

Dairy Farmers of Newfoundland and Labrador

Financial Statements

July 31, 2016

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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, 2016 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, 2016 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

St. John's, Newfoundland
November 16, 2016

Dairy Farmers of Newfoundland and Labrador
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
For the year ended July 31, 2016

	Budget	2016	2015
Revenue			
Market share quota (Note 6)	\$ -	\$ 17,220,524	\$ 15,454,589
Dairy Farmers of Newfoundland and Labrador Board levies	1,150,000	1,191,600	1,147,453
New entrants levy	75,956	75,956	601,929
Top up program	10,022	-	10,022
Special project income (Note 8)	-	897,200	821,836
P5 Fluid Milk income	948,000	985,446	-
Other income (Note 6)	1,000	4,720	406,937
	<u>2,183,978</u>	<u>20,375,446</u>	<u>18,442,766</u>
Direct expenditures			
Market share quota (Note 6)	-	17,220,524	15,454,589
Fluid Milk Dairy Farmers of Canada promotion levy	-	145,806	144,517
Dairy Farmers of Canada ice cream promotion fund	-	-	14,248
Top up program	-	41,760	21,298
Special project costs (Note 9)	-	945,994	852,743
Federation of Agriculture	-	22,500	22,500
P5 Fluid milk expense	-	672,083	
School Milk Foundation	-	339,665	339,665
	<u>-</u>	<u>19,388,332</u>	<u>16,849,560</u>
	2,183,978	987,114	1,593,206
Operating expenditures (page 9)	<u>540,500</u>	<u>549,292</u>	<u>563,813</u>
Excess of revenue over expenditures	<u>\$ 1,643,478</u>	<u>\$ 437,822</u>	<u>\$ 1,029,393</u>
Net assets, beginning of year		\$ 1,722,050	\$ 692,657
Excess of revenue over expenditures		<u>437,822</u>	<u>1,029,393</u>
Net assets, end of year		<u>\$ 2,159,872</u>	<u>\$ 1,722,050</u>

Dairy Farmers of Newfoundland and Labrador
STATEMENT OF FINANCIAL POSITION
As at July 31, 2016

	2016	2015
ASSETS		
Current		
Cash and cash equivalents	\$ 2,087,076	\$ 1,519,488
Accounts receivable	3,398,811	3,194,532
HST Receivable	8,004	18,728
Prepaid expenses and deposits	18,065	27,856
	<u>5,511,956</u>	<u>4,760,604</u>
Capital assets (Note 2)	5,231	5,826
	<u>\$ 5,517,187</u>	<u>\$ 4,766,430</u>
LIABILITIES		
Current		
Payables and accruals	\$ 3,220,259	\$ 2,876,700
Accrued severance pay	36,786	35,135
Accrued sick leave (Note 4)	95,039	126,719
	<u>3,352,084</u>	<u>3,038,554</u>
NET ASSETS		
Net assets	2,159,872	1,722,050
Investment in capital assets (Note 5)	5,231	5,826
	<u>2,165,103</u>	<u>1,727,876</u>
	<u>\$ 5,517,187</u>	<u>\$ 4,766,430</u>

On behalf of the Board


 _____ Director

November 16, 2016

_____ Date

Dairy Farmers of Newfoundland and Labrador
STATEMENT OF CASH FLOWS
For the year ended July 31, 2016

	2016	2015
Cash flows from operating activities		
Net income	\$ 437,822	\$ 1,029,393
Items not requiring an outlay of cash:		
Capital expenditures	1,109	3,193
	<u>438,931</u>	<u>1,032,586</u>
Changes in non-cash working capital:		
Receivables	(202,210)	(837,459)
Prepaid expenses	9,790	(4,024)
Payables and accruals	320,535	761,885
Accrued severance pay	1,651	2,307
	<u>568,697</u>	<u>955,295</u>
Cash flows used in investing activities		
Purchase of property, plant, and equipment	(1,109)	(3,193)
	<u>(1,109)</u>	<u>(3,193)</u>
Increase in cash and cash equivalents	567,588	952,102
Cash and cash equivalents, beginning of year	<u>1,519,488</u>	<u>567,386</u>
Cash and cash equivalents, end of year	<u>\$ 2,087,076</u>	<u>\$ 1,519,488</u>
Cash and cash equivalents consist of:		
Cash	\$ 2,087,076	\$ 1,519,488

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, 2016

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 when received.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks less cheques issued and outstanding. 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, 2016

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

	Rate	Cost	Accumulated Amortization	Net Book Value	
				2016	2015
Computer equipment	45%	\$ 12,461	\$ 11,227	\$ 1,234	\$ 957
Furniture and equipment	20%	42,846	38,849	3,997	4,869
		\$ 55,307	\$ 50,076	\$ 5,231	\$ 5,826

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, 2016, there was a balance of \$nil (2015 - \$nil) outstanding on the line of credit.

