

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Auditor's Report

Financial Statements

Year ended July 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Dairy Farmers of Newfoundland and Labrador:

I have audited the accompanying financial statements of Dairy Farmers of Newfoundland and Labrador (the Organization) which comprise the statement of financial position as at July 31, 2019, and the statements of operations and change in net assets, cash flows and a summary of significant accounting policies and other explanatory information for the year ended July 31, 2019.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at July 31, 2019, and the results of its operations net financial assets for the year then ended in accordance with Canadian Public Sector Accounting Standards excluding the PS 4200 series.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Dairy Farmers of Newfoundland and Labrador in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian Public Sector Accounting Standards excluding the PS 4200, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

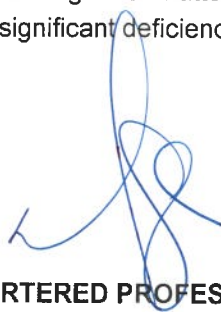
Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes my 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 my audit, in accordance with Canadian generally accepted auditing standards, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

Continued/...

- 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 my 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 Organization'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 Organization's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or condition may cause the Organization 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.

I 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 I identify during my audit.



CHARTERED PROFESSIONAL ACCOUNTANT



Clarenville, Newfoundland
October 28, 2019

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Statement of Financial Position

July 31, 2019

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 2,743,427	2,613,201
Accounts receivable	2,154,293	2,327,502
Harmonized sales tax receivable	9,656	8,258
Prepays	<u>59,000</u>	<u>28,106</u>
Total current assets	4,966,376	4,977,067
Property and equipment, at cost less accumulated amortization (Notes 2 and 3)	<u>53,175</u>	<u>29,905</u>
	<u>\$ 5,019,551</u>	<u>5,006,972</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,876,146	3,052,966
Non-current liabilities:		
Accrued severance pay (Note 2)	44,555	41,737
Accrued sick leave (Note 4)	-	32,160
Deferred revenue (Note 8)	<u>62,461</u>	<u>-</u>
Total liabilities	<u>2,983,162</u>	<u>3,126,863</u>
Net assets, per accompanying statement:		
Investment in capital assets (Note 5)	53,175	29,905
Unrestricted assets	<u>1,983,214</u>	<u>1,850,204</u>
Total net assets	<u>2,036,389</u>	<u>1,880,109</u>
	<u>\$ 5,019,551</u>	<u>5,006,972</u>

Approved:  Chairperson
 Vice-Chairperson

The accompanying notes are an integral part of these financial statements.

DERRICK R. DRODGE
Chartered Professional Accountant

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Statement of Operations

Year ended July 31, 2019

	<u>2019</u>		<u>2018</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Revenue:			
Board levies	\$ 1,032,000	1,049,979	1,132,912
DFC board levies industrial milk	-	169,952	166,623
New entrants levy (Note 6)	177,776	155,096	166,976
Administration	-	1,470	9,349
Interest income	<u>25,000</u>	<u>55,051</u>	<u>18,659</u>
	<u>1,234,776</u>	<u>1,431,548</u>	<u>1,494,519</u>
Operating expenditures:			
Advertising	3,500	2,714	4,796
Board annual and semi-annual meetings	15,000	21,448	15,636
Capital expenditures	3,000	1,304	2,496
Conference and meetings	35,000	38,055	32,690
CDC audit fees	10,000	10,000	10,000
Computer handheld devices	1,000	1,202	12,164
Contract wages	17,000	12,295	4,988
Donations, dues and subscriptions	2,000	3,822	5,867
Equipment leasing	1,600	2,920	1,598
Insurance	4,370	3,033	2,117
Interest and bank charges	2,000	2,219	1,999
Milk testing	35,000	34,032	40,345
Miscellaneous	1,500	1,142	1,026
Office supplies, postage and phone	18,500	21,812	18,355
Per diems and honorarium	45,000	88,989	38,189
Professional fees	15,000	10,745	32,183
Research	10,000	10,000	10,000
Rent and utilities	19,000	18,787	18,788
Travel	55,000	77,075	52,125
Wages and benefits	245,000	223,270	239,774
ProAction	<u>1,500</u>	<u>-</u>	<u>3,592</u>
	<u>539,970</u>	<u>584,864</u>	<u>548,728</u>
	<u>694,806</u>	<u>846,684</u>	<u>945,791</u>
Other income (expenses):			
Milk income in excess of milk expenses (Schedule 1)	-	-	-
Special projects (Note 7)	(30,000)	(24,138)	(52,892)
Secondary Processing Business plan (Note 8)	-	26,607	(26,607)
Dairy Farmers of Canada	(168,000)	(353,978)	(340,304)
Federation of Agriculture	(22,500)	(22,500)	(22,500)
School Milk Foundation	<u>(339,666)</u>	<u>(339,665)</u>	<u>(339,665)</u>
	<u>(560,166)</u>	<u>(713,674)</u>	<u>(781,968)</u>
Excess of revenue over expenditures	<u>\$ 134,640</u>	<u>133,010</u>	<u>163,823</u>

The accompanying notes are an integral part of these financial statements.

