



**Blue Water Bridge Authority
Financial Statements
For the year ended August 31, 2006**

Canada

Blue Water Bridge Authority
Financial Statements - For the year ended August 31, 2006

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Management's Responsibility for the Financial Statements

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 Commissioners of the Authority. 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.

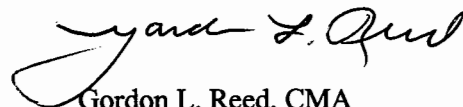
Management of the Authority maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that 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 the Blue Water Bridge Authority.

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

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



Dan M. Elash, P.Eng., C.I.M.
Chief Operating Officer



Gordon L. Reed, CMA
Controller / Treasurer

Sarnia, Ontario
Canada

October 6, 2006



Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of the Blue Water Bridge Authority as at August 31, 2006 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at August 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the 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 Authority.

Alain Boucher, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
October 6, 2006

**Blue Water Bridge Authority
Financial Statements**

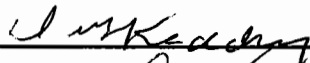

Balance Sheet

As at August 31	2006	2005
Assets		
Current		
Cash (Note 3)	\$ 13,882,380	\$ 18,974,042
Short-term investments (Note 5)	12,244,473	12,687,382
Accrued interest receivable (Note 5)	999,918	1,142,329
Accounts receivable	1,738,424	1,413,825
Prepaid expenses	381,797	391,608
	<u>29,246,992</u>	<u>34,609,186</u>
Deferred charges (Note 4)		
Bond agency fees	605,450	634,514
Long-term investments (Note 5)	31,320,089	28,114,203
Property, plant and equipment (Note 6)	117,386,375	113,084,108
Restricted assets (Note 8)		
Debt service reserve fund	5,321,739	5,094,957
Operating and maintenance contingency fund	2,697,251	2,581,266
	<u>8,018,990</u>	<u>7,676,223</u>
	<u>\$ 186,577,896</u>	<u>\$ 184,118,234</u>
Liabilities and Equity		
Current		
Accounts payable and accrued liabilities	\$ 2,518,889	\$ 3,705,616
Holdbacks payable	1,047,568	119,136
Deferred revenue (Note 10)	1,475,985	1,411,076
Current portion of long-term debt (Note 12)	2,399,874	2,253,133
	<u>7,442,316</u>	<u>7,488,961</u>
Employee future benefits liability		
Non-pension related liability (Note 11)	2,537,243	2,122,047
Long-term debt (Note 12)	99,381,020	101,780,894
	<u>109,360,579</u>	<u>111,391,902</u>
Equity	<u>77,217,317</u>	<u>72,726,332</u>
	<u>\$ 186,577,896</u>	<u>\$ 184,118,234</u>

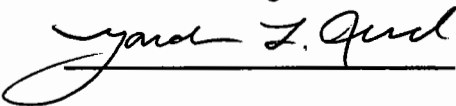
Contingencies (Note 15) and Commitments (Note 16)

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

On behalf of the Board:

 Commissioner
 Commissioner

On behalf of Management:

 Controller/Treasurer

**Blue Water Bridge Authority
Financial Statements**

Statement of Operations and Equity

For the year ended August 31	2006	2005
Revenues		
Tolls and services	\$ 18,297,443	\$ 18,450,063
Facility rentals (Note 13)	3,276,890	3,499,771
Currency exchange department (Note 14)	1,098,919	1,106,168
Interest and sundry revenues	2,489,234	2,358,303
	<u>25,162,486</u>	<u>25,414,305</u>
Expenses		
General and administrative (Note 20)	3,018,953	2,846,405
Human resources (Note 20)	5,657,955	5,050,577
Interest on long - term debt	6,612,244	6,751,283
Maintenance and other expenses (Note 20)	1,585,620	1,602,263
Amortization-property, plant and equipment	3,738,281	3,536,551
Amortization-bond agency fees	29,064	29,064
Loss on disposal of property, plant and equipment	29,384	129,752
	<u>20,671,501</u>	<u>19,945,895</u>
Excess of revenues over expenses	\$ 4,490,985	\$ 5,468,410
Equity, beginning of year	\$ 72,726,332	\$ 67,257,922
Excess of revenues over expenses	<u>4,490,985</u>	<u>5,468,410</u>
Equity, end of year	\$ 77,217,317	\$ 72,726,332

