

**Dairy Farmers of Newfoundland and Labrador**

**Financial Statements**

July 31, 2017

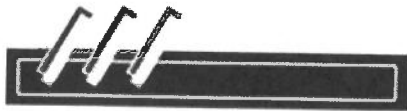
# **Dairy Farmers of Newfoundland and Labrador**

## **Financial Statements**

July 31, 2017

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

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

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**INDEPENDENT AUDITORS' REPORT**

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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, 2017 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, 2017 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 Hetu*  
**Bussey Porter Héту**  
**Chartered Professional Accountants**

St. John's, Newfoundland  
November 20, 2017

**Dairy Farmers of Newfoundland and Labrador**  
**Statement of operations**  
**For the year ended July 31, 2017**

	<b>Budget</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>			
Board levies	\$ 1,200,000	\$ 1,176,976	\$ 1,191,600
New entrants levy	104,756	105,471	75,956
Administration	-	2,360	-
ProAction income	-	750	-
Other income (Note 5)	1,000	15,474	4,720
	<b>1,305,756</b>	<b>1,301,031</b>	<b>1,272,276</b>
<b>Operating expenditures</b>			
Advertising	\$ 7,500	\$ 549	\$ 3,444
Board annual and semi-annual meetings	20,000	17,387	14,305
Capital expenditures	7,000	6,262	1,109
Conference and meetings	42,500	42,607	37,669
CDC audit fees	10,000	10,000	20,000
Computer handheld's	-	5,867	-
Contract wages	15,000	2,534	7,182
DFC membership and Balance Co.	17,500	17,193	16,634
Donations, dues and subscriptions	5,500	3,140	5,034
Equipment leasing	4,500	3,102	2,774
Insurance	2,500	2,002	2,043
Interest and bank charges	3,200	2,358	2,115
Milk testing	20,000	4,061	3,255
Miscellaneous	3,000	394	166
Office supplies, postage and phone	20,000	16,998	16,851
Per diems and honorarium	55,000	42,505	46,191
Professional fees	25,000	28,755	13,538
Research	10,000	10,000	10,000
Rent and utilities	20,000	18,788	18,797
Travel	90,000	74,981	79,655
Wages and benefits	250,000	246,254	248,530
ProAction	-	750	-
	<b>\$ 628,200</b>	<b>\$ 556,487</b>	<b>\$ 549,292</b>
<b>Excess of revenue over expenditures</b>	<b>677,556</b>	<b>744,544</b>	<b>722,984</b>
<b>Other income (expenses)</b>			
Loss on disposal of assets	-	(1,492)	-
Milk income in excess of milk expenses (Schedule 1)	-	(717,059)	313,363
Special project income (Note 6)	-	908,556	897,200
Special project expenses (Note 7)	-	(909,740)	(945,994)
Fluid Milk Dairy Farmers of Canada promotion levy	150,000	(142,135)	(145,806)
Top up program	-	-	(41,760)
Federation of Agriculture	22,500	(22,500)	(22,500)
School Milk Foundation	339,665	(339,665)	(339,665)
	<b>512,165</b>	<b>(1,224,035)</b>	<b>(285,162)</b>
<b>Excess of revenue over expenditures (expenditures over revenue)</b>	<b>\$ 165,391</b>	<b>\$ (479,491)</b>	<b>\$ 437,822</b>

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



**Dairy Farmers of Newfoundland and Labrador**  
**Statement of changes in net assets**  
**For the year ended July 31, 2017**

	<b>2017</b>	<b>2016</b>
Net assets, beginning of year	\$ 2,159,872	\$ 1,722,050
Excess of revenue over expenditures	(479,491)	437,822
Net assets, end of year	\$ 1,680,381	\$ 2,159,872

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

**Dairy Farmers of Newfoundland and Labrador**  
**Statement of Financial Position**  
**As at July 31, 2017**

	2017	2016
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 1)	\$ 1,541,396	\$ 837,076
Guaranteed investment certificates (Note 1)	1,014,953	1,250,000
Accounts receivable	2,360,290	3,398,811
HST Receivable	40,568	8,004
Prepaid expenses and deposits	36,357	18,065
	4,993,564	5,511,956
Capital assets (Note 2)	8,264	5,231
	\$ 5,001,828	\$ 5,517,187
<b>LIABILITIES</b>		
Current		
Payables and accruals	\$ 3,203,901	\$ 3,220,259
Accrued severance pay	39,922	36,786
Accrued sick leave (Note 3)	69,360	95,039
	3,313,183	3,352,084
<b>NET ASSETS</b>		
Net assets	1,680,381	2,159,872
Investment in capital assets (Note 4)	8,264	5,231
	1,688,645	2,165,103
	\$ 5,001,828	\$ 5,517,187

On behalf of the Board  
  
 \_\_\_\_\_ Director  
  
 \_\_\_\_\_ Date  
 November 20, 2017

*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, 2017**

	2017	2016
Cash flows from operating activities		
Excess of revenue over expenditures (expenditures over revenue)	\$ (479,491)	\$ 437,822
Items not requiring an outlay of cash:		
Capital expenditures	7,755	1,109
	(471,736)	438,931
Changes in non-cash working capital:		
Receivables	1,056,703	(202,209)
Prepaid expenses	(18,292)	9,790
Payables and accruals	(92,783)	320,534
Accrued severance pay	3,136	1,651
	477,028	568,697
Cash flows used in investing activities		
Purchase of property, plant, and equipment	(7,755)	(1,109)
	(7,755)	(1,109)
Increase in cash and cash equivalents	469,273	567,588
Cash and cash equivalents, beginning of year	2,087,076	1,519,488
Cash and cash equivalents, end of year	\$ 2,556,349	\$ 2,087,076
Cash and cash equivalents consist of:		
Cash	\$ 1,541,396	\$ 837,076
Short term investments	1,014,953	1,250,000
	\$ 2,556,349	\$ 2,087,076

*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, 2017**

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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.

