

## INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have audited the accompanying financial statements of Alberta Milk, which comprise the statement of financial position as at July 31, 2016 and the statements of operations, changes in net assets and 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 accounting standards for not-for-profit organizations, 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.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' 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 Organization'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 Organization'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.

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

### Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Alberta Milk as at July 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants, Chartered Accountants

Camrose, Canada  
October 20, 2016

**ALBERTA MILK**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED JULY 31, 2016**

	Quota Exchange	MNE	Scholarship	Research	Other	2016 Total	2015 Total
<b>REVENUES:</b>							
Assessments:							
Administrative	\$ -	\$ -	\$ -	\$ -	\$ 3,625,233	\$ 3,625,233	\$ 3,449,328
Class 1 Market Recovery	-	-	-	-	1,763,439	1,763,439	1,693,966
Marketing, Nutrition, Education (MNE)	-	10,875,667	-	-	-	10,875,667	10,347,859
Research	-	-	-	362,523	-	362,523	344,933
Restricted Revenue - Equalization	-	-	-	-	588,474,095	588,474,095	573,454,575
Hauling Fees	-	-	-	-	26,418,853	26,418,853	25,023,620
Interest Revenue	-	-	4,552	-	78,793	83,345	274,119
Grant Revenue (Note 6)	-	15,500	-	77	248,652	264,229	563,903
Processor Audit Recovery	-	-	-	-	129,872	129,872	117,124
Quota Lease	-	-	-	600,875	-	600,875	525,946
Quota Exchange Sales	41,953,105	-	-	-	-	41,953,105	46,895,736
Other Income	-	73,778	-	-	389,883	463,661	495,045
<b>Total Revenues</b>	<b>41,953,105</b>	<b>10,964,945</b>	<b>4,552</b>	<b>963,475</b>	<b>621,128,820</b>	<b>675,014,897</b>	<b>663,186,154</b>
<b>EXPENSES:</b>							
Salaries and Contract Services	-	985,339	-	36,970	3,037,353	4,059,662	4,108,196
Director and Delegate Per Diems	-	8,510	-	12,759	390,593	411,862	348,041
Travel	-	99,691	-	18,037	552,391	670,119	568,422
Office	-	502,138	-	-	831,420	1,333,558	1,227,935
Data Processing	-	-	-	-	683,873	683,873	298,844
Meeting Costs	-	51,542	-	2,139	254,952	308,633	244,092
Professional Fees	-	1,149	-	-	180,219	181,368	144,941
Communications	-	14,637	-	-	1,048	15,685	16,541
Advertising	-	8,359,708	-	1,299	35,817	8,396,824	8,511,541
Project Costs	-	13,528	-	-	-	13,528	72,829
Hauling Fees (Note 10)	-	-	-	-	26,418,853	26,418,853	25,023,620
Research	-	137,164	-	-	-	137,164	202,607
Sponsorships	-	286,669	2,000	1,500	28,045	318,214	312,425
Grants	-	14,330	-	1,029,123	63,500	1,106,953	1,037,437
Quota Exchange Purchases	41,953,105	-	-	-	-	41,953,105	46,895,736
Restricted Expenses - Equalization	-	-	-	-	588,474,095	588,474,095	573,454,575
Amortization/Write Offs	-	61,249	-	-	282,373	343,622	184,864
<b>Total Expenses</b>	<b>41,953,105</b>	<b>10,535,654</b>	<b>2,000</b>	<b>1,101,827</b>	<b>621,234,532</b>	<b>674,827,118</b>	<b>662,652,646</b>
<b>EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR</b>	<b>\$ -</b>	<b>\$ 429,291</b>	<b>\$ 2,552</b>	<b>\$ (138,352)</b>	<b>\$ (105,712)</b>	<b>\$ 187,779</b>	<b>\$ 533,508</b>

See accompanying notes and schedules to the financial statements.