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

**Blue Water Bridge Authority
Financial Statements**

Statement of Cash Flows

For the year ended August 31	2006	2005
Cash Flows from operating activities		
Excess of revenues over expenses	\$ 4,490,985	\$ 5,468,410
Adjustments for items not affecting cash		
Amortization of property, plant and equipment	3,738,281	3,536,551
Amortization of bond agency fees	29,064	29,064
Employee future benefits liability (non-pension related)	415,196	222,932
Loss on disposal of property, plant and equipment	29,384	129,752
Foreign exchange loss	37,135	47,524
	<u>8,740,045</u>	<u>9,434,233</u>
Changes in non-cash working capital items		
Accrued interest receivable	142,411	(426,659)
Accounts receivable	(324,599)	(797,974)
Short-term investments	442,909	(3,688,263)
Prepaid expenses	9,811	(2,998)
Accounts payable and accrued liabilities	(1,186,727)	1,760,119
Holdbacks payable	928,432	119,136
Deferred Revenue	64,909	(14,935)
	<u>77,146</u>	<u>(3,051,574)</u>
Net cash provided by operating activities	<u>8,817,191</u>	<u>6,382,659</u>
Cash Flows from investing activities		
Proceeds on disposal of property, plant and equipment	-	17,500
Purchase of property, plant and equipment	(8,069,932)	(6,688,585)
(Increase) Decrease in long-term investments	(3,205,886)	6,536,409
(Increase) in restricted assets	(342,767)	(438,682)
Net cash (used in) investing activities	<u>(11,618,585)</u>	<u>(573,358)</u>
Cash Flows from financing activities		
Increase in long-term debt - bond principal - current portion	146,741	137,767
(Decrease) in long-term debt - bond principal	(2,399,874)	(2,253,132)
Net cash (used in) financing activities	<u>(2,253,133)</u>	<u>(2,115,365)</u>
Foreign exchange loss on cash held in foreign currency	(37,135)	(47,524)
(Decrease) Increase in cash during the year	(5,091,662)	3,646,412
Cash, beginning of year	<u>18,974,042</u>	<u>15,327,630</u>
Cash, end of year	<u>\$ 13,882,380</u>	<u>\$ 18,974,042</u>
Interest paid	<u>\$ 6,633,044</u>	<u>\$ 6,770,812</u>

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

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

1. Authority and Objective

The Blue Water Bridge Authority (the “Authority”) was established by the *Blue Water Bridge Authority Act (Canada)* on May 21, 1964; as per Section 22, the Authority is not an agent of Her Majesty in right of Canada. On April 26, 2002 the Authority 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*.

The Blue Water Bridge complex includes the Canadian portion of two international toll bridges connecting Sarnia, 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 the mandate of the Blue Water Bridge Authority is to operate, maintain and repair the Canadian halves of the two bridges, approaches and structures.

The *Blue Water Bridge Authority Act* and the *Customs Act*, Section 6, require the Authority 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.

The Authority’s mission statement is:

“To provide the finest international transportation facilities on the Great Lakes”

2. 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) Foreign Currency Translation

Foreign currency accounts 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 in the current period.

b) Deferred Charges

The bond agency fees are amortized over the life of the bonds (25 years) on a straight-line basis.

c) Deferred Revenues

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

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

d) Employee Future Benefits Liability (Non-pension Related)

The Authority provides, other than pension benefits, 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. The Authority 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 employee average remaining service life (12 years; 2005 - 13 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.

e) Property, Plant and Equipment - Amortization

The net value of property, plant and equipment as presented on the Balance Sheet is cost less accumulated amortization. Replacements and major improvements which extend the useful lives of existing assets are capitalized.

Amortization rates based on the estimated useful life of an asset are as follows:

Bridge – first span	2%	Straight line for 50 years
Bridge – second span	1%	Straight line for 75 years
Buildings	5%	Diminishing balance basis
Buildings-booths	10%	Diminishing balance basis
Buildings-leased Duty Free	5%	Diminishing balance basis
Buildings – residential (including land)	-	No amortization
Equipment	10%	Diminishing balance basis
Equipment – computer	20%	Straight line for 5 years
Property improvements	10-20%	Diminishing balance basis
Vehicles and construction equipment	30%	Diminishing balance basis

Buildings-Residential and the land on which they are situated are purchased for their land values. No amortization on buildings-residential is recorded. The total acquisition cost will be transferred to the land account when these buildings are demolished.

Construction in process is not amortized. When projects are substantially completed the costs are transferred to the appropriate asset account and amortization is initiated.

