

2011

DRAINAGE SERVICES ANNUAL REPORT

Unaudited Report: 08.03.2012





In 2011, the Sanitary Servicing Strategy Fund supported development of over 5,000 new residential lots.

TABLE OF CONTENTS

Manager's Message	5
Strategic Framework	6
Strategic Roadmap	7
Organizational Structure	8
2011 Achievements	10
Initiatives	16
Outcomes and Measures	18
Financial Performance	19
Financial Statements	25
Further Information	35



MANAGER'S MESSAGE

Excellent people delivering excellent service

For over a century, City of Edmonton, Drainage Services employees have provided our City with excellent wastewater and stormwater services, delivered with a focus on service to the customer, making a difference every day in the lives of the citizens of Edmonton. Today we are nationally recognized for our services, as demonstrated by the Canadian Water and Wastewater Association 2011 Award for Community Outreach for our "Store It, Don't Pour It!" and the "Trap It! Trash It! Strain It!" public education programs. Our staff protect public health and the environment.

Through 2011 we paved the way for the long-term financial viability of Drainage Services through the adoption of new utility fiscal policies. The adherence to this solid fiscal framework will ensure the continued leading edge delivery of excellent drainage services in a sustainable way. Moreover, the fiscal policy allows us to move forward on three key aspects of our strategic plan:

- Maintain efficient and effective services for the citizens
- Build and renew drainage infrastructure for the long-term future of Edmonton
- Improve environmental protection and maintain public health and safety

Our success in 2011 is measured by a number of indicators:

- Our net income was \$15.6 million, on revenues of \$101.9 million
- We had five land development projects utilizing low-impact development principles
- We provided 5,500 sanitary services to the sewer system
- We responded to more than 6,000 customer service calls
- We disposed of 18,873 dry tonnes of biosolids

The success of City of Edmonton, Drainage Services is a direct result of the dedication and hard work of all of our professionals, from front line staff to our engineering and science specialists. We are committed to putting the needs of our customers at the forefront of everything we do, every day, to help build a great city.

Chris Ward, P.Eng.
Manager, Drainage Services



STRATEGIC FRAMEWORK

Vision

Excellence and innovation in wastewater, stormwater and biosolids management through customer service, environmental stewardship, and fiscal responsibility.

Mission

We protect public health and the environment by managing wastewater, stormwater and biosolids through environmentally and financially sustainable practices for the City of Edmonton, the North Saskatchewan River system, and our regional partners.







Values

- Environmental Stewardship & Public Health
- Sustainability
- Excellent Service
- Engaged and Inspired Employees
- Collaboration

There are 302 full-time employees working in the Drainage Services Branch.

STRATEGIC ROADMAP

The strategic roadmap illustrates the work Drainage Services performs and how the Branch contributes to the 10-year corporate strategic goals set out in the City's vision in "The Way Ahead."

10 Year Goals	Department Outcomes	Measure
Preserve & Sustain Edmonton's Environment 	Impact of operations on air, land and water systems is minimized 	<ul style="list-style-type: none"> • % of generated biosolids disposed
	Leadership is demonstrated in reducing impacts on the environment 	<ul style="list-style-type: none"> • Edmonton Watershed Contaminant Reduction Index (EWCRI) • Number of new developments utilizing low impact development principles
Improve Edmonton's Livability 	Public health is maintained 	<ul style="list-style-type: none"> • % of neighbourhoods completed as part of Flood Prevention Program • Number of wastewater mainline blockages (per 100 km of sewers)
	Assets are managed to optimize benefits over their life cycle 	<ul style="list-style-type: none"> • Length of sewer renewed (km) • Actual expenditures as a percentage of approved capital budget (non-contributed) for Drainage Services



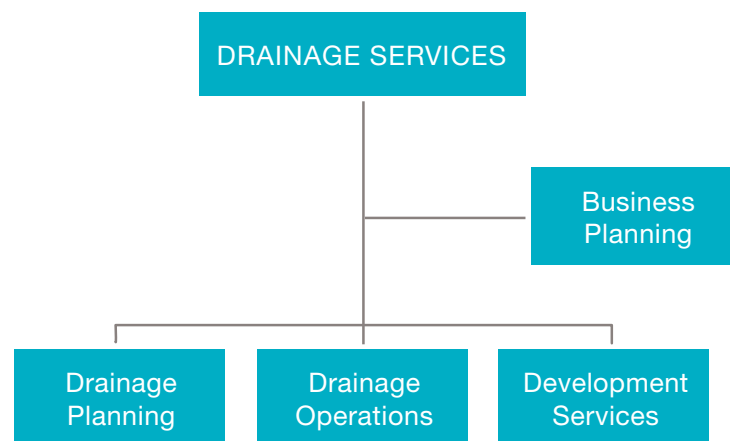
ORGANIZATIONAL STRUCTURE



Drainage Services is one of the branches in the Infrastructure Services department of the City of Edmonton. It operates the Sanitary Utility (collection and movement of wastewater) as well as the Stormwater Utility (collection and movement of stormwater). Both are operated as public utilities under a full cost recovery model without subsidy from property tax.

Drainage Services operates within the framework of the City Council-approved 2004-2014 Drainage Master Plan, ISO 14001 and the 10-year Approval-to-Operate (2005-2015) issued and regulated by the Province of Alberta.

Drainage Planning is responsible for the development of major strategies and programs to meet established departmental objectives. Drainage Operations maintains and operates the drainage systems. Development Services ensures that the system monitoring, regulatory, private development and public services functions are met. A Business Planning group reports to the Manager's Office and conducts business-related studies.





The Fats, Oils, and Grease (FOG) programs - “Store It, Don’t Pour It” and “Trap It! Trash It! Strain It!” won the Canadian Water and Wastewater Association’s first Utility Excellence Award for Community Outreach.

