

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Auditor's Report

Financial Statements

Year ended July 31, 2021

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, 2021, 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, 2021.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at July 31, 2021, 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

Clareville, Newfoundland
November 23, 2021

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Statement of Financial Position

July 31, 2021

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 2,869,075	3,428,535
Third party receivable	15,000	15,000
Accounts receivable	2,248,975	1,958,473
Harmonized sales tax receivable	5,518	3,837
Prepays	<u>65,182</u>	<u>53,878</u>
Total current assets	5,203,750	5,459,723
Property and equipment, at cost less accumulated amortization (Notes 2 and 3)	<u>27,909</u>	<u>39,050</u>
	<u>\$ 5,231,659</u>	<u>5,498,773</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,543,992	2,547,903
Non-current liabilities:		
Accrued severance pay (Note 2)	51,610	46,970
Deferred revenue (Note 8)	6,524	48,743
Long-term debt (Note 9)	<u>--</u>	<u>40,000</u>
Total liabilities	<u>2,602,126</u>	<u>2,683,616</u>
Net assets, per accompanying statement:		
Investment in capital assets (Note 4)	27,909	39,050
Unrestricted assets	<u>2,601,624</u>	<u>2,776,107</u>
	<u>2,629,533</u>	<u>2,815,157</u>
Total net assets	<u>\$ 5,231,659</u>	<u>5,498,773</u>

Approved: Luc Noel Chairperson

Erny Zesta Vice-Chairperson

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

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Statement of Operations

Year ended July 31, 2021

	<u>2021</u>		<u>2020</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Revenue:			
Board levies	\$ 1,188,000	1,157,154	1,167,897
Milk quality penalty	--	4,521	--
New entrants levy (Note 5a)	192,540	206,540	778,940
Administration	--	3,195	8,628
Interest income	20,000	24,263	42,730
Government loan forgiveness	--	20,000	--
	<u>1,400,540</u>	<u>1,415,673</u>	<u>1,998,195</u>
Operating expenditures:			
Advertising	4,500	500	4,141
Board annual and semi-annual meetings	25,000	3,716	4,753
Capital expenditures	3,000	2,339	--
Conference and meetings	20,000	6,177	15,183
CDC audit fees	10,000	10,000	10,000
Computer handheld devices	11,250	4,989	12,174
Contract wages	14,500	13,192	12,385
Donations, dues and subscriptions	2,000	2,933	4,741
Equipment leasing	3,000	2,723	2,907
Insurance	3,500	3,848	3,205
Interest and bank charges	2,500	3,196	2,483
Milk testing	35,000	36,055	29,995
Miscellaneous	1,500	650	577
Office supplies, postage and phone	19,000	19,492	15,448
Per diems and honorarium	50,000	31,590	44,950
ProAction	1,500	--	--
Professional fees	15,000	20,223	16,165
Research	10,000	10,000	(10,000)
Rent and utilities	19,000	17,459	17,644
Travel	35,000	1,451	34,911
Wages and benefits	194,000	201,056	188,153
	<u>479,250</u>	<u>391,589</u>	<u>409,815</u>
	<u>921,290</u>	<u>1,024,084</u>	<u>1,588,380</u>
Other income (expenditures):			
New entrant quota repurchase (Note 5b)	--	(447,829)	--
Special projects (Note 6)	(30,000)	(24,394)	(86,264)
Secondary Processing (Note 7)	--	--	16,214
Dairy Farmers of Canada	(370,000)	(362,304)	(363,272)
Federation of Agriculture	(22,500)	(24,375)	(22,500)
School Milk Foundation	(339,665)	(339,665)	(339,665)
	<u>(762,165)</u>	<u>(1,198,567)</u>	<u>(795,487)</u>
Excess of revenue over expenditures (expenditures over revenue)	<u>\$ 159,125</u>	<u>(174,483)</u>	<u>792,893</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, 2021

	<u>2021</u>	<u>2020</u>
Net assets, beginning of year	\$ 2,776,107	1,983,214
Excess of revenue over expenditures (expenditures over revenue)	<u>(174,483)</u>	<u>792,893</u>
Net assets, end of year	<u>\$ 2,601,624</u>	<u>2,776,107</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, 2021

	<u>2021</u>	<u>2020</u>
Cash provided by operating activities:		
Excess of revenue over expenditures (expenditures over revenue)	\$ (174,483)	792,893
Item not requiring an outlay of cash:		
Capital expenditures	<u>2,339</u>	<u>--</u>
	(172,144)	792,893
Changes in non-cash working capital balances:		
Receivables	(292,183)	186,639
Prepays	(11,304)	5,122
Accounts payable and accrued liabilities	(3,911)	(328,243)
Accrued severance pay	4,640	2,415
Deferred revenue	<u>(42,219)</u>	<u>(13,718)</u>
	<u>(517,121)</u>	<u>645,108</u>
Investing activities:		
Purchase of property, plant and equipment	<u>(2,339)</u>	<u>--</u>
Financing activities:		
Advances on long-term debt	--	40,000
Repayment on long-term debt	<u>(40,000)</u>	<u>--</u>
	<u>(40,000)</u>	<u>40,000</u>
Increase (decrease) in cash and cash equivalents	(559,460)	685,108
Cash and cash equivalents:		
Beginning of year	<u>3,428,535</u>	<u>2,743,427</u>
End of year	<u>\$ 2,869,075</u>	<u>3,428,535</u>
Cash and cash equivalents consist of:		
Cash	\$ 2,869,075	3,428,535
Short-term investments	<u>--</u>	<u>--</u>
	<u>\$ 2,869,075</u>	<u>3,428,535</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, 2021