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

f) 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 and sundry revenues are recognized and recorded in the period in which they are earned. The primary component of revenue in this category is bond interest.

g) Government Assistance

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 predictions for property, plant and equipment are the most significant items where estimates are used. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Cash

The Authority's bank accounts are held at one Canadian chartered bank. Cash (including on hand) includes US \$760,544 (2005 - US \$1,297,528) which has been translated to \$841,618 (2005 - \$1,542,631).

4. Deferred Charges

The Authority issued \$110 million in revenue bonds on July 9, 2002. The bonds are due in 2027. The agency fees amounted to \$726,550 of which \$29,064 (2005 - \$29,064) is applicable to fiscal 2006 expense. The remaining balance of \$605,450 will be amortized over the bond's life on a straight-line basis.

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

5. Investments

a) Short-term Investments

The portfolio is composed of Provincial bonds and Government of Canada Treasury bills maturing in the 2007 financial year.

As at August 31	2006	2005
Investments (Book Value)		
Province of Nova Scotia	\$ 999,865	\$ -
Province of Ontario	3,269,503	7,690,040
Government of Canada	7,975,105	4,997,342
	12,244,473	12,687,382
Accrued Interest Receivable	999,918	1,142,329
	\$ 13,244,391	\$ 13,829,711
Fair Value	\$ 13,229,231	\$ 13,864,060
Average Rate of Return - %	3.92	4.14

b) Long-term Investments

The portfolio is composed of Provincial bonds and Government of Canada Treasury bills.

As at August 31	2006	2005
General Investments (Book Value)		
Province of Alberta	\$ -	\$ 288,184
Province of British Columbia	5,468,562	385,443
Province of Newfoundland and Labrador	5,025,353	487,938
Province of Nova Scotia	1,256,931	2,254,658
Province of Ontario	1,381,965	4,853,412
Government of Canada	13,444,367	16,206,007
	26,577,178	24,475,642
Bridge Painting Fund (Book Value)		
Province of Nova Scotia	841,147	798,786
Province of Ontario	1,921,723	939,870
Government of Canada	1,980,041	1,899,905
	4,742,911	3,638,561
	\$ 31,320,089	\$ 28,114,203
Fair Value	\$ 26,494,116	\$ 24,785,679
	4,754,633	3,766,518
	\$ 31,248,749	\$ 28,552,197
Average Rate of Return - %	4.48	4.47
Average Term to Maturity - Years	2.19	2.77

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

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

The Bridge Painting Fund was established voluntarily by the Authority in 2002 in order to provide funds for the major restoration cost of recoating and painting of the bridges. Current estimates indicate that the first project will begin in 2024 and the second in 2026-2031 at a total future cost of approximately \$25 million. Current year deposits amounted to \$900,000 (2005 - \$900,206). The fund generated interest income in the amount of \$204,350 (2005 - \$162,344).

c) Investment Policy

The Authority invests in treasury bills, promissory notes, bills of exchange or other debt securities that are unconditionally guaranteed or accepted by the Government of Canada or by a Bank or by any province of Canada; Central Government Obligations of any other country which has a bond rating of AAA or AA or equivalent; interest bearing deposits or certificates of deposit or similar arrangements with, or discount debt obligations issued, accepted or guaranteed by any bank, trust company or other deposit taking institution in Canada, which is rated in one of the highest categories of debt by one of the Rating Agencies: Commercial Paper, R-1 high, Banker's Acceptance (minimum R-1 low or higher); indebtedness of any other issuer (including any corporation) with a remaining term to maturity not to exceed one year, the long-term debt of which is rated one of the three highest categories for long-term debt by one of the Rating Agencies.

6. Property, Plant and Equipment

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 7,315,975	\$ -	\$ 7,315,975	\$ 7,315,975
Bridges	86,792,730	9,325,493	77,467,237	78,604,265
Buildings	18,150,951	6,365,550	11,785,401	12,798,522
Buildings-booths	3,123,217	2,166,775	956,442	1,077,604
Buildings-leased Duty Free	5,281,899	1,084,387	4,197,512	4,418,434
Buildings-residential (including land)	1,129,626	-	1,129,626	1,129,626
Equipment	4,380,316	2,224,647	2,155,669	2,348,964
Equipment-computer	636,927	388,526	248,401	233,491
Construction in process	9,420,915	-	9,420,915	1,872,126
Property improvements	6,387,910	4,153,843	2,234,067	2,721,685
Vehicles and construction equipment	1,828,276	1,353,146	475,130	563,416
	<u>\$ 144,448,742</u>	<u>\$ 27,062,367</u>	<u>\$ 117,386,375</u>	<u>\$ 113,084,108</u>

Included in construction in process is an amount of \$1,171,157 for a portion of a truck ramp that will be transferred to the Ministry of Transportation of Ontario in fiscal year 2007 for \$1. It is anticipated that a portion of the construction costs will be recovered from the Ministry.

