

Independent Auditor's Report

To the Members of Alberta Milk

Opinion

We have audited the financial statements of Alberta Milk ("the Board"), which comprise the statement of financial position as at July 31, 2021, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alberta Milk as at July 31, 2021, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises:

- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Edmonton, Canada
October 13, 2021



Chartered Professional Accountants

ALBERTA MILK
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JULY 31, 2021

	Quota Exchange	MNE	Scholarship	Research	Other	2021 Total	2020 Total
REVENUES:							
Assessments (Note 7):							
Administrative	\$ -	\$ -	\$ -	\$ -	\$ 4,194,132	\$ 4,194,132	\$ 3,764,356
Class 1 Market Recovery	-	-	-	-	1,553,963	1,553,963	1,472,866
Marketing, Nutrition, Education (MNE)	-	12,582,366	-	-	-	12,582,366	12,274,576
Research	-	-	-	419,413	-	419,413	409,154
Restricted Revenue - Equalization (Note 5)	-	-	-	-	724,977,183	724,977,183	696,403,888
Hauling Fees (Note 9)	-	-	-	-	39,869,718	39,869,718	34,963,053
Investment Income (Note 3)	-	-	8,706	-	240,442	249,148	190,988
Grant Revenue (Note 6)	-	4,000	-	162,915	34,238	201,153	703,532
Processor Audit Recovery	-	-	-	-	145,000	145,000	127,021
Quota Lease	-	-	-	588,729	-	588,729	526,368
Quota Exchange Sales (Note 11)	43,021,659	-	-	-	-	43,021,659	20,362,306
Other Income	-	24,190	-	-	400,810	425,000	437,742
Total Revenues	43,021,659	12,610,556	8,706	1,171,057	771,415,486	828,227,464	771,635,850
EXPENSES:							
Salaries and Contract Services	-	590,981	-	28,580	2,826,623	3,446,184	3,694,588
Director and Delegate Per Diems	-	1,673	-	23,094	328,357	353,124	345,949
Travel	-	2,185	-	2,388	72,309	76,882	401,150
Office	-	200,743	-	191	830,080	1,031,014	1,116,488
Data Processing	-	193	-	-	838,164	838,357	1,043,886
Meeting Costs	-	253	-	1,404	55,052	56,709	246,260
Professional Fees	-	824	-	-	675,021	675,845	330,683
Communications	-	221	-	-	-	221	3,201
Advertising	-	9,779,682	-	-	8,205	9,787,887	8,900,821
Project Costs	-	-	-	-	7,962	7,962	1,000
Hauling Fees (Note 9)	-	-	-	-	39,869,718	39,869,718	34,963,053
Research	-	52,380	-	354,165	-	406,545	1,089,211
Sponsorships	-	296,247	2,000	-	13,532	311,779	536,413
Grants	-	-	-	619,857	54,300	674,157	931,866
Quota Exchange Purchases (Note 11)	43,021,659	-	-	-	-	43,021,659	20,295,943
Restricted Expenses - Equalization (Note 5)	-	-	-	-	724,977,183	724,977,183	696,403,888
Amortization/Write-Offs	-	29,399	-	-	589,336	618,735	621,722
Total Expenses	43,021,659	10,954,781	2,000	1,029,679	771,145,842	826,153,961	770,926,122
EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR	\$ -	\$ 1,655,775	\$ 6,706	\$ 141,378	\$ 269,644	\$ 2,073,503	\$ 709,728

See accompanying notes and schedules to the financial statements.

