



Financial Projections and 2020-21 Budget Overview

BACKGROUND:

Each September the Finance Committee meets to review considerations for the upcoming year's budget. The Finance Committee prepares the draft budget in accordance with ACP's Financial Policy.

Budgeting Principles

The Finance Committee applies the Budgeting Principles, as defined in ACP's Financial Policy. These principles are:

Budgeting:

- a. Prior to the Finance Committee preparing the Budget each year, the Board will provide direction to the Committee in terms of the Budgeting Strategy for the upcoming fiscal year with consideration for the cash and capital resources of the organization.
- b. Principles:
The Budget will:
 - i) Be prepared on a cash basis, based on conservative estimates of revenues and expenses.
 - ii) Provide sufficient current assets to meet the organization's current liabilities.
 - iii) Uphold contractual commitments and obligations of Alberta Chicken Producers.
 - iv) Be based upon all known sources of revenue and planned/forecasted expenditures at the time of Budgeting.
 - v) Consider the Strategic Priorities of the organization and funding required to deliver the organization's annual Strategic Work Plan.
 - vi) Detail the relevant assumptions used in its preparation.
 - vii) Consider the Reserve requirements of Alberta Chicken Producers.
- c. The Finance Committee will develop the One-year and Three-year Budget Projection annually, based on the Budgeting Principles.
- d. The Board approves the Budget prior to presenting to producers.
- e. The Finance Director is responsible for presenting an Annual Budget and Three-Year Budget Projection to the Board in October of each year.
- f. To respond to opportunities, unforeseen events, and exceptional circumstances as and if required, the Budget is subject to amendment by the Board within the parameters of the Board's fiduciary responsibilities and Budgeting Principles.

2020-21 Budget Sources & Assumptions:

In addition to the notes included on the Budget, the following assumptions are built into the budget:

- Industry Growth Forecast: 2.5% over 2019 production (*based on CFC's forecast for 2021 and AB's performance in the allocation formula*)
- Inflation: 1.7%
- CFC Levy Increase: no increase in 2021, followed by 0.02cents/kg annually for 2022-2024
- City of Edmonton Taxes: +3%

Note: ACP's Fiscal Year-end is November 30th.

Over-Marketing Penalties:

In 2020, changes were made to ACP's Leasing of Quota Policy to extend the timeframe for leasing. This change has reduced the volume of kilograms over-marketed and, subsequently, the over-marketing penalty income. Considering the impacts of this policy change, the budgeting process of taking the 6-year average of over-marketing penalty income is no longer valid; therefore, the budget for over-marketing penalties for 2021 has been based on the 2020 actuals*. Below are the actual penalties from 2010-2019 and the forecast for 2020:

2010	\$	205,000
2011	\$	150,000
2012	\$	150,000
2013	\$	131,600
2014	\$	76,100
2015	\$	54,800
2016	\$	251,000
2017	\$	137,000
2018	\$	199,628
2019	\$	161,156
2020*	\$	85,000
6 yr avg	\$	146,614

**forecasted to year-end*

Last Year's OM	\$ 85,000
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Definitions:

Normalized: any revenues or expenses that are not a "normal" component of ACP's operations year over year are backed out for year to year comparison.

Advertising and Promotions has been changed to "Public Relations", which more accurately accounts for all activities and materials that fall under this category (*see detailed Public Relations Budget*)

Balance Sheet:

Under Section 5.b. i) of ACP's Financial Policy, Reserve Fund:

A. Alberta Chicken Producers maintains approximately \$2 million in marketable securities. The fund provides interest income, financial stability, and, serves as a contingency in the event of emergencies, extenuating circumstances, or unexpected expenses.

B. The Reserve Fund may be accessed in one or more of the following instances: (1) In the event of an emergency, which may include any one or more of the following circumstances: (a) The Alberta Poultry Industry Emergency Response Plan is declared operational; (b) A federally reportable disease is confirmed in Alberta; or (c) The ACP Board deems a situation to be serious enough to declare an emergency. (2) An Extraordinary Circumstance identified by the Board.