Cost and accumulated amortization of property, plant and equipment as at August 31, 2005 amounted to \$137,103,161 and \$24,019,053 respectively.

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

7. Asset Retirement Obligations

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. The second span was constructed in 1997 and has a useful life of 75 years, at that time it is estimated that a major rehabilitation could extend its useful life for 50 years. The Authority will eventually be obligated to demolish the Canadian half of both spans. Due to the uncertainty relating to the potential rehabilitation of both spans, the Authority cannot determine a reasonable estimate of the fair value of the asset retirement obligation and therefore has not recognized any liability in the balance sheet as at August 31, 2006.

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

8. Restricted Assets

Debt Service Reserve Fund

In accordance with the Master Trust Indenture, on the closing date of the issuance of the bonds, the Authority established a Debt Service Reserve Fund in the amount of \$4.5 million. Thereafter the reserve must be at least equal to: (i) fifty percent (50%) of the Debt Service Amount, if the Gross Debt Service Coverage Ratio is less than 2.00:1.00; (ii) twenty-five (25%) of the Debt Service Amount if the Gross Debt Service Coverage Ratio is 2.00:1.00 or greater, but less than 3.00:1.00. In the event the Gross Debt Service Coverage Ratio is 3.00:1.00 or greater, the Authority is not required to maintain a balance in the Reserve Fund.

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 of such date.

Gross Debt Service Coverage Amount means, on any date, the sum of free cash flow for the twelve month period ending on the last day of the most recently completed month and the revenue account balance on the last day of the month divided by the sum of the net interest amount and the total principal reduction amount for the twelve month period ending on the last day of the most recently completed month.

Debt Service Reserve Fund

	<u>2006</u>	<u>2005</u>
Book Value		
Cash	\$ 164	\$ 164
Investments		
Province of British Columbia	2,548,169	2,439,880
Province of Manitoba	867,828	829,646
Province of Newfoundland and Labrador	1,587,086	1,520,143
Province of Ontario	318,492	305,124
	<u>\$ 5,321,739</u>	<u>\$ 5,094,957</u>
Fair Value		
Cash	\$ 164	\$ 164
Investments	5,346,546	5,208,322
	<u>\$ 5,346,710</u>	<u>\$ 5,208,486</u>
 Average Rate of Return - %	 <u>4.72</u>	 <u>4.72</u>
 Average Term to Maturity - Years	 <u>3.32</u>	 <u>5.76</u>

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

Operating and Maintenance Contingency Fund

In accordance with the Master Trust Indenture, on the closing date of the issuance of the bonds, the Authority 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 the Authority over the previous twelve (12) month period ending on the last day of the most recently completed month. Operating and Maintenance expenses do not include amortization or non-recurring items arising from the early retirement of Borrowings or Subordinated Debt, or the interest on any Borrowings.

	<u>2006</u>	<u>2005</u>
Book Value		
Cash	\$ 198	\$ 198
Investments		
Province of Newfoundland and Labrador	1,767,632	1,695,821
Province of Ontario	253,005	239,943
Province of Prince Edward Island	676,416	645,304
	<u>\$ 2,697,251</u>	<u>\$ 2,581,266</u>
Fair Value		
Cash	\$ 198	\$ 198
Investments	2,697,064	2,636,509
	<u>\$ 2,697,262</u>	<u>\$ 2,636,707</u>
 Average Rate of Return - %	 <u>4.88</u>	 <u>4.88</u>
 Average Term to Maturity - Years	 <u>3.96</u>	 <u>4.96</u>

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

9. Credit Facility

The Authority has a revolving credit facility with a Canadian chartered bank in the amount of \$20 million. The facility is secured by a pari-passu (ranked equally as to asset entitlement) Pledge of Revenues as contained in the Master Trust Indenture and the Master Trust Second Supplemental Indenture to a Pledged Bond. Interest is payable monthly based on the Bank's Prime Lending Rate. The maximum amount that the Authority can borrow is \$125 million. There is no outstanding balance as at August 31, 2006.