2011 ACHIEVEMENTS

Preserve & Sustain Edmonton's Environment

THE WAY WE GREEN

Low Impact Development (LID)

The Low Impact Development Design Guide was established to reduce pollutant loading to the river as the city grows. The design guide provides technical guidance for planning, design and maintenance of LID features. The Environmental Planning group was selected as one of the top three nominees under the Innovation category of the City Manager's Award of Excellence.

Wetland Acquisition Plan

The Wetland Acquisition Plan, an initiative to acquire and protect wetlands, was finalized in 2011. The plan has identified and prioritized 50 candidate wetland sites for potential acquisition. This is an unprecedented initiative and approach. The findings were published in the American Society of Civil Engineers (ASCE)/ Environment and Water Resources Institute (EWRI), World Environmental & Water Resources Congress proceedings.

Groat Road End-of-Pipe Underground Treatment Facility

The Groat Road End-of-Pipe Underground Treatment Facility was completed in August 2011. The facility uses advanced media filter treatment technology, combined with oil and grit interceptors, to treat stormwater runoff from over 1,800 ha in the Groat Drainage Basin. The design capacity for Total Suspended Solids is 717 kg/day.

Combined Sewer Overflow (CSO) Control Strategy

The City of Edmonton's Combined Sewer Overflow (CSO) Control Strategy is a collaboration with Alberta Environment and EPCOR Water Services to meet water quality standards in the North Saskatchewan River. Over a 16-year timeframe, the strategy seeks to identify and implement measures of diverse technology and wastewater management practices to reduce the average annual volume of combined sewer overflow by 86 percent. An average annual reduction of 24 percent has been achieved to date.

Drainage Services was awarded the Charles Labatiuk Environmental Leadership Award for the Treat It Right! program and the Store It, Don't Pour It! public education program.



Public Education

In 2011, the Treat It Right! Program was delivered to Grades 2, 4, 5, and 8 students in Edmonton. Information in the teachers' guides potentially reach 90,000 students. The puppet show was delivered to 5,569 students and a field trip was attended by 1,435 students who learned what not to put down the drain or into the stormwater system. Through the Store It, Don't Pour It! ad campaign, the Branch achieved 89 percent awareness among residents that pouring fats, oils and grease down the drain can cause a sewage backup. The program won the Charles Labatiuk Environmental Leadership Award for 2011.



Operations

As part of the Preventative Maintenance Program, pressure flushing of 1,700 km of sewer pipe controlled the amount of plugged mainline sewers to a minimal 17% increase in 2011 over 2010.

Drainage Services staff were called upon to provide topic expertise and decision making responsibilities during the late spring of 2011 with the rising levels of the North Saskatchewan River. The river was at its highest in the last ten years. Drainage Services closely monitored the levels and acted as topic experts in support of the Corporate Office on Emergency Preparedness.

Trial testing of different industry leading technology was performed to address the long-term impacts of algae and odour on stormwater lakes. Technology included the injection of living organisms in the Silverberry stormwater pond and installation of aeration system into the Oxford stormwater pond.

As part of the City of Edmonton's commitment to preserve and sustain the environment through stewardship of the North Saskatchewan River and other water courses, 5,800 inspections of 234 outfalls were conducted in 2011.

Infrastructure Recording

Quality assurance and quality control practices in gathering and recording sewer infrastructure information were implemented in DRAINS, a database of the City of Edmonton's \$14.9 billion inventory of underground sewer infrastructure. New features were developed in DRAINS viewer to make it more user-friendly, easy to search and exploit its work functions to aid all Drainage Services areas in their day-to-day work.

System and Water Quality Monitoring

The System Monitoring group maintains 103 permanent level and flow meters in sewers, culverts and ponds, along with an annual temporary meter program (74 meters in 2011) to support short-term studies. It also collects data from 30 rain gauges distributed across the city. Information collected is provided to numerous clients within and outside of Drainage Services and the City for a variety of purposes. In addition, the Water Quality Monitoring group maintains 46 sampling locations through eight different monitoring programs and 160 water quality parameters.

Drainage Services completed 3,713 inspections and collected 2,675 samples at industrial wastewater sites to ensure compliance and reduce the impact on the environment. The Branch collected and analyzed 600 samples from storm and combined sewer outfalls to measure the city's impact on the river and to comply with regulatory requirements and reporting. This information was used to calculate the Edmonton Watershed Contaminant Reduction Index (EWCRI) of 7.1 for 2011. The EWCRI was developed to report progress in river protection to City Council and the City of Edmonton Corporate Leadership Team.

Stormwater Quality Enhancement

In 2011, the combined sewer overflow control strategy minimized environmental impacts. The Real Time Control Gates worked well, providing a total storage of over 510,000 cubic metres that would otherwise have spilled into the river at the Rat Creek Outfall.

Development Services

Development Services approved 5 projects in the Big Lake area, using Low Impact Development Practices. It also completed 12,200 inspections under the Lot Grading Program, which averaged 2,260 inspections per Full Time Equivalent (FTE).