ACP has held the \$2M reserve fund for over one decade, and it has not been adjusted for inflation. Reserves plus current assets less accounts payable as of July 2020: \$1,968,965. This is \$357,80 below ACP's July 2019 Current Assets.

ACP's current unaudited Balance Sheet as of August 31, 2020:

**Alberta Chicken Producers
Balance Sheet As at Aug 31, 2020**

ASSET		LIABILITY	
Current Assets		Current Liabilities	
Cash on Hand	243.94	Accounts Payable	111,904.96
Petty Cash	100.00	Accrued Liabilities	167,772.51
Servus Credit Union	351,926.39	Credit Card Payable	9,784.06
Servus Savings - Grant	0.11	CFC Levy Payable	571.52
Servus Savings	<u>66,915.93</u>	Clearing	0.00
Total Cash	419,186.37	Vacation Accrued	13,384.62
Long Term Investments	<u>1,826,751.82*</u>	RRSP Payable	-7,671.52
Investments	1,826,751.82	Accrued Grants	0.00
Accounts Receivable	15,107.99	GST Collected	5,770.19
Allowance for Bad Debts	0.00	GST Paid	<u>2,510.52</u>
Levy Receivable	1,818.46	GST Owning (Refund)	<u>8,280.71</u>
Mortgage-Current Portion	40,575.86	Total Current liabilities	<u>304,026.86</u>
Prepaid Expenses	<u>2,270.01</u>		
Total Current Assets	<u>2,305,710.51</u>	TOTAL LIABILITY	<u>304,026.86</u>
Capital Assets		EQUITY	
Office Furniture & Equipment	402,735.49	Retained Earnings	
Accum. Amort. -Furn. & Equip.	<u>-363,820.81</u>	Members Equity	2,104,766.48
Net - Furniture & Equipment	38,914.68	Invested in Property & Equipment	1,255,866.92
Computer	75,831.53	Current Earnings	<u>-251,410.92</u>
Accum Amort - Computer	<u>-34,001.89</u>	Total Retained Earnings	<u>3,109,022.48</u>
Net Computer	41,829.54		
Computer Software	106,918.23	TOTAL EQUITY	<u>3,109,022.48</u>
Accum Amort-Computer Software	<u>-106,918.23</u>		
Net Computer Software	0.00	LIABILITIES AND EQUITY	<u>3,413,049.34</u>
Building	1,768,920.77		
Accum Amort - Building	<u>-742,326.16</u>		
Net Building	1,026,594.61**		
Equipment under capital Lease	0.00		
Accum Amort - Equipment under capit	<u>0.00</u>		
Net Equipment under capital lease	0.00		
Total Capital Assets	<u>1,107,338.83</u>		
Other Assets			
Mortgage Receivable	0.00		
API Loan	<u>0.00</u>		
Total Other Assets	<u>0.00</u>		
TOTAL ASSET	<u>3,413,049.34</u>		

*Includes Pledge to CFC of \$165,068; which reduces ACP's Long-Term Investments to \$1,661,684.

**The office was expanded in 2011 by acquiring the space next door to meet ACP's storage requirements (previously ACP was renting storage space); 25% of this space is utilized by ACP for office and storage and the remaining 75% is leased to Alberta Turkey Producers

CFC Levy: (from CFC Memos of December 2019 and December 2020)

“On November 22, 2018, the CFC Board of Directors (Board) approved a levy rate increase from 0.53 cents to 0.55 cents per kilogram live weight, effective June 9, 2019 (start of period A-157), representing an increase of 0.02 cents per kilogram.

On December 5th, 2019, the CFC Board of Directors (Board) approved a levy rate increase from 0.55 cents to 0.57 cents per kilogram live weight, effective May 10, 2020 (start of period A-163), representing an increase of 0.02 cents per kilogram.

For years 2021 to 2023, we anticipate an increase of 0.02 cents per kilogram every year to fund CFC’s operational expenses and promotional programs, reaching a levy rate of 0.63 cents per kilogram in 2023. That said, the CFC Board of Directors will review its financial position each year before determining if future levy increases are necessary.”

Considering the impacts of the COVID-19 pandemic and subsequent savings CFC has achieved in 2020, it is likely that CFC will defer the increase of 0.02 cents per kilogram planned for 2021 to 2022.