**ALBERTA MILK**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JULY 31, 2016**

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and investments (Note 3)	\$ 12,404,862	\$ 14,979,481
Due from processors, producers and others	27,784,430	25,397,604
Accounts receivable	2,205,051	2,121,619
Inventories	-	84,521
Prepaid expenses	624,771	558,423
<b>Total current assets</b>	<b>43,019,114</b>	<b>43,141,648</b>
<b>CAPITAL ASSETS (Note 4)</b>	<b>2,220,228</b>	<b>2,154,124</b>
<b>TOTAL</b>	<b>\$ 45,239,342</b>	<b>\$ 45,295,772</b>

<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 2,102,881	\$ 2,647,868
Deferred contributions (Note 5)	30,519,641	26,810,710
Deferred grants (Note 6)	396,907	414,062
Current portion of long term debt (Note 7)	60,000	90,000
<b>Total current liabilities</b>	<b>33,079,429</b>	<b>29,962,640</b>
<b>LONG TERM DEBT (Note 7)</b>	<b>-</b>	<b>60,000</b>
<b>NET ASSETS:</b>		
Invested in capital assets	2,160,229	2,004,124
Internally restricted:		
<i>Marketing</i>	4,088,935	3,659,644
<i>Research</i>	537,391	603,039
<i>Scholarship</i>	128,047	125,495
<i>Quota exchange (Note 12)</i>	997,721	3,997,721
Unrestricted	4,247,590	4,883,109
<b>Total net assets</b>	<b>12,159,913</b>	<b>15,273,132</b>
<b>TOTAL</b>	<b>\$ 45,239,342</b>	<b>\$ 45,295,772</b>

Commitments (Note 9)

**APPROVED ON BEHALF OF THE BOARD:**




See accompanying notes and schedules to the financial statements.

# ALBERTA MILK

## STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JULY 31, 2016

	<i>Internally Restricted</i>					Unrestricted	Invested in Capital Assets	<b>2016 Total</b>	2015 Total
	Quota Exchange	Marketing	Scholarship	Research					
Balance at Beginning of the Year	\$ 3,997,721	\$ 3,659,644	\$ 125,495	\$ 603,039	\$ 4,883,111	\$ 2,004,124	<b>\$ 15,273,134</b>	\$ 14,778,626	
Excess (Deficiency) of Revenues over Expenses for the Year	-	429,291	2,552	(138,352)	(105,712)	-	<b>187,779</b>	533,508	
Administration Costs Transferred (Note 13)	-	-	-	72,704	(72,704)	-	-	-	
Purchase of Capital Assets	-	-	-	-	(409,727)	409,727	-	-	
Amortization of Capital Assets	-	-	-	-	343,622	(343,622)	-	-	
Debt Repayment	-	-	-	-	(90,000)	90,000	-	-	
Transfer of Net Assets	(3,000,000)	-	-	-	-	-	<b>(3,000,000)</b>	-	
Pension Remeasurement Loss (Note 11)	-	-	-	-	(301,000)	-	<b>(301,000)</b>	(39,000)	
<b>Balance at End of the Year</b>	<b>\$ 997,721</b>	<b>\$ 4,088,935</b>	<b>\$ 128,047</b>	<b>\$ 537,391</b>	<b>\$ 4,247,590</b>	<b>\$ 2,160,229</b>	<b>\$ 12,159,913</b>	<b>\$ 15,273,134</b>	

See accompanying notes and schedules to the financial statements.

