

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Auditor's Report

Financial Statements

Year ended July 31, 2018

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 which comprise the statement of financial position as at July 31, 2018, and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Public Sector Accounting Standards excluding the PS 4200 series, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Dairy Farmers of Newfoundland and Labrador at July 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards excluding PS 4200 series.

Comparative figures were reported upon by other auditors.



CHARTERED PROFESSIONAL ACCOUNTANT

Clarenville, Newfoundland
November 08, 2018


DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Statement of Financial Position

July 31, 2018

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 2,613,201	2,556,349
Accounts receivable	2,327,502	2,360,290
HST receivable	8,258	40,568
Prepays	<u>28,106</u>	<u>36,357</u>
Total current assets	4,977,067	4,993,564
Property and equipment, at cost less accumulated amortization (Notes 2 and 3)	<u>29,905</u>	<u>8,264</u>
	<u>\$ 5,006,972</u>	<u>5,001,828</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,052,966	3,203,901
Non-current liabilities:		
Accrued severance pay (Note 2)	41,737	39,922
Accrued sick leave (Note 4)	<u>32,160</u>	<u>63,360</u>
Total liabilities	<u>3,126,863</u>	<u>3,307,183</u>
Net assets, per accompanying statement:		
Investment in capital assets (Note 5)	29,905	8,264
Unrestricted assets	<u>1,850,204</u>	<u>1,686,381</u>
	<u>1,880,109</u>	<u>1,694,645</u>
Total net assets	<u>\$ 5,006,972</u>	<u>5,001,828</u>

Approved:

 Chairperson

 Vice-Chairperson

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

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Statement of Revenue and Expenditures

Year ended July 31, 2018

	<u>2018</u>		<u>2017</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Revenue:			
Board levies	\$ 1,099,000	1,132,912	1,176,976
New entrants levy (Note 6)	167,000	166,976	105,471
Administration	--	9,349	3,110
Other income (Note 7)	<u>1,500</u>	<u>18,659</u>	<u>15,474</u>
	<u>1,267,500</u>	<u>1,327,896</u>	<u>1,301,031</u>
Operating expenditures:			
Advertising	4,500	4,796	549
Board annual and semi-annual meetings	20,000	15,636	17,387
Capital expenditures	3,000	2,496	6,262
Conference and meetings	35,000	32,690	42,607
CDC audit fees	10,000	10,000	10,000
Computer handheld devices	8,500	12,164	5,867
Contract wages	3,000	4,988	2,534
DFC Membership	17,500	19,849	17,193
Donations, dues and subscriptions	3,500	5,867	3,140
Equipment leasing	3,200	1,598	3,102
Insurance	2,100	2,117	2,002
Interest and bank charges	2,500	1,999	2,358
Milk testing	20,000	40,345	4,061
Miscellaneous	1,500	1,026	394
Office supplies, postage and phone	18,500	18,355	16,998
Per diems and honorarium	45,000	38,189	42,505
Professional fees	18,000	32,183	28,755
Research	10,000	10,000	10,000
Rent and utilities	19,000	18,788	18,788
Travel	65,000	52,125	74,981
Wages and benefits	252,000	239,774	240,254
ProAction	<u>500</u>	<u>3,592</u>	<u>750</u>
	<u>562,300</u>	<u>568,577</u>	<u>550,487</u>
Excess of revenue over expenditures	<u>705,200</u>	<u>759,319</u>	<u>750,544</u>
Other income (expenses):			
Loss on disposal of property and equipment	--	--	(1,492)
Milk income in excess of milk expenses (Schedule 1)	--	--	(717,059)
Special project income (Note 8)	--	228,268	908,556
Special project expenses (Note 9)	(30,000)	(307,767)	(909,740)
Fluid Milk Dairy Farmers of Canada promotion levy	(145,000)	(153,832)	(142,135)
Federation of Agriculture	(22,500)	(22,500)	(22,500)
School Milk Foundation	<u>(339,665)</u>	<u>(339,665)</u>	<u>(339,665)</u>
	<u>(537,165)</u>	<u>(595,496)</u>	<u>(1,224,035)</u>
Excess of revenue over expenditures (expenditures over revenue)	<u>\$ 168,035</u>	<u>163,823</u>	<u>(473,491)</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, 2018

	<u>2018</u>	<u>2017</u>
Net assets, beginning of year	\$ 1,686,381	2,159,872
Excess of revenue over expenditures (expenditures over revenue)	<u>163,823</u>	<u>(473,491)</u>
Net assets, end of year	<u>\$ 1,850,204</u>	<u>1,686,381</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, 2018