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

10. Deferred Revenue

Deferred revenue of \$1,475,985 (\$1,411,076 - 2005) represents the balance, at year end, for tolls paid in advance by passenger vehicles and commercial trucking companies.

11. Employee Future Benefits Liability (Non-pension Related)

Other than the pension plan, the Authority 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 income as services are rendered.

Blue Water Bridge Authority
Financial Statements – For the year ended August 31, 2006

Notes to Financial Statements

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

For the year ended August 31	2006	2005
Change in accrued benefit obligation		
Accrued benefit obligation, beginning of year	\$ 3,601,044	\$ 2,319,474
Current service cost	184,301	109,671
Interest cost	206,663	155,515
Actuarial losses	-	1,070,630
Cost for the year	390,964	1,335,816
Benefits paid	(55,689)	(54,246)
Accrued benefit obligation, end of year	\$ 3,936,319	\$ 3,601,044

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

For the year ended August 31	2006	2005
Unamortized net actuarial loss		
Unamortized net actuarial loss, beginning of year	\$ 1,478,997	\$ 420,359
Actuarial losses for the year	-	1,070,630
	1,478,997	1,490,989
Amortization of actuarial losses for the year	(79,921)	(11,992)
Unamortized net actuarial loss, end of year	\$ 1,399,076	\$ 1,478,997

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

For the year ended August 31	2006	2005
Accrued benefit obligation	\$ 3,936,319	\$ 3,601,044
Unamortized net actuarial loss	(1,399,076)	(1,478,997)
Accrued benefit liability	2,537,243	2,122,047

The last actuarial valuation was performed as at August 31, 2006. The Authority intends to have its next valuation performed as at August 31, 2007. The accrued benefit liability is reported on the Balance Sheet as: Non-pension related liability.

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Notes to Financial Statements

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

For the year ended August 31	2006	2005
Elements of defined benefit costs recognized in the year		
Current service costs	\$ 184,301	\$ 109,671
Interest cost	206,663	155,515
Actuarial losses	-	1,070,630
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	390,964	1,335,816
Adjustments to recognize the long-term nature of employee future benefit costs		
Difference between actuarial loss recognized and actuarial loss on accrued benefit obligation	79,921	(1,058,638)
Subtotal	79,921	(1,058,638)
Defined benefit costs recognized	\$ 470,885	277,178

Assumptions

For the year ended August 31	2006	2005
Weighted average assumptions as at August 31:		
Discount Rate, accrued benefit obligation	5.50%	5.50%
Discount Rate, benefit cost	5.50%	6.50%
Estimated per capita claims costs escalation rates:		
General inflation	2.70%	2.70%
Dental and vision care	3.70%	3.70%
Employee assistance program	2.70%	2.70%

The assumed health care cost trend rate for the next 12 years is 8%, 6% thereafter (2005 – 8% for the next 13 years, 6% thereafter).

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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	\$ 109,998	\$ (82,395)
Accrued benefit obligation	943,087	(723,280)

12. Long-term Debt

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

The proceeds were used to: repay all outstanding bank loans, pay loan breakage fees, agency, subscription, and legal fees and establish the required reserve funds. The balance is to be used for future capital spending and general working capital purposes.

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

	Year	Principal	Interest	Total
Current				
	2007	\$ 2,399,874	\$ 6,486,304	\$ 8,886,178
Long-term				
	2008	2,556,171	6,330,007	8,886,178
	2009	2,722,647	6,163,530	8,886,177
	2010	2,899,965	5,986,212	8,886,177
	2011	3,088,832	5,797,346	8,886,177
	Thereafter	88,113,405	54,065,435	142,178,841
		99,381,020	78,342,530	177,723,550
		\$ 101,780,894	\$ 84,828,834	\$ 186,609,728

The Authority 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.
- b) Insurance will be maintained in such types and amounts in accordance with sound business practices and standards in the industry.

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Notes to Financial Statements

- c) The Authority shall maintain its corporate existence pursuant to the *BWBA 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 terms of Section 6.7 of 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 in the aggregate at any time \$2 million, the Authority 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, 2006 the Authority has no active swap agreements.
- 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 the Authority pursuant to the *BWBA Act*.
- f) Toll Rate Covenant – The Authority will take all lawful measures to fix and establish toll rates and other charges so that:

The Gross Debt Service Ratio is equal to or greater than 1.25:1.00 with respect to each Fiscal Year and that the projected Debt Service Ratio is equal to or greater than 1.00:1:00 with respect to each Fiscal Year.