# ALBERTA MILK

## STATEMENT OF CASH FLOW

FOR THE YEAR ENDED JULY 31, 2016

	2016	2015
<b>CASH PROVIDED BY (USED FOR):</b>		
<b>OPERATING ACTIVITIES:</b>		
Excess of revenues over expenses from operations for the year	\$ 187,779	\$ 533,508
Items not affecting cash flow:		
Amortization of capital assets	343,622	184,864
Loss on pension	(301,000)	(39,000)
	<b>230,401</b>	<b>679,372</b>
Changes in non-cash working capital items:		
Due from processors, producers, and others	(2,386,826)	2,040,318
Accounts receivable	(83,432)	(764,288)
Prepaid expenses	(66,347)	(221,025)
Inventories	84,521	(5,520)
Accounts payable and accrued liabilities	(544,984)	(313,756)
Deferred contributions	3,708,930	(3,009,443)
Deferred grants	(17,155)	(311,485)
Net cash from (to) operating activities	<b>925,108</b>	<b>(1,905,827)</b>
<b>FINANCING ACTIVITIES:</b>		
Loan repayments	(90,000)	(90,000)
Transfer of Quota Exchange reserve to deferred contributions	(3,000,000)	-
Net cash to financing activities	<b>(3,090,000)</b>	<b>(90,000)</b>
<b>INVESTING ACTIVITIES:</b>		
Purchases of capital assets	(409,827)	(284,350)
Proceeds on sale of capital assets	100	360
Net cash to investing activities	<b>(409,727)</b>	<b>(283,990)</b>
DECREASE IN CASH AND INVESTMENTS FOR THE YEAR	<b>(2,574,619)</b>	<b>(2,279,817)</b>
CASH AND INVESTMENTS AT BEGINNING OF THE YEAR	<b>14,979,481</b>	<b>17,259,298</b>
<b>CASH AND INVESTMENTS AT END OF THE YEAR</b>	<b>\$ 12,404,862</b>	<b>\$ 14,979,481</b>

See accompanying notes and schedules to the financial statements.

# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

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### 1. AUTHORITY AND PURPOSE OF THE BOARD:

Alberta Milk ("the Board") is a non-profit organization established on August 1, 2002 through the approval of the Alberta Milk Plan Regulation under the authority of the Marketing of Agricultural Products Act of Alberta. Alberta Milk is subject to supervision by the Alberta Agricultural Marketing Council, which is appointed by the Government of Alberta, for supervisory and enforcement purposes in respect of Alberta producer boards and marketing commissions. Pursuant to Section 149(1)(e) of the Income Tax Act Alberta Milk is exempt from income tax.

The Board's purpose is to promote the viability and sustainability of the Alberta Dairy Industry through programs, policies and services.

### 2. SIGNIFICANT ACCOUNTING POLICIES:

#### Basis of presentation

The Board has prepared these financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO).

#### Revenue recognition

Alberta Milk follows the deferral method of accounting for contributions.

Funds collected in the operation of price equalization pools or under various agreements are restricted contributions subject to externally imposed stipulations that specify the purpose for which the funds are to be used. Restricted contributions are recognized as revenue in the period in which the related expenses are incurred. These revenue sources include restricted revenue - equalization, hauling fees and quota exchange sales. Grant revenue which include restricted contributions received for future expenses is deferred until the expenses are incurred. Assessment revenue, processor audit recovery and other income is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Interest revenue is recognized as revenue when earned.

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and other institutions, money market funds, mutual funds and term deposits with maturities of three months or less.

#### Inventories

Inventories consisting of clothing and other merchandise are carried at the lower of cost and net realizable value with cost determined using the first-in, first-out method.

# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*:

#### Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided using the declining balance method over the estimated useful life of the assets at the following annual rates:

Office furniture and equipment	20%
Computer hardware and equipment	20-30%
Display booth and tent	20%
Software development	30%
Vehicles	30%
Buildings	5%
Consumer displays	5 yrs straight-line

When a capital asset no longer has any long-term service potential to the Board, the excess of its carrying amount over any residual value is recognized as an expense in the statement of operations.

#### Employee future benefits

For the Board's defined benefit pension plan, the defined benefit obligation is determined using the most recent actuarial valuation report prepared for funding purposes.

Plan assets are measured at fair value.

The Board recognizes the plan's funded surplus, which is the net amount of the defined benefit obligation and the fair value of plan assets, on the statement of financial position.

Actuarial gains and losses and past service costs are included in the cost of the plan for the year in the statement of operations.

The Board only recognizes a defined benefit asset on the statement of financial position to the extent it is expected to be recoverable. A valuation allowance is recognized for any excess of the adjusted benefit asset over the amount expected to be recoverable.

#### Due from processors, producers and others

Section 29(6) of the Alberta Milk Marketing Regulation allows the Board to "set out all amounts payable among processors, producers and Alberta Milk ... and pay the net amounts." As a result, amounts due from processors, producers and others were netted against amounts owing to processors, producers and others.

#### Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefit and risks incidental to the ownership of the property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the asset's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*:

#### Financial instruments

##### *Initial measurement*

The Board's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

##### *Subsequent measurement*

At each reporting date, the Board measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets), except for equities quoted in an active market, which must be measured at fair value. The Board has also irrevocably elected to measure its investments in bonds at fair value. All changes in fair value of the Board's investments in equities quoted in an active market and in bonds are recorded in the statement of operations. The financial instruments measured at amortized cost are cash, due from processors, producers and others, accounts receivable, accounts payable and accrued liabilities and long-term debt.

For financial assets measured at cost or amortized cost, the Board regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Board determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

#### Use of estimates

Management reviews the carrying amount of items in the financial statements at each balance sheet date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require management's best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

The estimates are reviewed periodically and adjustments are made to net income as appropriate in the year they become known.

Items subject to significant management estimates include allowance for uncollectible accounts receivable, inventory obsolescence, amortization of capital assets, valuation of employee future benefits, and valuation of contingencies.



# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

### 3. CASH AND INVESTMENTS:

	2016	2015
Cash and cash equivalents	\$ 9,327,089	\$ 11,873,068
Fixed income	2,003,469	2,008,169
Equities quoted in an active market	946,259	972,750
Mutual funds quoted in an active market	128,045	125,494
	<b>\$ 12,404,862</b>	<b>\$ 14,979,481</b>

Interest income includes the following:

	2016	2015
Net increase in fair value of investments	\$ 27,145	\$ 189,997
Interest earned on scholarship investments	4,552	6,728
Interest earned on pooling funds	93,323	125,238
Interest and dividends earned on corporate funds	51,647	77,394
Interest rebated to producers	(93,323)	(125,238)
	<b>\$ 83,344</b>	<b>\$ 274,119</b>

Included in office expense is \$2,537 (2015 - \$5,051) of interest on long term debt.

### 4. CAPITAL ASSETS:

	2016		2015	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Display booth and tent	\$ 91,404	\$ 73,718	\$ 17,686	\$ 22,107
Office furniture and equipment	352,038	282,991	69,047	46,392
Consumer display	137,472	137,472	-	27,495
Computer hardware	994,178	889,296	104,882	126,761
Computer software	1,286,374	848,811	437,563	275,089
Vehicles	39,070	34,382	4,688	6,698
Building	2,107,443	906,256	1,201,187	1,264,407
Land	385,175	-	385,175	385,175
Total	<b>\$ 5,393,154</b>	<b>\$ 3,172,926</b>	<b>\$ 2,220,228</b>	<b>\$ 2,154,124</b>

# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

### 5. DEFERRED CONTRIBUTIONS:

Deferred contributions represent unspent resources externally restricted for price equalization.

	2016	2015
Contributions received	\$ 592,183,026	\$ 570,445,132
Transferred to revenue	(588,474,095)	(573,454,575)
Increase (decrease) during the year	3,708,931	(3,009,443)
Deferred contributions at beginning of year	26,810,710	29,820,153
Deferred contributions at end of year	\$ 30,519,641	\$ 26,810,710

Under Section 29 of the Alberta Milk Marketing Regulation, the Board operates a price equalization pool whereby all revenues generated from the processing and sale of milk within Alberta are shared by all Alberta producers in accordance with their quota holdings. The Board, acting as agents to processors, performs the administrative responsibility for payment to Alberta dairy producers. This payment represents each producer's share of the pool less associated marketing expenses.

The Board has an arrangement with the signatories of the National Milk Marketing Plan. This arrangement provides for the pooling of revenues from sales of milk components in special classes of milk used to service domestic and external markets. The Special Class Pool is administered by the Canadian Dairy Commission (CDC). Based on each province's monthly special class sales, the CDC will either distribute revenue or require a contribution to the national revenue pool.

Effective March 1, 1997, four provinces (Alberta, British Columbia, Saskatchewan, and Manitoba) and the Canadian Dairy Commission entered into the Western Milk Pooling Agreement. The purpose of the agreement was to extend the pooling arrangements within each of the provinces so that all milk revenue is pooled among producers in all four provinces, as if the western provinces constituted a single market. Based on each province's monthly sales, the CDC either distributed revenue or required a contribution to the Western Milk Pool.