Transform Edmonton's Urban Form

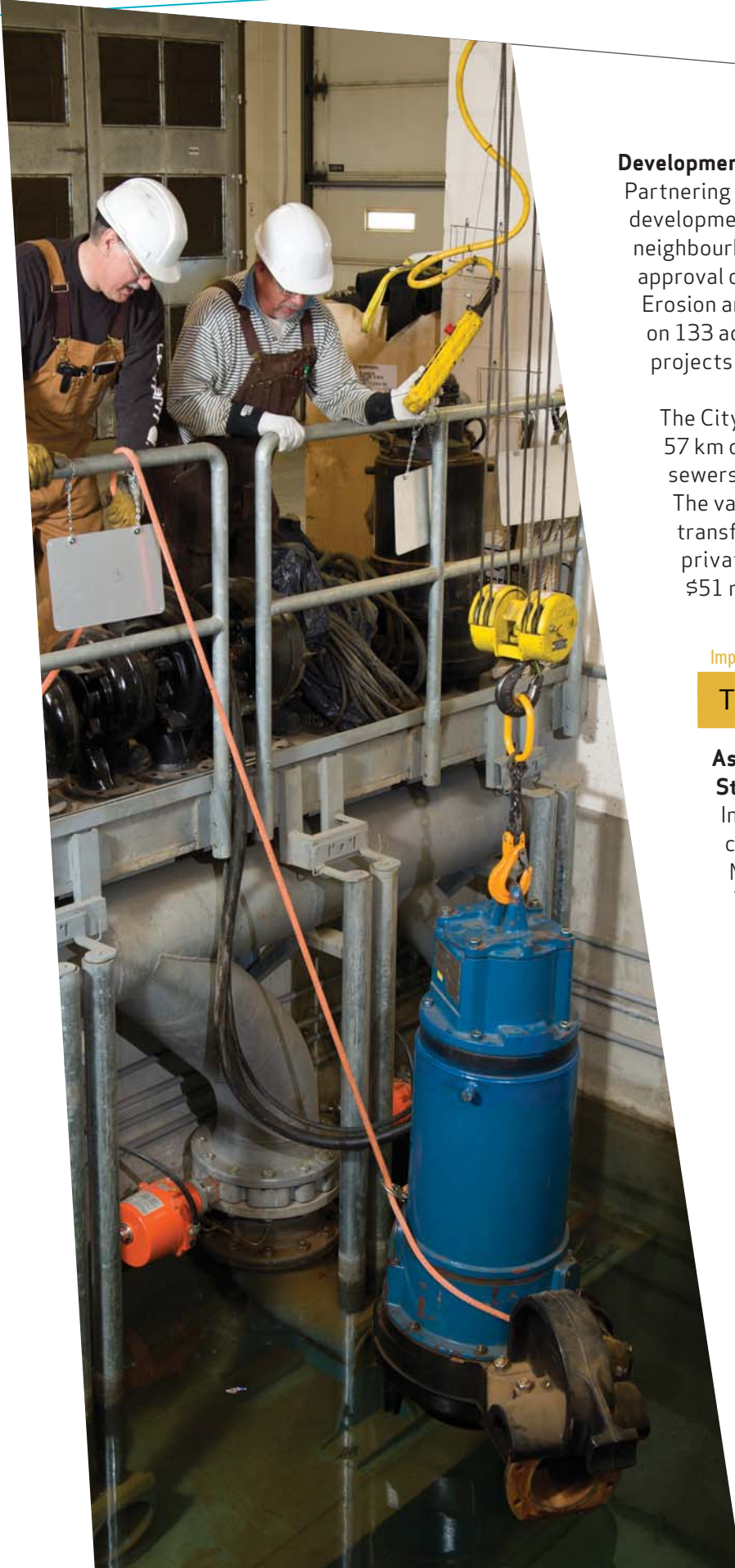
THE WAY WE GROW 

Sanitary Servicing Strategy

Several projects under the Sanitary Servicing Strategy (SSS) were completed and put into service to facilitate land developments. Stages N1/NL2/NL3 of the North Edmonton Sanitary Trunk as well as Stages SA1b, SA1c and SE4b of the South Edmonton Sanitary Sewer were completed and will be commissioned in 2012. The fall of 2011 also saw the start of construction on the West Edmonton Sanitary Sewer, Stage W13.

Sewer Upgrading Strategy

As part of the ongoing Sewer Upgrading Strategy to accommodate growth in the developed areas of Edmonton and to coordinate with other renewal programs, Drainage Services analyzed the pipe capacity of the following nine neighbourhoods in 2011: Montrose, Cromdale, Glenora, Lansdowne, Westmount, Westwood, Rosslyn, Central McDougall and Hazeldean.



Development Services

Partnering with developers in the development of 33 Edmonton neighbourhoods resulted in the approval of 5,275 residential lots. Erosion and sediment control plans on 133 active private developer projects were implemented.

The City of Edmonton received 57 km of sanitary and storm sewers from private developers. The value of drainage facilities transferred to the City from private developers was \$51 million.

Improve Edmonton's Livability

THE WAY WE LIVE



Asset Management Strategy

In 2011, Drainage Services completed its Asset Management Strategy. The objective of the Strategy is to invest the right amount of money on the right asset at the right time. With this focus, Drainage Services will be in a stronger position to proactively manage its assets to deliver effective services to its customers.

Operations

Pipe maintenance and replacement took place in 2011 as crews inspected 145 km of mainline sewer using state of the art closed circuit televising technology.

Major rehabilitation work was performed on six pump stations in 2011. Rebuilding pumps and pipes, repairing electrical panels, and installing main power cables avoid discharge of untreated sewage and support the City of Edmonton's commitment to preserve and sustain the environment.

Record snowfall during the winter of 2010/11 resulted in a collaboration with Transportation Services staff to address the significant amount of snow melt experienced in the spring of 2011. Crews opened over 30,000 catch basins and staff received over 2,300 additional service tickets throughout the melting period.

Drainage Services Control Centre processed over 17,000 service tickets from customers, with the goal of ensuring system issues were quickly resolved to a high level of customer satisfaction.

Drainage Services staff assisted over 900 Edmonton residents as part of the Home Check-up Flood Prevention Program.