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Statement of Changes in Net Assets

Year ended July 31, 2019

	<u>2019</u>	<u>2018</u>
Net assets, beginning of year	\$ 1,850,204	1,686,381
Excess of revenue over expenditures	<u>133,010</u>	<u>163,823</u>
Net assets, end of year	<u>\$ 1,983,214</u>	<u>1,850,204</u>

The accompanying notes are an integral part of these financial statements.

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Statement of Cash Flows

Year ended July 31, 2019

	<u>2019</u>	<u>2018</u>
Cash provided by operating activities:		
Excess of revenue over expenditures	\$ 133,010	163,823
Item not requiring an outlay of cash:		
Capital expenditures	<u>38,681</u>	<u>26,111</u>
	171,691	189,934
Changes in non-cash working capital balances:		
Receivables	171,811	65,098
Prepays	(30,894)	8,251
Accounts payable and accrued liabilities	(208,980)	(182,135)
Accrued severance pay	2,818	1,815
Deferred revenue	<u>62,461</u>	<u>--</u>
	<u>168,907</u>	<u>82,963</u>
Investing activities:		
Purchase of property, plant and equipment	<u>(38,681)</u>	<u>(26,111)</u>
Increase in cash and cash equivalents	130,226	56,852
Cash and cash equivalents:		
Beginning of year	<u>2,613,201</u>	<u>2,556,349</u>
End of year	<u>\$ 2,743,427</u>	<u>2,613,201</u>
Cash and cash equivalents consist of:		
Cash	\$ 2,743,427	2,613,201
Short-term investments	<u>--</u>	<u>--</u>
	<u>\$ 2,743,427</u>	<u>2,613,201</u>

The accompanying notes are an integral part of these financial statements.

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2019

1. Act of incorporation and nature of activities:

Dairy Farmers of Newfoundland and Labrador principal activities are the collection of levies to provide services to the dairy farmers of the Province and the buying and reselling of industrial milk. The Board is a non-profit organization and is exempt from paying income tax under tax Section 149 of the Canadian Income Tax Act. They are a Commodity Board under the National Products Marketing Act.

2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB) and include the following significant accounting policies:

i) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks less cheques issued and outstanding. The entity's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that may fluctuate from being positive to overdrawn and term deposits with a maturity period of twelve months or less from the date of acquisition. Term deposits that the entity cannot use for the current transactions because they are pledged as security are also excluded from cash and cash equivalents.

The Board has an approved line of credit of \$ 600,000 with the Canadian Imperial Bank of Commerce at an interest rate of prime. As security, the Board has provided a general security agreement providing a first charge on all assets. At July 31, 2019, there was a balance of NIL (2018 - NIL) outstanding on the line of credit.

ii) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant areas of estimation include assumptions used in estimating amortization of tangible capital assets, provision for accounts receivable, accounts payable, accrued liabilities, and employee future benefits. Actual results could differ from these estimates.

iii) Revenue recognition

Market share quota revenue including industrial milk, pooling charges, transportation and promotion levy is recognized when milk is shipped out of province to dairies in New Brunswick and Nova Scotia.

Board levies are recognized on a monthly basis as earned from each of the dairy farmers.

Government funding for specific projects are recognized when received.

Continued/...

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2019

2. Significant accounting policies (continued):

iv) Amortization:

Tangible capital assets are recorded at cost less accumulated amortization. Amortization is provided annually at rates and methods over their estimated useful lives as indicated in Note 3. Estimates of useful lives of the assets are reviewed every year and adjusted on a prospective basis, if needed.

It has been considered whether the carrying value of any of these assets may have been impaired. No indicator or impairments exist and an impairment test was not required.

v) Severance pay

Severance pay is accounted for on an accrual basis and is calculated based upon years of service and current salary levels. The right to receive severance pay vests with employees with five or ten years (depending on contract) of continual service, and accordingly no provision has been made in the accounts for employees with less than five years of continual service. The amount is payable when the employee ceases employment with the Board.

vi) Financial instruments

a) The organization's financial instruments consist of cash, short-term investments, levies receivable and interest receivables. The book value of cash, short-term investments, levies receivable and interest receivables are approximate fair value.

b) Credit risk

There is no significant concentration of credit risk. The credit risk is considered normal for the organization.

c) Liquidity risk

Liquidity risk is the risk that the organization may not have cash available to satisfy financial liabilities as they come due. The organization actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

3. Property and equipment:

	2019			2018	
	Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	45%	\$ 21,863	18,810	3,053	4,630
Software & website	5 year	60,992	12,198	48,794	23,615
Furniture and equipment	20%	<u>40,150</u>	<u>38,822</u>	<u>1,328</u>	<u>1,660</u>
		<u>\$ 123,005</u>	<u>69,830</u>	<u>53,175</u>	<u>29,905</u>

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2019

4. Accrued sick leave:

Effective September 2016, employees are granted ten personal sick days per year accumulated monthly. Employee's may not accumulate more than ten personal sick days. No payout in relation to any unused personal sick leave, whether on termination of employment, retirement or otherwise will occur.