ALBERTA MILK
STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 2021

	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and investments (Note 3)	\$ 23,094,047	\$ 12,703,794
Due from processors, producers and others	31,927,316	30,039,993
Accounts receivable	1,950,000	1,443,661
Grants receivable (Note 6)	82,222	-
Inventories	41,476	91,710
Prepaid expenses and deposits	61,184	167,938
Total current assets	57,156,245	44,447,096
CAPITAL ASSETS (Note 4)	3,854,704	2,599,361
TOTAL	\$ 61,010,949	\$ 47,046,457
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 5,998,757	\$ 1,302,127
Deferred contributions (Note 5)	36,939,060	30,565,587
Deferred grants (Note 6)	-	90,114
Total current liabilities	42,937,817	31,957,828
NET ASSETS:		
Invested in capital assets	3,854,704	2,599,361
Internally restricted:		
<i>Marketing, nutrition, education</i>	9,351,345	7,695,570
<i>Research</i>	624,918	427,883
<i>Scholarship</i>	142,502	135,796
<i>Quota exchange</i> (Note 11)	1,064,084	1,064,084
Unrestricted	3,035,579	3,165,935
Total net assets	18,073,132	15,088,629
TOTAL	\$ 61,010,949	\$ 47,046,457

Commitments (Note 8)

Contingent Loss (Note 13)

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, 2021

	<i>Internally Restricted</i>						2021 Total	2020 Total
	Quota Exchange	MNE	Scholarship	Research	Unrestricted	Invested in Capital Assets		
BALANCE AT BEGINNING OF THE YEAR	\$ 1,064,084	\$ 7,695,570	\$ 135,796	\$ 427,883	\$ 3,165,935	\$ 2,599,361	\$ 15,088,629	\$ 14,649,901
EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR	-	1,655,775	6,706	141,378	269,644	-	2,073,503	709,728
ADMINISTRATION COSTS TRANSFERRED (Note 13)	-	-	-	55,657	(55,657)	-	-	-
PURCHASE OF CAPITAL ASSETS	-	-	-	-	(1,894,563)	1,894,563	-	-
DISPOSAL OF CAPITAL ASSETS	-	-	-	-	32,340	(32,340)	-	-
AMORTIZATION OF CAPITAL ASSETS	-	-	-	-	606,880	(606,880)	-	-
PENSION REMEASUREMENTS AND OTHER ITEMS (Note 10)	-	-	-	-	911,000	-	911,000	(271,000)
BALANCE AT END OF THE YEAR	\$ 1,064,084	\$ 9,351,345	\$ 142,502	\$ 624,918	\$ 3,035,579	\$ 3,854,704	\$ 18,073,132	\$ 15,088,629

See accompanying notes and schedules to the financial statements.

ALBERTA MILK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JULY 31, 2021

	2021	2020
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Excess of revenues over expenses for the year	\$ 2,073,503	\$ 709,728
Items not affecting cash flow:		
Amortization and losses on capital asset disposals	614,720	551,655
Pension remeasurements and other items (Note 10)	911,000	(271,000)
Net (increase) decrease in fair value of investments	(177,557)	6,198
Investment income and receivables reinvested directly	(7,635)	(10,096)
	3,414,031	986,485
Changes in non-cash working capital items:		
Due from processors, producers and others	(1,887,323)	858,763
Accounts receivable	(506,339)	(331,283)
Grants receivable	(82,222)	-
Prepaid expenses and deposits	106,754	52,603
Inventories	50,234	34,875
Accounts payable and accrued liabilities	4,696,630	(717,915)
Deferred contributions (Note 5)	6,373,473	(2,797,798)
Deferred grants (Note 6)	(90,114)	(474,632)
Net cash from (to) operating activities	12,075,124	(2,388,902)
INVESTING ACTIVITIES:		
Purchases of capital assets	(1,894,563)	(139,821)
Proceeds on sale of capital assets	24,500	-
Purchases of investments	(637,136)	(231,639)
Proceeds from sales and redemptions of investments	601,010	184,000
Net cash to investing activities	(1,906,189)	(187,460)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR	10,168,935	(2,576,362)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	10,191,466	12,767,828
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 20,360,401	\$ 10,191,466

See accompanying notes and schedules to the financial statements.

ALBERTA MILK

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

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.