### 6. DEFERRED GRANTS:

Deferred grants represent unspent resources consisting of the following:

	2016	2015
Contributions received	\$ 247,074	\$ 252,418
Recognized as revenue	(264,229)	(563,903)
Decrease during the year	(17,155)	(311,485)
Deferred contributions at beginning of year	414,062	725,547
Deferred contributions at end of year	\$ 396,907	\$ 414,062

# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

### 7. LONG-TERM DEBT:

	2016	2015
Mortgage payable - bearing interest at prime minus 0.25%, 2.45% as of July 31, 2015 repayable in monthly principal installments of \$7,500 plus interest, maturing December 2017. Secured by the land and building with a net carrying amount of \$1,586,361.	\$ 60,000	\$ 150,000
Less portion due within one year	60,000	90,000
Total long-term debt	\$ -	\$ 60,000

### 8. ASSESSMENT REVENUE:

The Board collected the following producer assessments during the year:

	2016	2015
Administrative	\$0.50/hl	\$0.50/hl
Marketing, Nutrition, Education	\$1.50/hl	\$1.50/hl
Research	\$0.05/hl	\$0.05/hl
Hauling	\$3.09/hl	\$3.05/hl
Hauling yard charge per pickup	\$21.82	\$21.56

### 9. COMMITMENTS:

The Board rents office equipment under long-term operating leases. Future minimum annual lease payments are as follows:

2017	\$ 23,480
2018	23,480
2019	23,480
2020	21,380
Total	\$ 91,820

# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

### 9. COMMITMENTS *(continued)*:

The Board has made the following commitments to the Dairy Farmers of Canada:

- (a) \$1.17 per hectolitre on milk produced that is deemed industrial milk;
- (b) \$1.17 per hectolitre on the Board's share of the Western Pool's skim off production based on data supplied by the Canadian Dairy Commission;
- (c) membership fees of \$261,354.

In addition the Board has committed under contractual agreements for media purchases in association with Dairy Farmers of Canada and the Milk West Marketing Partnership. The Board's share of the commitment over the next year is \$793,398 as at July 31, 2016.

The Board has committed \$234,137 under contractual agreements for database development in association with a National Information Technology Aggregation project over the next year.

The Board has a funding commitment to several universities for academic advisor positions in the amount of \$670,000 to be disbursed in annual installments over a five year period.

### 10. HAULING FEES :

	2016	2015
Paid by producers	\$ 24,612,880	\$ 24,781,627
Processor recoveries	1,805,973	241,993
Total for the year	\$ 26,418,853	\$ 25,023,620
Cost per hectolitre	\$ 3.83	\$ 3.63

Producers were assessed a volume fee of \$22,227,639 (2015 - \$22,285,850) as well as \$2,385,241 (2015 - \$2,285,847) in yard stop charges. A surplus of \$1,266,656 (2015 - deficit of \$97,978) resulted from a lower intra-provincial milk costs than anticipated. This surplus will be used to offset next year's producer assessments.

Producers were also responsible for inter-provincial milk movement costs. Alberta's share of these costs of \$809,463 (2015 - \$1,431,676) were collected from producers during the year.

### 11. PENSIONS:

Effective January 1, 2007 the Alberta Milk Employees' Pension Plan ("the Plan") was established on behalf of employees of Alberta Milk. Prior to January 1, 2007 certain members had accumulated retirement benefits under the Western Canadian Dairy Herd Improvement Services Association Employees Pension Plan ("the Predecessor Plan"). As of January 1, 2007 the Predecessor Plan benefits for such members, and the liability thereof, have been transferred to the Plan and shall be paid in accordance with the terms of the Plan. The Plan is a defined benefit plan and specifies the amount of the retirement benefit to be received based on the length of service and final average earnings. The most recent funding recommendation for the Plan was completed as at December 31, 2015 and has been updated for current assumptions in the actuarial report dated September 19, 2016.

# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

### 11. PENSIONS *(continued)*:

	2016	2015
<b>Accrued benefit obligation</b>		
Balance at beginning of year	\$ 3,214,000	\$ 2,791,000
Current service cost	280,000	270,000
Interest cost	196,000	175,000
Expected benefits paid	(171,000)	(22,000)
Actuarial loss (gain)	211,000	-
Accrued benefit obligation (ABO) at end of year	\$ 3,730,000	\$ 3,214,000
<b>Plan assets</b>		
Fair value at beginning of year	\$ 4,028,000	\$ 3,522,000
Actual return on plan assets	148,000	173,000
Employer contributions	254,000	239,000
Employees' contributions	131,000	116,000
Actual benefits paid	(171,000)	(22,000)
Fair value at end of year	\$ 4,390,000	\$ 4,028,000
<b>Reconciliation of funded status</b>		
Accrued benefit obligation - end of year	\$ (3,730,000)	\$ (3,214,000)
Fair value of plan assets - end of year	4,390,000	4,028,000
Funded status - plan surplus	\$ 660,000	\$ 814,000
<b>Accrued benefit obligation not funded</b>		
	\$ -	\$ -
<b>Net benefit plan cost</b>		
Current service cost (employer portion)	\$ 149,000	\$ 154,000
Interest cost	196,000	175,000
Expected return on plan assets	(238,000)	(212,000)
Amortization of net actuarial loss	301,000	39,000
Net benefit plan cost	\$ 408,000	\$ 156,000
<b>Losses in year - to be recognized in net assets</b>		
Actuarial asset experience loss	\$ (90,000)	\$ (39,000)
Actuarial (loss) on ABO	(211,000)	-
Losses in year	\$ (301,000)	\$ (39,000)

# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

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### 11. PENSIONS *(continued)*:

	2016	2015
<b>Actuarial Assumptions</b>		
Discount rate - beginning of year	5.75%	5.75%
Discount rate - end of year	5.25%	5.75%
Expected return on plan assets	5.75%	5.75%
Rate of compensation increase - beginning of year	4.00%	4.00%
Rate of compensation increase - end of year	3.75%	4.00%
Inflation rate - beginning of year	2.50%	2.50%
Inflation rate - end of year	2.25%	2.50%
<b>Distribution of the total market value of the fund by major asset category</b>		
Canadian equities	31.9%	30.7%
International equities	14.6%	15.7%
U.S. equities	16.1%	16.4%
Debt securities	35.7%	35.2%
Cash and other	1.7%	2.0%
Total	100.0%	100.00%

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# ALBERTA MILK

## NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2016

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### 12. QUOTA EXCHANGE:

The Board operated a quota exchange each month. Producers submit bids to purchase quota or offers to sell quota. The exchange cleared each month at the level where volumes offered for sales and volumes requested to purchase are the smallest.

### 13. INTERFUND TRANSFERS:

The research and marketing producer assessments rates per hectolitre are authorized by the *Alberta Milk Marketing Regulation* and as such, any associated net assets have been set aside by the Board as internally restricted net assets to be used to fund future marketing and research activities. The Board has also set aside internally restricted net assets for the operation of the quota exchange. These net assets result from previous cash surpluses generated from the operation of the quota exchange and are to be used to manage any potential risk associated with a producer non payment for quota purchases. The Scholarship internally restricted net assets are to be used to provide future scholarships to post secondary students in support of the dairy industry.

In 2016, the Board transferred \$72,704 from the Unrestricted net assets into the Research net assets to cover administration costs.

### 14. FINANCIAL INSTRUMENT RISKS:

The Board's main financial instrument risk exposure is detailed as follows:

#### *Credit risk*

The Board has determined that the financial assets with credit risk exposure are accounts receivable and due from processors, producers and others since failure of any of these parties to fulfil their obligations could result in significant financial loss for the Board. There was no significant change in exposure from the prior year.

#### *Interest rate risk*

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Board is exposed to interest rate risk with respect to investments in bonds and its mortgage payable; however the Board has determined that it is not exposed to a significant amount of interest rate risk. There was no significant change in exposure from the prior year.

#### *Other price risk*

The Board is exposed to other price risk on its investments in equities quoted in an active market since changes in market prices could result in changes in the fair value of these investments. There was no significant change in exposure from the prior year.