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 Bank of Montreal 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, 2021, there was a balance of NIL (2020 - 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.

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.

Continued/...

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2021

2. Significant accounting policies (continued):

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:

	2021			2020	
	Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	45%	\$ 23,514	21,473	2,041	1,391
Software & website	5 year	60,992	36,594	24,398	36,596
Furniture and equipment	20%	<u>40,838</u>	<u>39,368</u>	<u>1,470</u>	<u>1,063</u>
		<u>\$ 125,344</u>	<u>97,435</u>	<u>27,909</u>	<u>39,050</u>

4. Investment in capital assets:

	2021	2020
Balance, beginning of year	\$ 39,050	53,175
Capital expenditure	2,339	--
Amortization	<u>(13,480)</u>	<u>(14,125)</u>
	<u>\$ 27,909</u>	<u>39,050</u>

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2021

5. New entrants levy:

- a) The Board had entered into agreements with select producers to provide dairy quota under varied terms. There are different termination and/or execution terms that altered the amount of funds to be received on these agreements. The expected amount to be received for 2022 is \$ nil (2021 \$ 192,540).
- b) During the year Dairy Farmers of Newfoundland and Labrador exercised their right to repurchase milk quota from a new entrant to exit the industry as per the terms of the contract which was at the lessor of the price paid to Dairy Farmers of Newfoundland and Labrador and fair market value. The exercised price was the amount paid by the new entrant.

6. Special projects:

	<u>2021</u>	<u>2020</u>
Revenue:		
Milk marketing campaign	\$ 36,000	--
Generic milk campaign	--	236,399
2% More milk campaign	<u>60,890</u>	<u>--</u>
	<u>96,890</u>	<u>236,399</u>
Expenditures:		
DFNL - Agropur Noble partnership	20,000	--
National cost of production study	4,394	4,454
Milk marketing campaign	36,000	--
Generic milk campaign	--	318,209
2% More milk campaign	<u>60,890</u>	<u>--</u>
	<u>121,284</u>	<u>322,663</u>
	<u>\$ (24,394)</u>	<u>(86,264)</u>

7. Secondary processing:

	<u>2021</u>	<u>2020</u>
Revenue:		
Government funding	\$ --	168,149
Dairy Farmers Of Newfoundland and Labrador funding		
Secondary processing (2020)	48,743	51,257
TRDCON allocation	<u>63,476</u>	<u>--</u>
	<u>\$ 112,219</u>	<u>219,406</u>
Expenditures:		
Secondary Processing Business Plan	--	151,935
Secondary processing (2020)	48,743	51,257
TRDCON allocation	<u>63,476</u>	<u>--</u>
	<u>112,219</u>	<u>203,192</u>
	<u>\$ --</u>	<u>16,214</u>

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2021

8. Deferred revenue:

	<u>2021</u>	<u>2020</u>
TRDCON allocation	\$ 6,524	--
Secondary Processing (2020)	<u> --</u>	<u>48,743</u>
	<u>\$ 6,524</u>	<u>48,743</u>

Dairy Farmers of Newfoundland and Labrador allocated \$ 70,000 to TRDCON during the year. Excess funds of \$ 6,524 have been deferred until expenditures are incurred.

9. Long term-debt:

	<u>2021</u>	<u>2020</u>
Interest free Canada Emergency Business Account loan, 25% forgivable if repaid by December 2022. Repaid during year	<u>\$ --</u>	<u>40,000</u>

10. 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 four years remaining.

11. 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, 2021, the Board has complied with all imposed restrictions.

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Schedule of Milk Revenue and Expenditures

Year ended July 31, 2021

	<u>2021</u>	<u>2020</u>
Revenue:		
Milk income	\$ 49,371,159	48,726,019
Milk transportation	3,574,057	3,498,941
CDC special class pooling	<u>1,383,203</u>	<u>1,309,105</u>
	<u>\$ 54,328,419</u>	<u>53,534,065</u>
Expenditures:		
Milk expenses	\$ 49,371,159	48,726,019
Milk transportation	3,574,057	3,498,941
CDC special class pooling	<u>1,383,203</u>	<u>1,309,105</u>
	<u>54,328,419</u>	<u>53,534,065</u>
Excess of revenue over expenditures (expenditures over revenue)	<u>\$ --</u>	<u>--</u>