The spread of COVID-19 continues to severely impact many local economies around the globe. In many countries, including Canada, organizations are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closures of non-essential services have triggered significant disruptions to operations worldwide, resulting in an economic slowdown. Global investment markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, continue to remain unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of Alberta Milk for future periods.

As a result of the COVID-19 pandemic, certain planned activities were cancelled, postponed, or conducted in alternative formats. These activities included out-of-province travel, spring producer meetings, and various marketing events. The Board's employees have transitioned to working primarily remotely throughout the pandemic. All in-person activities have been conducted in accordance with recommendations and orders from Alberta's Chief Medical Officer of Health.

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 includes restricted contributions received for future expenses is deferred until the expenses are incurred. Assessment revenue, processor audit recovery and other income are recognized as revenue when performance is achieved, consideration is measurable, and ultimate collection is reasonably assured. Investment income is recognized as revenue is earned.

ALBERTA MILK

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*:

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash balances with banks and other institutions.

Inventories

Inventories are measured at the lower of cost and net realizable value, or at the lower of cost and current replacement cost when they are held for distribution at no charge or for a nominal charge. Inventory costs are determined using the first-in, first-out method.

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:

Building	5%
Computer hardware	30%
Computer software	30%
Consumer displays	30%
Display booth and tent	20%
Office furniture and equipment	20%
Vehicles	30%

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, and plan assets are measured at fair value.

The Board recognizes the plan's defined benefit asset on the statement of financial position. The defined benefit asset consists of the funded surplus, which is the net amount of the defined benefit obligation and the fair value of plan assets, adjusted as required for any portion of the funded surplus that is not expected to be recoverable.

The defined benefit cost is recognized in the statement of operations. Remeasurements and other items are recognized directly in the statement of changes in net assets.

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.

ALBERTA MILK

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

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 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 amortized cost, 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, guaranteed investment certificates, due from processors, producers and others, accounts receivable, accounts payable and accrued liabilities, and deferred contributions.

For financial assets measured at 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 the statement of 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, amortization of capital assets, valuation of employee future benefits, and valuation of contingencies.

ALBERTA MILK

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

3. CASH AND INVESTMENTS:

	2021	2020
Cash and cash equivalents	\$ 20,360,401	\$ 10,191,466
Fixed income	1,286,441	877,898
Equities quoted in an active market	1,304,707	1,113,635
Mutual funds quoted in an active market	142,498	520,795
	\$ 23,094,047	\$ 12,703,794

Investment income includes the following:

	2021	2020
Net increase (decrease) in fair value of investments	\$ 177,557	\$ (6,198)
Interest and dividends earned on corporate funds	79,657	203,912
Interest and dividends earned on scholarship investments	4,848	5,002
Investment management fees	(12,914)	(11,728)
Interest earned on pooling funds	28,383	200,585
Interest rebated to producers	(28,383)	(200,585)
	\$ 249,148	\$ 190,988

4. CAPITAL ASSETS:

	2021		2020	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	\$ 3,557,081	\$ 1,261,915	\$ 2,295,166	\$ 1,055,105
Computer hardware	1,142,052	987,247	154,805	174,692
Computer software	2,773,047	1,895,115	877,932	842,634
Consumer displays	293,961	248,730	45,231	64,616
Display booth and tent	91,404	85,608	5,796	7,244
Land	385,175	-	385,175	385,175
Office furniture and equipment	448,201	357,602	90,599	40,387
Vehicles	-	-	-	29,508
Total	\$ 8,690,921	\$ 4,836,217	\$ 3,854,704	\$ 2,599,361

ALBERTA MILK

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

5. DEFERRED CONTRIBUTIONS:

Deferred contributions represent unspent resources externally restricted for price equalization.

	2021	2020
Contributions received	\$ 731,350,656	\$ 693,606,090
Transferred to revenue	(724,977,183)	(696,403,888)
Increase (decrease) during the year	6,373,473	(2,797,798)
Deferred contributions at beginning of year	30,565,587	33,363,385
Deferred contributions at end of year	\$ 36,939,060	\$ 30,565,587

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.