The City's drainage assets replacement value was \$14.9 billion at the beginning of 2011. They include:

- 2,366 km of storm sewers
- 2,169 km of sanitary sewers
- 943 km of combined sewers
- 35 km of foundation drains
- 332,128 service connections
- 72 pump stations
- 155 stormwater management lakes

INITIATIVES

Preserve & Sustain Edmonton's Environment

THE WAY WE GREEN 

Zero Discharge Vision

Drainage Services will continue to contribute to the City's environmental objectives by moving toward a net zero impact on the local environment from Edmonton's storm and sanitary discharges. Its Zero Discharge Vision Strategy is a comprehensive 30-year plan and renewal process. Through this Strategy, Drainage Services will achieve its zero discharge goals by reducing pollutant discharge to the North Saskatchewan River, with an ultimate goal of achieving net zero impact. This will be done through recovery of reusable water and other materials from wastewater and stormwater, minimization of resource usage, and minimization with eventual elimination of pollutant discharges from drainage-related activities.

Combined Sewer Discharge Strategy

The Combined Sewer Discharge Strategy, which follows the completion of the 2010 CSO Control Strategy in 2016, defines and addresses the long-term goal of sewer separation or its environmental equivalent, in order to protect receiving water bodies and further reduce combined sewer overflow. This long-term control plan is part of the requirements of the City's Approval-to-Operate.

Biosolids Management Strategy

In late 2011, the framework for a long-term Biosolids Management Strategy was developed with input from key stakeholders in the Edmonton region. The Strategy demonstrates cooperation with its key partners in order to develop a cost-effective biosolids management solution. It maximizes the use of existing infrastructure while continuing to look at new, sustainable opportunities to deal with environmental, social, and growth-related challenges. Drainage Services will continue its implementation of the Early Action Plan confirmed in the Strategy in 2012, and is positioning itself to implement its long-term recommendations in future years.



Transform Edmonton's Urban Form

THE WAY WE GROW

Sanitary Servicing Strategy

The Sanitary Servicing Strategy Program implements a long-range servicing plan to facilitate development and redevelopment in some Edmonton neighbourhoods. The program's objective is to ensure that just-in-time sanitary servicing is provided to new subdivisions.

Improve Edmonton's Livability

THE WAY WE LIVE

Drainage Neighbourhood Renewal Program

The Drainage Neighbourhood Renewal Program renews existing assets through a neighbourhood-by-neighbourhood approach. Out of the 276 neighbourhoods with drainage infrastructure, 47 neighbourhoods were renewed as of the end of 2011. Drainage Services staff coordinate with Transportation Services, the Office of Great Neighbourhoods and franchised utilities in order to optimize the investment in the program. This ongoing coordination led to a nomination in the Advancing Corporate Culture category for the 2011 City Manager's Awards of Excellence.

Service Connection Renewal Strategy

The City of Edmonton maintains over 332,000 service connections and receives about 6,000 calls per year related to service connection problems. Drainage Services recognized the need to look at the existing condition of the service connections infrastructure and to start developing a long-term Service Connection Renewal Strategy. Actions need to be taken to anticipate possible problems and address them with proactive rehabilitation to avoid the high costs of replacing these assets. The Strategy will be completed in 2012 before a full proactive program is implemented.







Flood Prevention Program

The ongoing Flood Prevention Program was initiated by Drainage Services to provide drainage improvements in different neighbourhoods to reduce the risk of flooding, according to a priority schedule. Out of the 31 identified neighbourhoods, 12 have been completed and another four are ongoing.

Corporate Initiatives

Drainage Services also supports various corporate strategies, such as The Quarters Redevelopment, The Capital City Downtown Redevelopment Plan, Building Great Neighbourhoods, and Transit Oriented Development.

OUTCOMES & MEASURES

Outcomes	Measures	2010 Results	2011 Targets	2011 Results
Impact of operations on air, land and water systems is minimized 	% of generated biosolids disposed	85	87	79 ¹
	Edmonton Watershed Contaminant Reduction Index (EWCRI)	7.3	7.5	7.1 ¹
Leadership is demonstrated in reducing impacts on the environment 	Number of new developments utilizing low impact development principles	1	1	5 ²
	% of neighbourhoods completed as part of Flood Prevention Program 	12/31 or 39%	12/31 or 39%	12/31 or 39%
Public health is maintained 	Number of wastewater mainline blockages (per 100 km of sewers)	2.1	2.6	2.5 ²
	Length of sewer renewed (km) 	53	67	61 ¹
Assets are managed to optimize benefits over their life cycle 	Actual expenditures as a percentage of approved capital budget (non-contributed) for Drainage Services	81	85	80 ¹

Notes:

- ¹ Did not meet target.
- ² Exceeded target.



FINANCIAL PERFORMANCE

Financial Summary

The 2011 Annual Report reflects the financial performance and significant accounting policies for Drainage Services Utility (including Sanitary Drainage and Stormwater Drainage). It includes the following financial statements:

- The Statement of Operations summarizes the revenues, expenses, and government transfers, which in total explain the change to the Utility's Accumulated Surplus.
- The Statement of Financial Position provides information on the Utility's ability to finance its activities and to meet its liabilities and commitments. It provides a summary of the Financial Assets, Liabilities, Non-Financial Assets and Accumulated Surplus.
- The Statement of Cash Flows summarizes the sources and application of cash for the year, including the use of cash to acquire Tangible Capital Assets.

The following discussion is intended to be read along side the Financial Statements.



Statement of Operations

Total 2011 Drainage Services' operations resulted in revenues of \$101.9 million. Approximately \$95.1 million (93%) of which are derived from the utility rates charged to residential and non-residential customers, with the remainder generated from Program Revenue (revenue from the Alberta Capital Region Wastewater Commission, Regulatory Services, Connections and Lot Grading Services), Design & Construction, and Interest Income.

Overall, the 2011 Rate Revenues are 3.9% below budget as a result of residential water consumption being lower on average than expected. The 2011 budget was based on an average monthly consumption of 17.2 m³ for residential customers and the actual average consumption was 15.8 m³.