	<u>2018</u>	<u>2017</u>
Cash provided by operating activities:		
Excess of revenue over expenditures (expenditures over revenue)	\$ 163,823	(473,491)
Item not requiring an outlay of cash:		
Capital expenditures	<u>26,111</u>	<u>7,755</u>
	189,934	(465,736)
Changes in non-cash working capital balances:		
Receivables	65,098	1,056,703
Prepays	8,251	(24,292)
Accounts payable and accrued liabilities	(182,135)	(92,783)
Accrued severance pay	<u>1,815</u>	<u>3,136</u>
	<u>82,963</u>	<u>477,028</u>
Investing activities:		
Purchase of property, plant and equipment	<u>(26,111)</u>	<u>(7,755)</u>
Increase in cash and cash equivalents	56,852	469,273
Cash and cash equivalents:		
Beginning of year	<u>2,556,349</u>	<u>2,087,076</u>
End of year	<u>\$ 2,613,201</u>	<u>2,556,349</u>
Cash and cash equivalents consist of:		
Cash	2,613,201	1,541,396
Short-term investments	<u>--</u>	<u>1,014,953</u>
	<u>\$ 2,613,201</u>	<u>2,556,349</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, 2018

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:

i) 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:

ii) 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, 2018, there was a balance of NIL (2017 - NIL) outstanding on the line of credit.

iii) 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.

iv) 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, 2018

2. Significant accounting policies (continued):

v) 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, except in the year of acquisition when one half of the rate is used. 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.

vi) 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.

vii) 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:

	2018			2017	
	Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	45%	\$ 20,559	15,929	4,630	6,190
Software & website under development	--	23,615	--	23,615	--
Furniture and equipment	20%	<u>40,150</u>	<u>38,490</u>	<u>1,660</u>	<u>2,074</u>
		<u>\$ 84,324</u>	<u>54,419</u>	<u>29,905</u>	<u>8,264</u>

During the year the organization purchased assets at a cost of \$ 26,111, and has committed to spend \$ 28,105 in the subsequent year.

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2018

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 \$ 31,200 was paid to this employee. The remaining liability of \$ 32,160 will be paid in bi-weekly payments of \$ 1,200.

5. Investment in capital assets:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 8,264	5,231
Capital expenditure	26,111	7,755
Capital adjustments/disposals	--	(1,493)
Depreciation	<u>(4,470)</u>	<u>(3,229)</u>
	<u>\$ 29,905</u>	<u>8,264</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 2019 is \$ 177,776

7. Other income:

	<u>2018</u>	<u>2017</u>
Interest income	\$ 18,659	14,954
Other income	<u>--</u>	<u>520</u>
	<u>\$ 18,659</u>	<u>15,474</u>

8. Special Government funded projects:

	<u>2018</u>	<u>2017</u>
Land Development Initiative	\$ --	750,000
Review of secondary processing	--	132,525
Review of secondary processing, second stage	188,132	11,700
World Dairy Expo 2017	22,425	--
Transport tracking system	17,711	--
Atlantic Healthy Herds	--	14,065
Holland Trip Sand Separator System	--	(1,734)
Cow Health	<u>--</u>	<u>2,000</u>
	<u>\$ 228,268</u>	<u>908,556</u>

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Notes to the Financial Statements

July 31, 2018

9. Special project costs:

	<u>2018</u>	<u>2017</u>
Land Development Initiative	\$ --	750,000
Review of secondary processing	--	42,427
Review of secondary processing, second stage	22,201	90,031
Secondary processing business plan	26,607	--
Processing plant feasibility assessment	193,449	--
World Dairy Expo 2017	24,246	--
Atlantic Healthy Herds	13,324	21,151
National cost of production study	4,325	4,131
Transportation Tracking System software	23,615	--
Cow Health	--	<u>2,000</u>
	<u>\$ 307,767</u>	<u>909,740</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 three 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, 2018, the Board has complied with all imposed restrictions.

12. Prior period adjustment:

During the prior year the amount for accrued sick leave was overstated by \$6,000 and as a result wages and benefits expense was overstated by the same amount. Comparative figures have been restated to correct the error.

DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR

Schedule of Milk Income and Expenses

Year ended July 31, 2018

	<u>2018</u>	<u>2017</u>
Revenue:		
Milk income	\$ 48,914,399	42,722,887
Milk transportation	3,425,538	2,850,170
Dumped milk	--	81,302
CDC special class pooling	1,346,319	1,009,688
DFC levy industrial milk	<u>166,623</u>	<u>142,466</u>
	<u>\$ 53,852,879</u>	<u>46,806,513</u>
Expenditures:		
Milk expenses	\$ 48,914,399	43,439,946
Milk transportation	3,425,538	2,850,170
Dumped milk	--	81,302
CDC special class pooling	1,346,319	1,009,688
DFC levy industrial milk	<u>166,623</u>	<u>142,466</u>
	<u>53,852,879</u>	<u>47,523,572</u>
Excess of revenue over expenditures (expenditures over revenue)	<u>\$ --</u>	<u>(717,059)</u>

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