Effective March 1, 1997, four provinces (Alberta, British Columbia, Saskatchewan, and Manitoba) and the Canadian Dairy Commission (CDC) 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 funds from or required a contribution to the Western Milk Pool.

Effective June 1, 2020, the Western Milk Pool entered into a P10 revenue sharing agreement with Newfoundland and Labrador and the P5 pool (consisting of the provinces of New Brunswick, Nova Scotia, Prince Edward Island, Quebec and Ontario). The purpose of this agreement was to extend the pooling arrangements within each pool so that all milk revenue is pooled among the ten provinces, as if the ten provinces constituted a single market. Based on each pool's monthly sales, the CDC either distributed funds to or required a contribution from the Western Milk Pool.

ALBERTA MILK

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

6. GRANTS RECEIVABLE / DEFERRED GRANTS:

Grants receivable represent grant funding that has been earned according to grant agreements but has not yet been received. Deferred grants represent grant funding that has not yet been earned according to grant agreements but has already been received. Grants receivable and deferred grants have changed as follows:

	2021	2020
Grant funds received	\$ 28,817	\$ 778,900
Recognized as revenue	(201,153)	(703,532)
Recognized as a reduction to expenses	-	(550,000)
Grant funds recognized above grant funds received	(172,336)	(474,632)
Deferred grants at beginning of year	90,114	564,746
(Grants receivable) Deferred grants at end of year	\$ (82,222)	\$ 90,114

7. ASSESSMENT REVENUE:

The Board collected the following producer assessments during the year:

	2021	2020
Administrative	\$0.50/hl	\$0.50/hl
Marketing, Nutrition, Education	\$1.50/hl	\$1.50/hl
Research	\$0.05/hl	\$0.05/hl
Hauling	\$3.15/hl	\$3.15/hl
Hauling yard charge per pickup	\$22.25	\$22.25

8. COMMITMENTS:

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

2021-22	\$ 17,824
2022-23	17,824
2023-24	17,824
2024-25	13,588
2025-26	2,132

The Board has a budgeted commitment of \$9,723,387 to the Dairy Farmers of Canada for the upcoming year. This amount includes Alberta Milk's membership fee, funding for strategic industry objectives, and funding for service agreements.

The Board has a funding commitment to several universities for academic advisor positions in the amount of \$563,333 to be disbursed over the course of the next three years.

ALBERTA MILK

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

9. HAULING FEES :

	2021	2020
Paid by producers	\$ 32,041,016	\$ 30,155,993
Recovered from processors	203,772	409,646
Recovered from the Western Milk Pool	7,624,930	4,397,414
Total hauling expenses for the year	\$ 39,869,718	\$ 34,963,053
Producer cost per hectolitre	\$ 3.82	\$ 3.69

Hauling fees paid by producers include volume fees of \$26,353,345 (2020 - \$25,708,645), yard stop fees of \$2,236,722 (2020 - \$2,271,686), and interprovincial hauling fees of \$3,331,351 (2020 - \$2,490,376), resulting in a decrease to the transportation surplus of \$119,598 (2020 - increase of \$314,714). The remaining surplus of \$456,441 (2020 - \$576,039) will be used to offset next year's hauling expenses.

10. 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, 2018 and has been updated for current assumptions in the actuarial report dated September 2, 2021.