Program Revenue of \$5.0 million is \$1.0 million higher than budget (25%). The increase is primarily due to higher net volume from the exchange of wastewater agreement with the Alberta Capital Region Wastewater Commission. In accordance with Council's direction of separating Design & Construction from the Utility beginning in 2010, \$1.3 million from Design and Construction's net income has been transferred to the Drainage Utility. This is the last year that such transfer will take place.

Expenses of \$86.3 million in 2011 are lower than budget by \$3.7 million (4%). As a result of the Co-composter upgrade, one of the primary biosolids disposal methods was not available for part of the year. Therefore the Utility achieved a disposal rate of 79% rather than the planned 87% and this has resulted in a corresponding reduction in expenditures of \$1.2 million. In addition, there was a \$1.4 million budget variance as a result of lower personnel costs due to reduced capital activity during the year.

The 2011 Drainage Utility's operations resulted in net income of \$15.6 million (budget \$14.9 million) before capital contributions and transfers. Stormwater Drainage has net income of \$8.7 million in 2011. Sanitary Drainage has net income of \$8.1 million before the annual \$1.3 million contribution to the Sanitary Servicing Strategy Fund. As per Drainage Services' Utility Fiscal Policy (C304B), \$2.1 million (30% of qualifying net income) will be paid out as a dividend to the City of Edmonton in 2012. This is the final dividend payment to the City of Edmonton as on a go forward basis the Utility will be exempt from making dividend payments per the Updated Fiscal Policy (C304C).

The Statement of Operations also reflects \$59 million in Net Tangible Capital Assets constructed by developers and contributed to the Utilities. The maintenance and replacement of these assets become the responsibility of the Utilities.

In 2011, Drainage Services paid \$16.4 million to the City of Edmonton; of which \$14.5 million represents EPCOR's 2011 Gold Bar Wastewater Treatment Plant Transfer Fee. The balance of \$1.9 million is the dividend from 2010 operations.

Schedule 1 provides a further breakdown of the Statement of Operations into Sanitary Drainage and Stormwater Drainage.





Statement of Financial Position

Financial Assets

At the end of 2011, Drainage Services had a Cash Balance of \$19.1 million. Of this amount, Sanitary Utility is in an overdrawn position of \$4.0 million while the Stormwater Utility has a Cash Balance of \$23.1 million. The budgeted Cash Balances for the Sanitary and Stormwater Utilities were \$5.4 million and \$17.1 million respectively. The reason for the shift in cash position between the two Utilities is reflective of the actual distribution of capital investments made by the respective areas in specific neighbourhoods. The rate models and financing plans will be adjusted for this change.

Liabilities

At the end of 2011, Drainage Services had outstanding Long Term Debt of \$320.1 million. The Utility issued \$45.2 million in new debt and made principal repayment of \$17.9 million on existing debt. The Debt to Net Assets Ratios improved for both Utilities over budget, with Sanitary Utility at 51.7% (budget 53.9%) and Stormwater Utility at 66.1% (budget 73.2%).

Non-Financial Assets

Non-financial assets are used for the collection and transmission of wastewater and stormwater services to home owners and commercial customers. These Tangible Capital Assets have an economic life that extends beyond one year and are not for sale in the ordinary course of operations.

As outlined in Note 5, Net Tangible Capital Assets are comprised of both contributed and non-contributed assets. Contributed assets are those that are funded by someone other than the Drainage Services Utility. At the end of 2011, the net book value of Tangible Capital Assets is \$2.1 billion, of which \$1.5 billion has been received through contribution by others. Since Utility regulators do not allow a Utility to receive a return on contributed assets, this means that Drainage Services is not collecting rate revenue to fund the eventual rehabilitation work of contributed assets.

2011 represents the final year of a 3-year Capital Budget. The Approved Capital Budget for Drainage Services, including carry forwards, was \$148.7 million, of which \$102.0 million was expended. The 3-year total approved budget was \$381.8 million, of which an investment of \$335.2 million was made in the two Utilities. Over the three year budget period, there was a \$46.6 million variance of which \$26.7 million was the result of projects that related to new development and are not within the management of Drainage Services.

Over the 3-year period, \$96.9 million was invested in the City's Drainage Neighbourhood Renewal Program, \$58.8 million in the rehabilitation of drainage infrastructure, and \$34.5 million in the Flood Prevention Program. Capital investments in these three areas totalled \$190.2 million compared to \$157.8 million over the previous 3-year cycle. The increased investment is reflective of Council's direction to address and improve the asset condition of the City's underground infrastructure.



Accumulated Surplus

As indicated in Note 6, Accumulated Surplus is comprised of Investment in Tangible Capital Assets (including Contributed and Non-Contributed Assets) and Retained Earnings. The 2011 results ended with total Accumulated Surplus of \$1.80 billion which represents an increase of \$60.1 million (3.5%) from 2010. Of the total \$1.80 billion accumulated surplus, \$1.75 billion is invested in Tangible Capital Assets (contributed and non-contributed).

Statement of Cash Flows

The Statement of Cash Flows summarizes the sources and use of cash into three activities - operating, capital, and financing. This statement supports earlier comments regarding the use of Cash for the acquisition of Tangible Capital Assets, the principal repayment of Long Term Debt, offset by new debenture issuance, disposal and the transfer of capital assets to Design & Construction.

Financial Indicators

For details on how the Utility performed relative to the budgeted financial targets, please see Schedule 4.