#### *Liquidity risk*

The Board's liquidity risk represents the risk that the Board could encounter difficulty in meeting obligations associated with its financial liabilities. The Board, is therefore, exposed to liquidity risk with respect to its accounts payable and accrued liabilities and mortgage payable. There was no significant change in exposure from the prior year.

## ALBERTA MILK

## SCHEDULE OF REVENUE AND EXPENSES BY GOAL

FOR THE YEAR ENDED JULY 31, 2016

	2016 (unaudited)	Budget (unaudited)	2015 (unaudited)
<b>REVENUES:</b>			
Administrative Assessment	\$ 3,625,233	\$ 3,541,494	\$ 3,449,328
Class 1 Market Recovery	1,763,439	1,605,840	1,693,966
MNE Assessment	10,875,667	10,624,483	10,347,859
Research Assessment	362,523	354,149	344,933
Hauling Fees	26,418,853	25,446,615	25,023,620
Restricted Revenue - Equalization	588,474,095	566,639,083	573,454,575
Interest Revenue	83,344	112,000	274,119
Grant Revenue	264,228	311,158	563,903
Processor Audit Recovery	129,872	120,000	117,124
Quota Lease	600,875	518,000	525,946
Other Income	463,663	367,291	495,045
<b>TOTAL REVENUES</b>	<b>633,061,792</b>	<b>609,640,113</b>	<b>616,290,418</b>
<b>EXPENSES BY GOAL/PROGRAM</b> (Schedule II)	<b>632,874,013</b>	<b>610,695,861</b>	<b>615,756,910</b>
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE QUOTA EXCHANGE</b>	<b>187,779</b>	<b>(1,055,748)</b>	<b>533,508</b>
<b>QUOTA EXCHANGE:</b>			
Sales and interest revenue	41,953,105	60,000,000	46,895,736
Purchases of quota	41,953,105	60,000,000	46,895,736
Net quota exchange	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FOR THE YEAR</b>	<b>\$ 187,779</b>	<b>\$ (1,055,748)</b>	<b>\$ 533,508</b>



**ALBERTA MILK**  
**SCHEDULE OF EXPENSES BY GOAL**  
**FOR THE YEAR ENDED JULY 31, 2016**

	2016 (unaudited)	Budget (unaudited)	2015 (unaudited)
<b>EXPENSES BY GOAL/PROGRAM:</b>			
<b><i>Adequate supply of dairy products:</i></b>			
Manage Alberta Milk Supply	\$ 245,833	\$ 218,925	\$ 160,827
Manage an effective quota system	26,821,984	25,804,610	25,459,313
<b><i>Policy Development:</i></b>			
Work with stakeholders	589,406	565,991	497,240
Improve industry competitiveness	197,869	180,097	199,552
Health and Welfare of dairy industry	150,713	142,510	141,945
Sustainable environmental practices	26,242	135,580	20,943
Member Services	438,344	400,873	402,938
ProAction	146,416	269,699	90,435
<b><i>Increase dairy product consumption:</i></b>			
Increase milk consumption in adult women	5,455,183	5,339,891	5,178,606
Increase milk consumption in youth	3,966,727	4,622,723	4,251,973
Work with health educators	491,814	581,961	590,580
New Product Development	111,709	120,000	99,136
<b><i>Promote and participate in research:</i></b>			
Maximize research funding	71,014	75,150	61,979
Dairy research to benefit dairy farmers	1,030,813	1,059,500	991,993
<b><i>Manage fiscal and human resources:</i></b>			
Administer regulations	28,760	20,000	17,886
Manage financial and human resources	3,436,688	3,540,456	3,037,259
Accurate producer payment	588,800,340	566,905,783	573,761,380
<b><i>Communicate with members, stakeholders and consumers:</i></b>			
Stakeholder Communication	462,010	394,105	352,141
Extention and Communication	159,932	158,032	207,573
Create visual awareness	242,216	159,975	233,211
<b>Total Expenses</b>	<b>\$ 632,874,013</b>	<b>\$ 610,695,861</b>	<b>\$ 615,756,910</b>