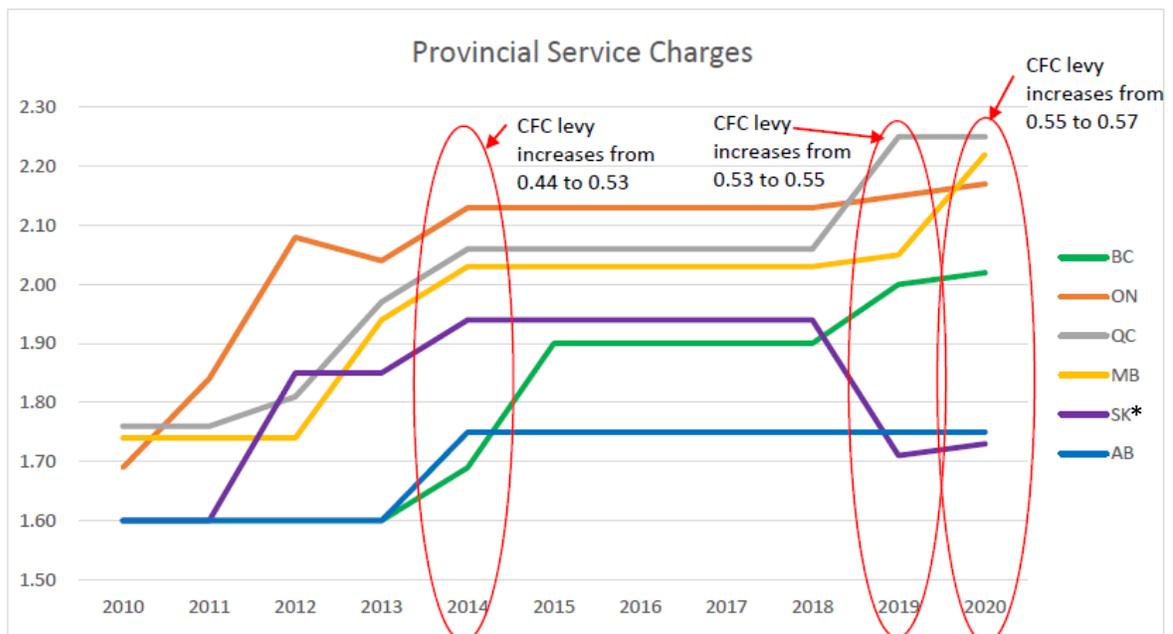
CONSIDERATIONS:

- As a Policy, ACP has maintained a reserve fund of \$2 million, financed by ACP’s long-term investments, to respond to Emergencies and extraordinary circumstances that impact the industry.
- In 2019 and 2020, ACP incurred over-marketing penalties to CFC in excess of \$220K, which have drawn down ACP’s reserves (refer to balance sheet on pg. 3).
- The Covid-19 pandemic has demonstrated that \$2 million is conservative in terms of a contingency for responding to mass depopulation. While the industry has been fortunate to not face depopulation due to a plant closure resulting from COVID-19, if this were to occur, industry would most likely need to front the costs of C&D and losses until government funding came through. Cost estimates are over \$225K per day (if the entire AB industry were to be impacted)
- The Finance Committee and the Board spent considerable time throughout the fall of 2019 assessing ACP’s financial situation and needs going forward. It was concluded that the expenses in the 2019-20 budget reflect the fiscal realities of ACP; and that ACP is operating on as close to a zero-based budget as possible to fulfill our mandate, our obligations, and our priorities. This reality remains the case for 2020-21.
- The COVID-19 pandemic has significantly impacted growth and investment income on our revenue side. Although this was offset by expenditures of \$242,780, we were unable to deliver on many of our important priorities in 2020, which is unsustainable going forward.
- Growth strongly outpaced inflation between 2014 – 2019 (4-7% annually in Alberta), enabling ACP to invest in and deliver its strategic goals at a constant service charge. Not

accounting for the negative impact of COVID-19 in 2020, growth has returned to the 2% range, or on-par with inflation.