FINANCIAL STATEMENTS

Unaudited

Drainage Services – 2011 Annual Report

DRAINAGE SERVICES

Statement of Operations (Unaudited)

As at December 31, 2011

(in thousands of dollars)

	Budget 2011	Actual 2011	Actual 2010
Revenues			
Rate Revenue	\$ 98,993	\$ 95,126	\$ 90,174
Program Revenue	3,956	5,019	4,573
Design & Construction Transfer	1,250	1,250	1,500
Interest Income	741	498	499
Total Revenues	104,940	101,893	96,746
Expenses			
Salaries, wages, and employee benefits	26,386	24,942	23,881
Contracted and general services	26,023	24,331	22,840
Materials, goods, supplies, and utilities	4,294	3,852	3,609
Interest expense	14,403	13,916	12,551
Net Amortization	12,286	12,683	11,430
Local Access Fee	5,306	5,300	5,116
Other	1,300	1,300	1,654
Total Expenses	89,998	86,324	81,081
Excess (shortfall) of Revenues over Expenses before other	14,942	15,569	15,665
Other			
Change in Contributed Assets	17,355	59,171	127,988
Transfer of Capital Assets to Design & Construction	-	1,834	(18,292)
Dividends paid to City of Edmonton	(2,579)	(16,428)	(20,423)
Disposal of Contributed Assets	-	-	(5,353)
Excess of Revenues over Expenses	29,718	60,146	99,585
Accumulated Surplus, beginning of year	1,658,291	1,737,084	1,637,499
Accumulated Surplus, end of year	1,688,009	1,797,230	1,737,084

See accompanying notes to financial statements.

Unaudited

DRAINAGE SERVICES**Statement of Financial Position (Unaudited)****As at December 31, 2011**

(in thousands of dollars)

	Actual 2011	Actual 2010
Financial Assets		
Cash	\$ 19,133	\$ 40,092
Other Current Assets	39,826	58,706
Total Assets	58,959	98,798
Liabilities		
Current Liabilities	\$ 10,269	\$ 11,137
Current Portion of Long Term Debt	19,262	12,211
Long Term Debt	300,805	280,594
Total Liabilities	330,336	303,942
Net Financial Assets (Net Debt)	\$ (271,377)	\$ (205,144)
Non-Financial Assets		
Contributed Tangible Capital Assets	\$ 1,486,134	\$ 1,431,840
Non-Contributed Tangible Capital Assets	582,473	510,388
Total Non-Financial Assets	\$ 2,068,607	\$ 1,942,228
Accumulated Surplus	\$ 1,797,230	\$ 1,737,084

See accompanying notes to financial statements.

Unaudited

DRAINAGE SERVICES**Statement of Cash Flows (Unaudited)****As at December 31, 2011**

(in thousands of dollars)

	Actual 2011	Actual 2010
Cash provided by (applied to):		
Operating Activities		
Excess of revenues over expenses	\$ 60,146	\$ 99,585
Add Non-Cash Items:		
Amortization of tangible capital assets	34,936	32,225
Amortization of contributed assets	(22,253)	(20,795)
Net Changes in non-cash working capital	18,012	19,119
Cash provided by (applied to) operations	90,841	130,134
Investing Activities		
Purchase of capital assets	\$ (163,437)	\$ (227,913)
Current Year Assets purchased on behalf of Design & Construction	835	-
Disposal of capital assets	112	5,706
Use of contributed assets financing	22,253	20,795
Cash applied to capital activities	(140,237)	(201,412)
Financing Activities		
Debenture borrowings	\$ 45,168	\$ 61,893
Repayment of Long Term Debt	(17,906)	(22,130)
Transfers of net assets to Design & Construction	1,175	18,292
Cash provided by financing	28,437	58,055
(Decrease) increase in cash position	\$ (20,959)	\$ (13,223)
Cash, beginning of year	40,092	53,315
Cash, end of year	\$ 19,133	\$ 40,092
Cash, end of year balance is comprised of:		
Cash	\$ 2	\$ 3
Due from (due to) the City of Edmonton	19,131	40,089
	\$ 19,133	\$ 40,092

See accompanying notes to financial statements.

Drainage Services
Notes to Financial Statements
For the year ended December 31, 2011
(in thousands of dollars)

Unaudited

1. GENERAL

The Sanitary and Stormwater Utilities (Drainage Services) are owned and operated by the City of Edmonton (the City). In accordance with the City's Utility Fiscal Policy, Drainage Services is required to earn an annual return on rate base. The Sanitary Utility pays a local access fee annually and will make a final dividend to the City of Edmonton in 2012 based on 2011 results. Drainage Services will be exempt from making a dividend payment going forward per the Utility Fiscal Policy.

2. SIGNIFICANT ACCOUNTING POLICIES**a) Basis of presentation**

The financial statements have been prepared in accordance with the standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CIAC). They reflect the financial assets, liabilities, non-financial assets, accumulated surplus, revenues and expenses of Drainage Services.

b) Basis of accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the period in which they are earned and measurable. Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified. Expenses are recognized as they are incurred and measurable based upon receipt of the goods and services and/or the legal obligation to pay.

c) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management has used estimates to determine employee benefit obligations, pension obligations relating to City-sponsored pension plans, accrued liabilities, capital asset useful lives as well as provisions made for allowances for amount receivable. Actual results could differ from those estimates.

d) Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Capital assets donated to the Utility are recorded at their estimated fair value on the date of contribution. The cost, less residual value of the tangible capital assets is amortized on a straight-line basis over the following estimated useful lives of the assets:

Asset Category	Useful Life	Rate
Collection and Transmission Infrastructure	75 years	1.33%
Pump/Lift Stations	44 years	2.27%
Buildings	44 years	2.27%
Warehouses	10 years	10.00%
Office Furniture and Equipment	6.67 years	15.00%
GBIS/ SCADA/ DC Equipment	10 years	10.00%
Lab and Computer Equipment	5 years	20.00%
Machinery and Equipment	5 years	20.00% or usage based

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

3. CASH

Cash includes commitments for future operating and capital, cheques received for deposit and petty cash. Amounts due from the City of Edmonton earn interest and are invested in short term investments and therefore are considered part of cash on the Statement of Cash Flow. Cash consists of the following:

	2011
Cash commitments for operating and capital (due from the City of Edmonton)	
Borrowing for Future Capital	3,174
Total	\$ 3,174
Net due from the City of Edmonton	15,957
Cash on hand	2
Total	\$ 19,133