ALBERTA MILK

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

10. PENSIONS (continued):

	2021	2020
Defined benefit obligation		
Defined benefit obligation - opening	\$ 4,832,000	\$ 4,489,000
Current service cost - employer	124,000	116,000
Employee contributions	109,000	109,000
Benefits paid	(595,000)	(126,000)
Interest on defined benefit obligation	251,000	244,000
Defined benefit obligation - closing	\$ 4,721,000	\$ 4,832,000
Fair value of plan assets		
Fair value of plan assets - opening	\$ 5,525,000	\$ 5,409,000
Employer contributions	117,000	117,000
Employee contributions	109,000	109,000
Benefits paid	(595,000)	(126,000)
Return on plan assets	1,191,000	16,000
Fair value of plan assets - closing	\$ 6,347,000	\$ 5,525,000
Defined benefit asset		
Defined benefit obligation	\$ (4,721,000)	\$ (4,832,000)
Fair value of plan assets	6,347,000	5,525,000
Funded surplus	\$ 1,626,000	\$ 693,000
Valuation allowance	-	-
Defined benefit asset	\$ 1,626,000	\$ 693,000
Defined benefit cost		
Employer current service cost	\$ 124,000	\$ 116,000
Interest cost on defined benefit obligation	251,000	244,000
Expected interest on plan assets	(280,000)	(287,000)
Defined benefit cost	\$ 95,000	\$ 73,000
Remeasurements and other items		
Interest less net return on plan assets	\$ (911,000)	\$ 271,000
Total remeasurements and other items	\$ (911,000)	\$ 271,000

ALBERTA MILK

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

10. PENSIONS (continued):

	2021	2020
Actuarial assumptions		
Annual discount rate	5.25%	5.25%
Annual rate of return on assets	5.25%	5.25%
Annual rate of salary increase	3.75%	3.75%
Annual inflation rate	2.25%	2.25%
Termination table	Nil	Nil

The mortality table used was CPM2014Priv with projection scale MI-2017 as at July 31, 2021 (2020 - CPM2014Priv with projection scale MI-2017 as at July 31, 2020).

The retirement rate used was 100% at age 62 (2020 - 100% at age 62).

Distribution of the total market value of the plan assets by major asset category

Canadian equities	29.9%	30.1%
International equities	10.9%	13.2%
U.S. equities	15.3%	15.1%
Debt securities	32.5%	28.2%
Cash and other	11.4%	13.4%
Total	100.0%	100.0%

11. QUOTA EXCHANGE:

The Board operates a quota exchange each month. Producers submit bids to purchase quota or offers to sell quota. The exchange is cleared each month at the market clearing price, which is the average between the last successful buyer's price and the last successful seller's price.

12. INTERFUND TRANSFERS:

The research and marketing, nutrition, education (MNE) 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 research and marketing, nutrition, education (MNE) activities. The Board has also set aside internally restricted net assets for the operation of the quota exchange. These net assets result from 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 2021, the Board transferred \$55,657 (2020 - \$100,839) from the Unrestricted net assets into the Research net assets to cover administration costs.

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NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2021

13. CONTINGENT LOSS:

During the prior year, the Board was served with a statement of claim from a producer regarding the Board's April 7, 2020 decision to impose production controls. The Board is defending itself against this claim, and as the final outcome of these matters is not determinable at this time, no amount has been accrued in the financial statements. An estimate of the amount of the contingent loss cannot be made at this time.

14. SIGNIFICANTLY INFLUENCED NOT-FOR-PROFIT ORGANIZATION:

The Board exercises significant influence over Dairy Innovation West Inc. (DIW). As a member of DIW, the Board is entitled to name a nominee for appointment to DIW's Board of Directors, and the Board's support is required in the process of electing the Chair of DIW's Board of Directors. DIW's purpose is to promote and facilitate the efficient transportation of milk and milk components by producers to the processors in western Canada. The Board holds economic interest in DIW to the extent that resources are transferred to DIW by means of member assessment fees, which are collected by DIW to achieve its stated purpose. The Alberta Agricultural Products Marketing Council has provided their support for the DIW project concept. DIW is incorporated under the Canada Not-for-profit Corporations Act and is exempt from income tax. The Board's recorded transactions with DIW during the year consist of \$1,224,704 of member assessment fees, which are included in hauling fees expense on the Statement of Operations. A Board staff member serves as Treasurer for DIW and the Board performs bookkeeping and administrative functions on behalf of DIW.

