

*Dairy Farmers of Newfoundland and Labrador*

**Financial Statements**

July 31, 2015



**BUSSEY PORTER HETU**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**

Network member of  
**Porter Hetu International**  
Professional Services Group

**INDEPENDANT AUDITORS' REPORT**

To the Board of Dairy Farmers of Newfoundland and Labrador

We have audited the accompanying financial statements of Dairy Farmers of Newfoundland and Labrador which comprise of the statement of financial position as at July 31, 2015 and the statement of operations and changes in net assets and cash flow for the year then ended, and a summary of the 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 misstatement, whether due to fraud or error.

**Auditor's Responsibility:**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance 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 judgment, including the assessment of 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion these financial statements present fairly, in all material respects, the financial position of Dairy Farmers of Newfoundland and Labrador as at July 31, 2015 and its financial performance and its cash flow for the year then ended in accordance with Canadian Public Sector Accounting Standards excluding the PS 4200 series.

**Bussey Porter Hétu**  
**Chartered Professional Accountants**

Conception Bay South, Newfoundland  
October 23, 2015

***Dairy Farmers of Newfoundland and Labrador***  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**

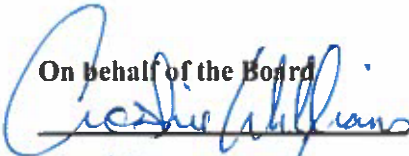
**For the year ended July 31, 2015**

	<b>Budget</b>	<b>2015</b>	<b>2014</b>
<b>Revenue</b>			
Market share quota (Note 5)	\$ -	\$ 15,335,208	\$ 13,172,883
Dairy Farmers of Newfoundland and Labrador Board levies	1,075,069	1,147,453	1,064,813
New entrants levy	155,000	601,929	150,885
Top up program	18,000	10,022	17,539
Special project income (Note 6)	-	821,836	808,129
Special milk treatment	-	119,381	-
Other income	-	406,937	15
	<b>1,248,069</b>	<b>18,442,766</b>	<b>15,214,264</b>
<b>Direct expenditures</b>			
Market share quota (Note 5)	-	15,335,208	13,172,883
Top up program	-	21,298	-
Special project costs (Note 7)	-	849,163	812,585
Fluid Milk Dairy Farmers of Canada promotion levy	165,000	144,517	208,887
Dairy Farmers of Canada ice cream promotion fund	57,000	14,248	52,463
Special milk treatment	-	119,381	-
	<b>222,000</b>	<b>16,483,815</b>	<b>14,246,818</b>
	<b>-</b>	<b>-</b>	<b>-</b>
	<b>1,026,069</b>	<b>1,958,951</b>	<b>967,446</b>
<b>Operating expenditures (page 9)</b>	<b>836,465</b>	<b>929,558</b>	<b>913,820</b>
<b>Excess of revenue over expenditures</b>	<b>\$ 189,604</b>	<b>\$ 1,029,393</b>	<b>\$ 53,626</b>
Net sssets, beginning of year		\$ 692,657	\$ 639,031
Excess of revenue over expenditures		1,029,393	53,626
Net assets, end of year		<b>\$ 1,722,050</b>	<b>\$ 692,657</b>

**Dairy Farmers of Newfoundland and Labrador**  
**STATEMENT OF FINANCIAL POSITION**

As at July 31, 2015

	2015	2014
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 1,519,488	\$ 567,386
Accounts receivable	3,194,532	2,357,073
HST Receivable	18,728	4,552
Prepaid expenses and deposits	27,856	23,831
	<u>4,760,604</u>	<u>2,952,842</u>
Capital assets (Note 2)	5,826	4,102
	<u>\$ 4,766,430</u>	<u>\$ 2,956,944</u>
<b>LIABILITIES</b>		
Current		
Payables and accruals	\$ 3,003,419	\$ 2,227,357
Accrued severance pay	35,135	32,828
	<u>3,038,554</u>	<u>2,260,185</u>
<b>NET ASSETS</b>		
Net assets	1,722,050	692,657
Investment in capital assets (Note 4)	5,826	4,102
	<u>1,727,876</u>	<u>696,759</u>
	<u>\$ 4,766,430</u>	<u>\$ 2,956,944</u>

On behalf of the Board  
  
 \_\_\_\_\_ Director  
 Nov 3 / 2015 Date

*The accompanying notes form an integral part of these financial statements.*

***Dairy Farmers of Newfoundland and Labrador***  
**STATEMENT OF CASH FLOWS**

**For the year ended July 31, 2015**

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities		
Net income	\$ 1,029,393	\$ 53,626
Items not requiring an outlay of cash:		
Capital expenditures	3,193	955
	1,032,586	54,581
Changes in non-cash working capital:		
Receivables	(847,958)	294,322
Prepaid expenses	(4,024)	(13,732)
Payables and accruals	772,384	168,260
Accrued severance pay	2,307	(19,057)
	955,295	484,374
Cash flows used in investing activities		
Purchase of property, plant, and equipment	(3,193)	(955)
	(3,193)	(955)
Increase in cash and cash equivalents	952,102	483,419
Cash and cash equivalents, beginning of year	567,386	83,967
Cash and cash equivalents, end of year	\$ 1,519,488	\$ 567,386

*The accompanying notes form an integral part of these financial statements.*

# *Dairy Farmers of Newfoundland and Labrador*

## NOTES TO FINANCIAL STATEMENTS

For the year ended July 31, 2015

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Dairy Farmers of Newfoundland and Labrador principal activities are the collection of levies to provide services to the dairy farmers of Newfoundland and Labrador and the buying and reselling of industrial milk. The Board is a not-for-profit organization and is exempt from paying income tax under Section 149 of the Canadian Income Tax Act. They are a Commodity Board under the Natural Products Marketing Act.