Unaudited

Drainage Services
Notes to Financial Statements
For the year ended December 31, 2011
(in thousands of dollars)

Unaudited

4. LONG-TERM DEBT

Payments on long-term debentures from Alberta Capital Finance Authority are made semi-annually. The principal and interest repayment schedules as of December 31, 2011 are as follows:

a) Repayment Schedule

	2012	2013	2014	2015	2016	2017-2036
Opening Balance	\$ 320,067	\$ 306,585	\$ 292,806	\$ 278,311	\$ 264,001	\$ 249,720
Principal Payments	(13,482)	(13,779)	(14,495)	(14,310)	(14,281)	(249,720)
Ending Balance	\$ 306,585	\$ 292,806	\$ 278,311	\$ 264,001	\$ 249,720	\$ -

b) Interest on Long Term Debt

	2012	2013	2014	2015	2016	2017-2036
	\$ 14,711	\$ 14,076	\$ 13,412	\$ 12,745	\$ 12,076	\$ 105,586

5. TANGIBLE CAPITAL ASSETS

Net Book Value	Opening Balance, January 1, 2011	Additions	Adjustment/ Disposals	Transfer to D & C	Amortization	Closing Balance December 31, 2011
Collection and Transmission Infrastructure	\$ 1,733,027	\$ 131,165	\$ -	\$ -	\$ (30,609)	\$ 1,833,583
Pump/Transfer Stations	28,105	9,158	-	-	(996)	36,267
Land	28,861	132	(155)	(833)	-	28,005
Buildings	14,352	3,022	-	(549)	(1,467)	15,358
Vehicles	1,533	94	(16)	-	(206)	1,405
Machinery & Equipment	4,991	4,674	-	207	(1,658)	8,214
	1,810,869	148,245	(171)	(1,175)	(34,936)	1,922,832
Assets Under Construction	131,359	14,357	59	-	-	145,775
Total	1,942,228	162,602	(112)	(1,175)	(34,936)	2,068,607

Contributed tangible capital assets are comprised of those assets that are not paid for by the Utilities. The contributed assets have been financed by local improvement, developer, Sanitary Servicing Strategy Fund, or government transfers. Non-contributed tangible capital assets are comprised of those assets that are paid for by the Utility. The assets have been financed by self-liquidating debt and retained earnings.

	Gross Book Value	Accumulated Amortization	Net Book Value
Contributed Assets	\$ 1,774,427	\$ (288,293)	\$ 1,486,134
Non-Contributed Assets	\$ 853,165	\$ (270,692)	\$ 582,473
Total	\$ 2,627,592	\$ (558,985)	\$ 2,068,607

6. ACCUMULATED SURPLUS

The accumulated surplus reflects the equity invested in tangible capital assets and retained earnings that have been acquired over time for Drainage Services as follows:

	2011
Investment in Tangible Capital Assets	
Contributed assets	\$ 1,486,134
Investment in Non-Contributed Assets	-
Advances for Construction balance	1,937
Over/Under Financing	3,470
	<u>1,491,541</u>
Retained Earnings	305,689
	<u>\$ 1,797,230</u>

7. AMORTIZATION EXPENSE

	2011
Amortization of tangible capital assets	\$ 34,936
Amortization of contributed assets	\$ (22,253)
	<u>\$ 12,683</u>

8. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

DRAINAGE SERVICES
Schedule 2 - Statement of Financial Position by Utility (Unaudited)
As at December 31, 2011
(in thousands of dollars)

	COMBINED		SANITARY		STORMWATER	
	Actual 2011	Actual 2010	Actual 2011	Actual 2010	Actual 2011	Actual 2010
Financial Assets						
Cash	\$ 19,133	\$ 40,092	\$ (4,024)	\$ 10,318	\$ 23,157	\$ 29,774
Other Current Assets	39,826	58,706	36,719	56,121	3,107	2,585
Total Assets	58,959	98,798	32,695	66,439	26,264	32,359
Liabilities						
Current Liabilities	\$ 10,269	\$ 11,137	\$ 7,816	\$ 6,759	\$ 2,453	\$ 4,378
Current Portion of Long Term Debt	19,262	12,211	16,456	9,911	2,806	2,300
Long Term Debt	300,805	280,594	215,599	207,567	85,206	73,027
Total Liabilities	330,336	303,942	239,871	224,237	90,465	79,705
Net Financial Assets (Net Debt)	\$ (271,377)	\$ (205,144)	\$ (207,176)	\$ (157,798)	\$ (64,201)	\$ (47,346)
Non-Financial Assets						
Contributed Tangible Capital Assets	\$ 1,486,134	\$ 1,431,840	\$ 550,638	\$ 524,642	\$ 935,496	\$ 907,198
Non-Contributed Tangible Capital Assets	582,473	510,388	449,254	402,758	133,219	107,630
Total Non-Financial Assets	\$ 2,068,607	\$ 1,942,228	\$ 999,892	\$ 927,400	\$ 1,068,715	\$ 1,014,828
Accumulated Surplus	\$ 1,797,230	\$ 1,737,084	\$ 792,716	\$ 769,602	\$ 1,004,514	\$ 967,482

See accompanying notes to financial statements.