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 the balance sheet date

For employment contacts prior to June 8, 2009 the board has a liability to pay \$126,719 to one employee for accumulated sick leave for 510.5 days. During the year an amount of \$31,680 was paid to this employee. The remaining liability of \$95,039 will be paid in monthly payments of \$2,639.99 with final payment being made in July 2019.

Dairy Farmers of Newfoundland and Labrador
NOTES TO FINANCIAL STATEMENTS
For the year ended July 31, 2016

5. Investment in capital assets

	2016	2015
Balance, beginning of year	\$ 5,826	\$ 4,102
Capital expenditures	1,109	3,193
Depreciation	(1,704)	(1,469)
	\$ 5,231	\$ 5,826

6. Market share quota

	2016	2015
Revenue		
Industrial milk	\$13,850,570	\$12,495,569
Canadian Dairy Commissions pooling charges	1,927,553	1,383,368
Transportation	1,223,995	1,295,190
Dairy Farmers of Canada promotion levy	136,543	161,081
Special Milk Treatment	81,863	119,381
	\$17,220,524	\$15,454,589
Direct expenditures		
Industrial milk	\$13,850,571	\$12,495,569
Canadian Dairy Commissions pooling charges	1,927,552	1,383,368
Transportation	1,223,995	1,295,190
Dairy Farmers of Canada promotion levy	136,543	161,081
Special Milk Treatment	81,863	119,381
	\$17,220,524	\$15,454,589

7. Other income

	2016	2015
Interest income	\$ 2,295	\$ 2,286
Other income	2,425	955
	\$ 4,720	\$ 3,241

Dairy Farmers of Newfoundland and Labrador
NOTES TO FINANCIAL STATEMENTS
For the year ended July 31, 2016

8. Special projects income

The Board received Government funding for the following projects:

	2016	2015
Land Development Initiative	\$ 750,000	\$ 750,000
Industry Study	-	50,212
Cow Signals Training	-	17,023
EastGen 4H Showcase	1,791	4,601
Review of second, processing	34,140	-
Food Safety, Biosecurity	62,668	-
Dairy Focus 2016	3,000	-
Atlantic Healthy Herds	2,041	-
Host Seminar Valacta	3,229	-
Holland Trip Sand Separator System	40,331	-
	\$ 897,200	\$ 821,836

9. Special project costs

	2016	2015
Land Development Initiative	\$ 750,000	\$ 750,464
Industry Study	-	50,468
Cow Signals Training	-	17,630
EastGen 4H Showcase	1,791	4,601
Review of Secondary Processing	70,200	26,000
Food Safety, Biosecurity	71,791	-
Dairy Focus 2016	3,000	-
Atlantic Healthy Herds	3,673	-
Host Seminar Valacta	3,229	-
Holland Trip Sand Separator System	38,597	-
National cost of production study	3,713	3,580
	\$ 945,994	\$ 852,743

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.

Dairy Farmers of Newfoundland and Labrador
NOTES TO FINANCIAL STATEMENTS
For the year ended July 31, 2016

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

12. 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.

13. Comparative figures

Comparative figures may have been restated to reflect the financial statement presentation adopted for 2016.

Dairy Farmers of Newfoundland and Labrador

SCHEDULE OF OPERATING EXPENSES For the year ended July 31, 2016

	Budget	2016	2015
Advertising	\$ 7,500	\$ 3,444	\$ 7,463
Board annual and semi-annual meetings	22,500	14,305	10,835
Capital expenditures	2,500	1,109	3,193
Conference and meetings	35,000	37,669	30,143
CDC audit fees	9,500	20,000	9,500
Contract wages	-	7,182	-
DFC membership and Balance Co.	17,500	16,634	15,934
Donations, dues and subscriptions	4,000	5,034	1,573
Equipment leasing	4,500	2,774	4,181
Insurance	2,500	2,043	2,040
Interest and bank charges	3,000	2,115	3,017
Milk testing	6,000	3,255	5,068
Miscellaneous	3,000	166	1,331
Office supplies, postage and phone	15,000	16,851	12,851
Per diems and honorarium	40,000	46,191	35,710
Professional fees	18,000	13,538	10,779
Research	10,000	10,000	10,000
Repairs and maintenance			2,114
Rent and utilities	20,000	18,797	21,074
Travel	70,000	79,655	65,629
Wages and benefits	250,000	248,530	351,378
	\$ 540,500	\$ 549,292	\$ 563,813

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