If the ratios do not meet the preceding guidelines the Authority shall take all steps permitted under the *BWBA 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 the Authority.

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, 2006 is \$116,768,813 (2005 - \$122,283,314).

13. Blue Water Bridge Duty Free Shop Inc. – Operating Lease

The Authority has entered into a long-term operating lease with The Blue Water Bridge Duty Free Shop Inc. The Authority provides the building, completed in 2002 and the Duty Free Shop Inc., operates the commercial facility. The lease has an initial term of 7 years ending on March 2, 2009, and has three consecutive renewal periods of 7 years each at the discretion of the Duty Free Shop Inc. The Authority receives a fixed rent per month and contingent revenues based on a percentage of sales.

14. Currency Exchange Department Operations

The Authority operates a currency exchange department on the plaza. The operation's primary activity is to convert Canadian and American dollars for travelers. Net income for the year amounted to \$246,801 (2005 - \$254,342).

Blue Water Bridge Authority
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Notes to Financial Statements

15. Contingencies

In the normal course of its operations, the Authority 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 the Authority's financial statements. At this time, there are no outstanding legal actions against the Authority.

16. Commitments

The Authority has awarded a contract to construct a truck ramp which connects the bridge plaza to Highway 402. The contract includes the construction of an associated eastbound ramp for the Ministry of Transportation of Ontario. Work not yet completed amounts to \$3,728,435. The project is expected to be completed in the Spring of 2007.

The Authority has engaged a consulting firm to provide civil engineering services for plaza improvements. Work not yet completed amounts to \$369,664.

The Authority has engaged an architectural firm for design work related to the new Customs Commercial/Custom Brokers/Canadian Food Inspection Agency building (CBA) and 7 primary truck lanes. The contract value is estimated at \$1,505,253.

17. Pension Plan

The Authority has contracted an outside life insurance firm to operate and administer an employee pension plan. Employees of the Authority 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, the Authority is required to contribute an amount equal to the member's required contribution. During the year, the Authority's pension contributions amounted to \$203,763 (2005 - \$187,877).

18. Financial Instruments

The Authority's financial instruments consist of cash, restricted assets, accounts receivable, short-term and long-term investments, accounts payable and accrued liabilities, holdbacks payable, tolls paid in advance, short-term and long-term debt. Unless otherwise noted, it is management's opinion that the Authority is not exposed to significant interest, currency or credit risks arising from these financial instruments. Unless otherwise disclosed in Notes 5, 8 and 12, management believes that the carrying values of the financial instruments approximate their fair value.

19. Comparative Figures

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

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Notes to Financial Statements

20. Expenses

For the year ended August 31	2006	2005
General and Administrative		
Audit and legal	\$ 73,997	\$ 84,973
Bond Rating Fees	40,174	39,726
Consultants	1,437,799	1,347,284
Insurance	486,380	496,304
Interest and bank charges	77,261	61,683
Meetings and memberships	53,872	70,193
Municipal Taxes	139,468	135,464
Office and miscellaneous	449,474	351,478
Public relations	80,008	89,325
Security	19,174	26,165
Telephone	69,801	72,493
Travel and entertainment	91,545	71,317
	\$ 3,018,953	\$ 2,846,405
Human Resources		
Salaries and wages		
Administrative and office	\$ 937,812	\$ 744,771
Currency Exchange Department	519,155	502,310
Janitorial	236,776	197,076
Maintenance	568,721	554,934
Project Management	280,526	263,093
Toll collectors	1,448,112	1,368,551
	3,991,102	3,630,735
Benefits		
Employee pension and life insurance	1,224,882	985,173
Employee health taxes	80,044	70,011
Employment insurance	74,673	70,466
Other	63,940	68,713
Uniforms and cleaning	46,259	48,992
Vacation pay	142,950	136,624
Workplace Safety and Insurance Board	34,105	39,863
	1,666,853	1,419,842
	\$ 5,657,955	\$ 5,050,577
Maintenance and Other Expenses		
Equipment repairs	\$ 48,062	\$ 33,248
Fuel and other vehicle costs	73,503	77,787
Heating, hydro and water	389,049	392,420
Janitorial supplies & waste disposal	71,380	76,774
Maintenance-supplies and services	769,851	779,872
Snow removal and landscaping	233,775	242,162
	\$ 1,585,620	\$ 1,602,263