Unaudited

DRAINAGE SERVICES
Schedule 3 - Statement of Cash Flow by Utility (Unaudited)
As at December 31, 2011
(In thousands of dollars)

	COMBINED		SANITARY		STORMWATER	
	Actual 2011	Actual 2010	Actual 2011	Actual 2010	Actual 2011	Actual 2010
Cash provided by (applied to):						
Operating Activities						
Excess of revenues over expenses	\$ 60,146	\$ 99,585	\$ 23,114	\$ (14,682)	\$ 37,032	\$ 114,267
Add Non-Cash Items:						
Amortization of tangible capital assets	34,936	32,225	16,732	15,733	18,204	16,492
Amortization of contributed assets	(22,253)	(20,795)	(7,554)	(7,205)	(14,699)	(13,590)
Net Changes in non-cash working capital	18,012	19,119	20,459	16,358	(2,447)	2,761
Cash provided by (applied to) operations	90,841	130,134	52,751	10,204	38,090	119,930
Investing Activities						
Purchase of capital assets	\$ (163,437)	\$ (227,913)	\$ (91,310)	\$ (74,628)	\$ (72,127)	\$ (153,285)
Current Year Assets purchased on behalf of Design & Construction	835	-	835	-	-	-
Disposal of capital assets	112	5,706	76	1,875	36	3,831
Use of contributed assets financing	22,253	20,795	7,554	7,205	14,699	13,590
Cash applied to capital activities	(140,237)	(201,412)	(82,845)	(65,548)	(57,392)	(135,864)
Financing Activities						
Debtenture borrowings	\$ 45,168	\$ 61,893	\$ 30,019	\$ 39,341	\$ 15,149	\$ 22,552
Repayment of Long Term Debt	(17,906)	(22,130)	(15,442)	(19,919)	(2,464)	(2,211)
Transfers of net assets to Design & Construction	1,175	18,292	1,175	18,292	-	-
Cash provided by financing	28,437	58,055	15,752	37,714	12,685	20,341
(Decrease) increase in cash position	\$ (20,959)	\$ (13,223)	\$ (14,342)	\$ (17,630)	\$ (6,617)	\$ 4,407
Cash, beginning of year	40,092	53,315	10,318	27,948	29,774	25,367
Cash, end of year	\$ 19,133	\$ 40,092	\$ (4,024)	\$ 10,318	\$ 23,157	\$ 29,774
Cash, end of year balance is comprised of:						
Cash	\$ 2	\$ 3	\$ 2	\$ 3	\$ -	\$ -
Due from (due to) the City of Edmonton	19,131	40,089	(4,026)	10,315	23,157	29,774
	\$ 19,133	\$ 40,092	\$ (4,024)	\$ 10,318	\$ 23,157	\$ 29,774

See accompanying notes to financial statements.

Drainage Services
Schedule 4: Financial Indicators (Unaudited)
For the year ended December 31, 2011
 (in thousands of dollars)

	SANITARY			STORMWATER		
	2010 Actual	2011 Actual	2012 Budget	2010 Actual	2011 Actual	2012 Budget
1 Rates Sufficient to Meet Expenses						
Net Income (loss)	\$ 6,426	\$ 6,834	\$ 7,135	\$ 9,239	\$ 8,735	\$ 12,601
<i>Target</i>	Positive Net Income					
2 Fair and Reasonable Return						
Return on Rate Base	1.6%	1.6%	1.7%	9.7%	7.1%	5.1%
<i>Target</i>	Return to be between 4% and 10%					
Typical Residential Monthly Billing Increase	\$ 1.02	\$ 0.63	\$ 0.63	\$ 0.48	\$ 0.38	\$ 1.34
Impact of Customer Rate	7.5%	5.4%	5.4%	8.0%	6.4%	20.9%
3 Financing of Capital Investments						
Debt Coverage Ratio	1.3	1.3	1.3	3.4	2.7	2.5
Debt to Net Assets Ratio	54.0%	51.7%	53.9%	70.0%	66.1%	73.2%
<i>Target</i>	Debt Coverage Ratio Not Less than 1.3 Debt to Net asset ratio at 60%					
4 Cash Balance						
Uncommitted Cash Balance	\$ 10,318	\$ (4,024)	\$ 5,420	\$ 29,774	\$ 23,157	\$ 17,178
Next Year's Capital Financed by Retained Earnings	\$ 4,114	\$ 7,298	\$ 7,298	\$ 21,772	\$ 8,819	\$ 16,569
<i>Target</i>	Sufficient cash for planned capital investment to be financed by Retained Earnings					
5 Long Range Plans						
Pro-forma Information	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years
<i>Target</i>	10 year financial planning horizon					

See accompanying notes to unaudited financial statements.

Unaudited

Drainage Services
 Schedule 5: 2009 - 2012 Capital Expenditures (Unaudited)
 For the year ended December 31, 2011
 (in thousands of dollars)

Major Project Class	Budget 2009 - 2011	Actual 2009 - 2011	2009	Actual 2010	2011
Environmental Quality Enhancement	\$ 23,437	\$ 20,894	\$ 9,385	\$ 3,991	\$ 7,518
Combined Sewer Overflow Strategy	30,843	23,827	7,814	8,536	7,477
Flood Prevention	29,706	34,538	9,334	11,288	13,916
Drainage Neighbourhood Renewal	110,240	96,949	39,824	28,969	28,156
Sanitary Servicing Strategy	74,275	62,250	26,160	16,391	19,699
Drainage System Rehabilitation	62,510	58,818	19,684	20,955	18,179
Drainage System Expansion	33,224	18,553	9,785	4,127	4,641
Drainage Facilities Upgrading	17,607	19,362	11,235	5,668	2,459
	\$ 381,842	\$ 335,191	\$ 133,221	\$ 99,925	\$ 102,045
Utility Financed	\$ 263,718	\$ 243,112	\$ 80,778	\$ 79,155	\$ 83,179
Self Liquidating Debentures	195,068	165,797	66,057	50,578	49,162
Retained Earnings	68,650	77,315	14,721	28,577	34,017
Grant	34,066	35,861	24,490	7,443	3,928
Contributed	84,058	56,218	27,953	13,327	14,938
	\$ 381,842	\$ 335,191	\$ 133,221	\$ 99,925	\$ 102,045

FURTHER INFORMATION

Visit our website:

www.edmonton.ca/drainage

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