17,300
Bond fees	46,197	44,371
Entertainment	38,306	45,345
Uniforms	33,685	30,428
Meetings	33,454	48,823
Shipping and handling	32,894	28,017
Conferences, seminars and training	32,418	31,608
Memberships	7,930	16,646
	<u>\$ 2,200,267</u>	<u>\$ 1,730,153</u>
<b>Maintenance and Other Expenses</b>		
Utilities	\$ 530,718	\$ 407,641
Bridge maintenance and inspections	318,388	243,938
Landscaping	228,974	180,910
Buildings and booths	202,939	83,682
Shop supplies	102,676	37,920
Janitorial	80,365	61,541
Fuel and vehicle costs	64,247	49,548
Snow removal	50,042	22,150
Other	36,329	74,856
Equipment	29,183	61,409
Paving	-	119,612
Waste disposal (recovery)	(20,837)	118,614
	<u>\$ 1,623,024</u>	<u>\$ 1,461,821</u>





- First floor: Canada Border Services Agency's commercial operations, including offices and warehouse; Canada Food Inspection Agency's administration offices, laboratory and livestock off loading and penning area; truckers' lounge and waiting area
- Second floor: Canada Border Services Agency administrative offices
- Third floor: 13 commercial custom brokerage firm offices
- Fourth floor: Blue Water Bridge Canada administrative offices; one additional tenant, a commercial customs brokerage office; common areas for centre personnel, including meeting rooms, employee lounge, lunch room and fitness room
- Centre incorporates access-controlled inspection facilities and administration areas for Canada Border Services Agency and Canadian Food Inspection Agency, specifically designed to support their unique regulatory roles
- Canada Border Services Agency facilities include tractor trailer offloading bays, as well as contents lay down and



secure storage areas required for comprehensive vehicle inspections

- Canadian Food Inspection Agency section includes facilities for livestock inspection and product laboratory analyses; livestock alleys and holding pens have been specially configured to keep the animals calm and in sound condition during inspection
- Comprehensive internal and external environmental management systems automatically operate a wide range of features, including units for solar energy recovery and generation and rain water harvesting with cistern storage, as well as internal climate controls that ensure personnel comfort while minimizing use of valuable energy resources
- Washroom fixtures incorporate low-flow features to minimize the generation of wastewater
- Electronic sensors positioned throughout each room in the building automatically adjust lighting, window covers and ambient temperature to moderate the adverse effects of external environmental influences, like sunlight, as well as internal factors, such as the number of people/no people in the room and the heat generated by lighting fixture ballasts, to efficiently maintain pre-set conditions for the occupants and minimize energy costs

### About Blue Water Bridge Canada

- A federal crown corporation, owns and operates the Canadian side of the Blue Water Bridge, which extends across the St. Clair River between Point Edward/Sarnia, ON, and Port Huron, MI. (U.S. side is owned by the State of Michigan and operated by its department of transportation)
- Bridge opened in 1938, with construction of second span during the mid 1990s (is third busiest commercial crossings between Canada and the U.S.)

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# SOME FACTS

ABOUT  
THE BLUE WATER BRIDGE  
CORPORATE CENTRE

Canada



# BLUE WATER BRIDGE CORPORATE CENTRE

The complex includes the offices of:

- The Canada Border Services Agency
- The Canadian Food Inspection Agency
- Blue Water Bridge Canada
- Commercial Customs Brokers

Officially opened on June 28, 2011

**Owner:** Blue Water Bridge Canada

**Architect Engineer:** Norr Limited

**Civil Engineer:** McCormick Rankin Corporation

**General Contractor:** McKay Cocker Construction



- New complex part of phased redevelopment of the Canadian bridge plaza
- Has been strategically integrated into the Canadian bridge plaza to enhance the capabilities of Canada Border Services Agency and Canadian Food Inspection Agency in providing effective oversight and control of commercial shipments and other vehicles upon entry into Canada
- Project constructed from January 2009 – April 2011; completed on time and on budget
- Allows for the consolidation of Blue Water Bridge Canada's administration offices and provides facilities for its bridge plaza tenants
- Name of centre was chosen by Blue Water Bridge Canada's Board of Directors from among a number proposed by employees
- Centre is among a select few new developments in the community to use the higher sustainable development standards for design, construction and operations; facility is expected to earn a Leadership in Energy and Environmental Design, or LEED, certification, acknowledging its adherence to North America's green building and construction requirements
- Structure was designed and built to meet or exceed the Government of Canada's stringent standards for international land border security and traffic control facilities
- First tenants moved into the building in April 2011, with Blue Water Bridge Canada the last to relocate in June from several locations on the main plaza
- Building encompasses more than 11,200 square metres over four floors
- Rolling wave roofline is symbolic of the Blue Water Bridge's Lake Huron-St. Clair River setting
- Roof surface materials moderate the adverse impacts of direct sunlight on internal building temperatures and climate control systems
- Grounds have been planted with drought-resistant vegetation to reduce the need for lawn watering; water for such purposes is taken from a cistern that collects rain water via the building's roof
- Natural stone used for interior and exterior surface applications was quarried in Ontario
- Centre's vestibule encompasses a three-story central atrium, which allows natural light into the interior, replacing and supplementing artificial lighting in adjacent office areas