### **1. Summary of significant accounting policies**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB). Significant accounting policies adopted are outlined below.

#### **Use of estimates**

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

#### **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 as the related expenses are incurred.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and balances with banks. Bank borrowings are considered to be financing activities.

#### **Capital assets**

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 2, 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 indicators or impairments exist and an impairment test was not required.

*Dairy Farmers of Newfoundland and Labrador*

**NOTES TO FINANCIAL STATEMENTS**

**For the year ended July 31, 2015**

**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.

**2. Capital assets**

	<b>Rate</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	
				<b>2015</b>	<b>2014</b>
Computer equipment	45%	\$ 11,421	\$ 10,464	\$ 957	\$ 944
Furniture and equipment	20%	42,776	37,907	4,869	3,158
		\$ 54,197	\$ 48,371	\$ 5,826	\$ 4,102

**3. Bank indebtedness**

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, 2015, there was a balance of \$nil (2014 - \$nil) outstanding on the line of credit.

**4. Investment in capital assets**

	<b>2015</b>	<b>2014</b>
Balance, beginning of year	\$ 4,102	\$ 4,640
Capital expenditures	3,193	955
Depreciation	(1,469)	(1,493)
	\$ 5,826	\$ 4,102

*Dairy Farmers of Newfoundland and Labrador*

**NOTES TO FINANCIAL STATEMENTS**

**For the year ended July 31, 2015**

**5. Market share quota**

	<b>2015</b>	<b>2014</b>
Revenue		
Industrial milk	\$ 12,495,569	\$ 10,572,656
Canadian Dairy Commissions pooling charges	1,383,368	1,227,653
Transportation	1,295,190	1,240,449
Dairy Farmers of Canada promotion levy	161,081	132,125
	<b>\$ 15,335,208</b>	<b>\$ 13,172,883</b>
Direct expenditures		
Industrial milk	\$ 12,495,569	\$ 10,572,656
Canadian Dairy Commissions pooling charges	1,383,368	1,227,652
Transportation	1,295,190	1,240,450
Dairy Farmers of Canada promotion levy	161,081	132,125
	<b>\$ 15,335,208</b>	<b>\$ 13,172,883</b>

**6. Special projects income**

The Board received Government funding for the following projects:

	<b>2015</b>	<b>2014</b>
Land Development Initiative	\$ 750,000	\$ 750,000
Industry Study	50,212	-
Cow Signals Training	17,023	-
Agritechnia	-	42,834
EastGen 4H Showcase	4,601	-
Profit profiler	-	15,294
	<b>\$ 821,836</b>	<b>\$ 808,128</b>



*Dairy Farmers of Newfoundland and Labrador*

**NOTES TO FINANCIAL STATEMENTS**

**For the year ended July 31, 2015**

**7. Special project costs**

	<b>2015</b>	<b>2014</b>
Land Development Initiative	\$ 750,464	\$ 750,088
Industry Study	50,468	-
Cow Signals Training	17,630	-
EastGen 4H Showcase	4,601	-
Review of Secondary Processing	26,000	-
Agritechnia	-	44,504
Profit profiler	-	17,993
	<b>\$ 849,163</b>	<b>\$ 812,585</b>

**8. Special milk treatment**

	<b>2015</b>	<b>2014</b>
Provincially	\$ 107,149	\$ -
Nationally (P5)	12,232	-
	<b>\$ 119,381</b>	<b>\$ -</b>

**9. Commitments**

The Board has commitments for the lease of office space and equipment for the next five years for \$31,816.35 plus HST per year.

**10. Contingency**

Effective June 8, 2009 employees are 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.

**11. Subsequent event**

On August 11, 2015 the Dairy Farmers of NL Board of Directors entered into agreement to pay out \$126,719 in relation to a sick leave liability for one employee. The money is being paid monthly over a four year duration.

*Dairy Farmers of Newfoundland and Labrador*

**NOTES TO FINANCIAL STATEMENTS**

**For the year ended July 31, 2015**

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**12. 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, 2015, the Board has complied with all imposed capital restrictions.

**13. Financial instruments**

The Organization's financial instruments consist of receivable and payables. It is management's opinion that the Organization is not exposed to significant credit, interest rate or liquidity, or market risks arising from these financial instruments.

**14. Comparative figures**

Comparative figures may have been restated to reflect the financial statement presentation adopted for 2015.