- Government has withdrawn funding for diagnostic services, the ILWG, and other previously funded programs, requiring increased industry contributions. Cutbacks to date have already incurred over \$90,000 in added costs to ACP annually.
- ACP does not have sufficient reserves to administer its strategic plan at the current service charge in the medium to longer term; ACP’s current long-term investments are below the \$2million dedicated to Reserves (Section 5 of Financial Policy), and cannot sustain a deficit budget in the mid to long-term. (Refer to ACP’s Strategic Plan in Appendix 4)
- As risks from vegan activists, food recalls, disease, and international trade negotiations continue to increase, industry has to do its part in collecting more data to drive strategy and measure progress, developing fact-based communication to educate consumers and build public trust, and influencing our elected officials to ensure our industry remains sustainable. This requires greater investment from industry associations into technology, people and public relations.
- ACP remains one of the leanest organizations among its counterparts (Refer to Appendix 3)
- Historical Alberta Service Charges:

2005	\$0.0175
2008	\$0.0160
2014	\$0.0175



*note: Saskatchewan also holds an Industry Development Fund

Resourcing ACP's Operating Budget – Proposed Increase to ACP's Service Charge

BACKGROUND & CURRENT REALITY:

ACP is facing a net normalized cash deficit of \$280K for the 2019-2020 Fiscal Year, driven by the impacts of COVID-19 on production and investment performance vs budget, which have been partially offset by reductions in operating expenses that could not be fulfilled due to COVID-19. As growth continues to slow to the 2-2.5% range, ACP is also facing a deficit budget in 2020-21 and subsequent years in the absence of an increase to the service charge.

ACP's operating budget is built from the Principles set forth in ACP's financial policy, and reflects the operating realities of the industry. It is as close to a zero-based budget as our organization can get, and "cutting-back" budget items that are not yet fully committed to will not bring ACP's net cash position close to zero, nor will it enable ACP to deliver on its Strategic Plan.

As you will see in the 3 Year Budget Projection with no change to the service charge (document 3(b)), **ACP is at risk of:**

- incurring a cash deficit of over \$640K over the next three years,
- not being able to deliver its strategic plan,
- not being in a position to fulfill its commitments, and
- exposing the organization to risk should the Reserve Fund need to be drawn upon for emergency or extraordinary events.

PROPOSED APPROACH:

As part of the Board's fiduciary responsibility, it must protect the organization from financial risk. Considering the operating needs of ACP and the risks to the organization of continuing to operate with a deficit budget, **the Board is proposing an increase to the Service Charge as follows:**

1. Increase of 0.1cents/kg, from 1.75 to 1.85 cents/kg effective A-170 (June 6, 2021), and
2. Increase of 0.1cents/kg from 1.85 to 1.95 cents/kg effective A-176 (mid-2022)

For further detail, refer to the 3 Year Budget Projection with this proposed phased-in increase (document 3(a)).

Rationale:

- Increasing the service charge in 2021 minimizes the magnitude of the 2021 deficit, which will continue to be resourced from ACP's working capital, drawing upon ACP's reserves for one additional year 2021.
- A phased increase of 0.2cents/kg over two years (0.1cents/kg in 2021 and 0.1 cents/kg in 2022) returns ACP to a balanced budget position by the 2021/22 fiscal year and ensures ACP is in a position to deliver on its Strategic Plan.
- All things being equal and forecasting 2% growth and 2% inflation, ACP's Reserve Fund would be restored to \$2M in 4.5 years (by 2024).

Next Steps:

As the Board prepares to bring the proposed increase to the ACP Service Charge forward for a vote at the 2021 Annual General Meeting, the Board will be seeking feedback from Producers at the Fall 2020 Regional Meeting.

Enclosed are the following documents that have been developed by the Finance Committee and approved by the Board for presentation to producers:

1. 2019-20 Current Year Projection (1a and 1b)
2. 2020-21 Budget (2a and 2b)
3. 3 Year Projections ((a) Proposed Amendment to ACP's Service Charge and (b) Status Quo Scenarios)
4. Appendices: (1) Public Relations, (2) Corporate Social Responsibility, (3) Human Resources comparison to other boards; and (4) Strategic Priorities