15. 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 primarily with respect to fixed income investments. 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, therefore, is exposed to liquidity risk with respect to its accounts payable and accrued liabilities, and deferred contributions. There was no significant change in exposure from the prior year.

16. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified from those previously presented to conform to the presentation of the fiscal 2021 financial statements.

ALBERTA MILK

SCHEDULE OF REVENUE AND EXPENSES BY GOAL

FOR THE YEAR ENDED JULY 31, 2021

	2021 (unaudited)	Budget (unaudited)	2020 (unaudited)
REVENUES:			
Assessments (Note 7):			
Administrative	\$ 4,194,132	\$ 3,997,785	\$ 3,764,356
Class 1 Market Recovery	1,553,963	1,582,382	1,472,866
Marketing, Nutrition, Education (MNE)	12,582,366	11,993,355	12,274,576
Research	419,413	399,778	409,154
Restricted Revenue - Equalization (Note 5)	724,977,183	639,645,576	696,403,888
Hauling Fees (Notes 7 and 9)	39,869,718	46,368,613	34,963,053
Investment Income (Note 3)	249,148	203,135	190,988
Grant Revenue (Note 6)	201,153	270,182	703,532
Processor Audit Recovery	145,000	145,000	127,021
Quota Lease	588,729	492,750	526,368
Other Income	425,000	386,340	437,742
TOTAL REVENUES	785,205,805	705,484,896	751,273,544
EXPENSES BY GOAL & STRATEGY (Schedule II)	783,132,302	704,950,230	750,630,179
EXCESS OF REVENUES OVER EXPENSES BEFORE QUOTA EXCHANGE	2,073,503	534,666	643,365
QUOTA EXCHANGE:			
Sales of Quota (Note 11)	43,021,659	21,500,000	20,362,306
Purchases of Quota (Note 11)	43,021,659	21,500,000	20,295,943
Net Quota Exchange	-	-	66,363
EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR	\$ 2,073,503	\$ 534,666	\$ 709,728

ALBERTA MILK

SCHEDULE OF EXPENSES BY GOAL

FOR THE YEAR ENDED JULY 31, 2021

	2021 (unaudited)	Budget (unaudited)	2020 (unaudited)
EXPENSES BY GOAL & STRATEGY:			
<i>High-quality milk is consistently produced to meet demand:</i>			
Quota, processor allocation, and transportation systems	\$ 121,022	\$ 104,000	\$ 140,155
Efficient transportation of raw milk	40,181,787	46,585,878	35,310,900
Provide the best quality milk for consumers	773,724	955,732	1,096,828
<i>Advocate for supply management:</i>			
Advocate the value of dairy and supply management	19,718	33,150	48,699
<i>Work together across the value-chain for the industry's success:</i>			
Facilitate processor investment in Western Canada	20,769	145,000	74,389
Develop a retailer code of conduct	-	13,595	1,110
Engage the processing sector in policy development	434	20,385	13,356
<i>Lead and influence alongside partners:</i>			
Strengthen relationships with industry partners	296,175	366,865	358,259
Be a strategic partner in the Western Milk Pool	88,774	114,805	140,921
Represent Alberta in national policy development	33,454	88,830	85,894
<i>Marketing and promotion work:</i>			
Align with national marketing initiatives and messaging	9,295,920	9,562,182	8,741,027
Connect with Gen Zs and Millennials	960,854	621,132	983,054
Target school-aged children and their families	388,867	599,275	510,992
Elevate local dairy products and Alberta dairy farmers	309,140	285,750	35,448
<i>Increase efficiencies and effectiveness in the industry:</i>			
Support dairy production research	1,029,679	1,165,039	1,803,513
<i>Model good governance and efficient resource management:</i>			
Administer and enforce regulations, directives, and policies	226,706	62,500	154,273
Communication with farmers, stakeholders, and the public	246,230	226,325	449,464
Optimal, effective, and efficient resource management	729,139,049	643,999,787	700,681,897
Total Expenses	\$ 783,132,302	\$ 704,950,230	\$ 750,630,179