Effective June 8, 2009 until September 2016, employees were eligible to accumulate sick leave until retirement or termination to a maximum of 90 days. Unused sick leave is not eligible for payment on retirement or termination, nor can it be used as vacation. No accrual has been considered under these contract terms as at balance sheet date.

For employment contracts prior to June 8, 2009, the Board has a liability to pay one employee for accumulated sick leave for 510.5 days. During the year \$ 32,160 was paid to this employee. There is no remaining liability.

5. Investment in capital assets:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 29,905	8,264
Capital expenditure	39,681	26,111
Capital adjustments/disposals	(1,000)	--
Amortization	<u>(15,411)</u>	<u>(4,470)</u>
	<u>\$ 53,175</u>	<u>29,905</u>

6. New entrants levy:

The Board has entered into agreements with select producers to provide dairy quota under varied terms. There are different termination and/or execution terms that may alter the amount of funds to be received on these agreements. The expected amount to be received for 2020 is \$ 197,576 (2019: \$ 177,776).

7. Special projects:

	<u>2019</u>	<u>2018</u>
Revenue:		
Review of secondary processing, second stage	\$ --	188,132
World Dairy Expo 2017	--	17,711
Transportation tracking system	19,260	22,425
Generic milk campaign	<u>38,601</u>	<u>--</u>
	<u>57,861</u>	<u>228,268</u>
Expenditures:		
Review of secondary processing, second stage	--	22,201
Processing plant feasibility assessment	--	193,449
World Dairy Expo 2017	--	24,246
Atlantic Healthy Herds	1,685	13,324
National cost of production study	4,336	4,325
Transportation tracking system	37,377	23,615
Generic milk campaign	<u>38,601</u>	<u>--</u>
	<u>81,999</u>	<u>281,160</u>
	<u>\$ (24,138)</u>	<u>(52,892)</u>

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2019

8. Secondary Processing Business Plan:

The business plan had total receipts approved as follows:

Atlantic Canada Opportunities Agency (ACOA)	\$ 170,133
Canadian Agricultural Partnership (CAP)	198,225
Dairy Farmers of NL, P10 Commitment	<u>173,647</u>
 Total receipts	 <u>\$ 542,005</u>

The following amounts have been received or expended to July 31, 2019:

Receipts:

	<u>2019</u>	<u>2018</u>
Beginning of year	\$ --	--
Atlantic Canada Opportunities Agency (ACOA)	116,800	--
Canadian Agricultural Partnership (CAP)	144,892	--
Dairy Farmer of NL, P10 Commitment	<u>173,647</u>	<u>--</u>
 Total receipts to end of year	 <u>435,339</u>	 <u>--</u>

Expenditures:

Beginning of year	26,607	--
Business Plan	<u>346,271</u>	<u>26,607</u>
 Total expenditures to end of year	 <u>372,878</u>	 <u>26,607</u>
 Balance, end of year	 <u>\$ 62,461</u>	 <u>(26,607)</u>

Difference of \$ 62,461 is excess of funds received to July 31, 2019 and have been deferred until expenditures are incurred.

9. Commitments:

The Board has a commitment for the lease of office space and equipment. The annual lease agreement is \$ 31,816 plus HST. There is a term of two years remaining.

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2019

10. Capital management:

The capital structure of the Board consists of investment in capital assets, and net assets. The primary objective of the Boards' capital management is to provide adequate funding to ensure efficient delivery of its services and activities to dairy farmers.

Investment in capital assets represents the amount of net assets that are not available for other purposes because they have been invested.

Net assets are funds available for future operations and are preserved so that the Board can have financial flexibility should opportunities arise in the future. For the year end July 31, 2019, the Board has complied with all imposed restrictions.

11. Comparative figures have been restated to conform with current year financial statement presentation.

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Schedule of Milk Income and Expenses

Year ended July 31, 2019

	<u>2019</u>	<u>2018</u>
Revenue:		
Milk income	\$ 49,250,797	48,914,399
Milk transportation	3,499,748	3,425,538
CDC special class pooling	<u>1,414,390</u>	<u>1,346,319</u>
	<u>\$ 54,164,935</u>	<u>53,686,256</u>
Expenditures:		
Milk expenses	\$ 49,250,797	48,914,399
Milk transportation	3,499,748	3,425,538
CDC special class pooling	<u>1,414,390</u>	<u>1,346,319</u>
	<u>54,164,935</u>	<u>53,686,256</u>
Excess of revenue over expenditures (expenditures over revenue)	<u>\$ --</u>	<u>--</u>