#### **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 three 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, 2017, there was a balance of \$nil (2016 - \$nil) outstanding on the line of credit.

#### **Guaranteed investment certificates**

Two guaranteed investment certificates are held with a combined fair market value of \$1,014,953 (cost = \$1,010,980). Both are flexible for one year, with an interest rate of 0.95% and a maturity date of March 1, 2018.

#### **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.



# Dairy Farmers of Newfoundland and Labrador

## Notes to Financial Statements

For the year ended July 31, 2017

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### 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.

### 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.

### 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.

### Financial instruments

#### *Measurement of financial instruments*

The organization initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The entity subsequently measures all its financial assets and financial liabilities at amortized cost. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash, accounts receivable, HST receivable, due from shareholder and due from a related party. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, corporate taxes payable and long term debt.

#### *Impairment*

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided that it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

# Dairy Farmers of Newfoundland and Labrador

## Notes to Financial Statements

For the year ended July 31, 2017

### *Transaction costs*

The organization recognized its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their organization, issuance or assumption.

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.

## 2. Capital assets

	Rate	Cost	Accumulated Amortization	Net Book Value 2017	2016
Computer equipment	45%	\$ 18,063	\$ 11,874	\$ 6,190	\$ 1,234
Furniture and equipment	20%	40,150	38,075	2,074	3,997
		\$ 58,213	\$ 49,949	\$ 8,264	\$ 5,231

During the year the organization purchased assets at a cost of \$7,755. Management has also recognized obsolete, inactive assets. These assets had a net book value of \$1,492 which has been recognized as a loss on disposal of assets on the statement of operations.

## 3. 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 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 \$63,360 will be paid in bi-weekly payments of \$1,200.

## 4. Investment in capital assets

	2017	2016
Balance, beginning of year	\$ 5,231	\$ 5,826
Capital expenditures	7,755	1,109
Capital adjustments/disposals	(1,493)	-
Depreciation	(3,229)	(1,704)
	\$ 8,264	\$ 5,231

**Dairy Farmers of Newfoundland and Labrador**  
**Notes to Financial Statements**  
**For the year ended July 31, 2017**

**5. Other income**

	<b>2017</b>	<b>2016</b>
Interest income	\$ 14,954	\$ 2,295
Other income	520	-
	<b>\$ 15,474</b>	<b>\$ 2,295</b>

**6. Special projects income**

The Board received Government funding for the following projects:

	<b>2017</b>	<b>2016</b>
Land Development Initiative	\$ 750,000	\$ 750,000
EastGen 4H Showcase	-	1,791
Review of secondary processing	132,525	34,140
Review of secondary processing, second stage	11,700	-
Food Safety, Biosecurity	-	62,668
Dairy Focus 2016	-	3,000
Atlantic Healthy Herds	14,065	2,041
Host Seminar Valacta	-	3,229
Holland Trip Sand Separator System	(1,734)	40,331
Cow Health	2,000	-
	<b>\$ 908,556</b>	<b>\$ 897,200</b>

Land Development Initiative

Funding was provided to the organization for Land Development Initiative that provided funding to the province's dairy producers to complete large scale land development projects. The projects intent was to increase forage production in the Province and reduce reliance on imported livestock feeds while also ensuring the stipulated project targets are met. The total approved funding for this project was \$750,000, all of which was received in the current year.

Review of secondary processing

Funding was provided to the organization to facilitate the establishment of additional secondary processing in the province. The project is supported by the Business Development Initiative to research and analyze opportunities in the NL dairy processing sector and develop prospective package to attract new processors. This project is to enable the dairy sector to develop a strategy for the development and establishment of secondary processing facilities to utilize industrial milk produced in the province. The total approved funding for this project was \$178,365 all of which has been received or receivable as at the balance sheet date.

# Dairy Farmers of Newfoundland and Labrador

## Notes to Financial Statements

For the year ended July 31, 2017

### Atlantic Healthy Herds

Funding was provided to the organization to improve management practices on Atlantic Canadian dairy farms to cause a sustained decrease in the prevalence and incidence of diseases in dairy cattle in the region. The focus was on herd-level disease screening and identification management procedures that increase the probability of the target conditions. The total approved funding for this project is \$20,188 of which \$16,106 (2017-\$14,065; 2016-\$2,041) has been received as at the balance sheet date.

### Cow Health

Funding was provided to the organization to deliver a training session on cow health topics, including udder health and transition cow management. The total approved funding for this project was \$2,000, all of which was received as at the balance sheet date.

## 7. Special project costs

	2017	2016
Land Development Initiative	\$ 750,000	\$ 750,000
EastGen 4H Showcase	-	1,791
Review of Secondary Processing	42,427	70,200
Review of Secondary Processing, second stage	90,031	-
Food Safety, Biosecurity	-	71,791
Dairy Focus 2016	-	3,000
Atlantic Healthy Herds	21,151	3,673
Host Seminar Valacta	-	3,229
Holland Trip Sand Separator System	-	38,597
National cost of production study	4,131	3,713
Cow Health	2,000	-
	\$ 909,740	\$ 945,994

## 8. 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.

## 9. 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, 2017, the Board has complied with all imposed capital restrictions.

**Dairy Farmers of Newfoundland and Labrador**  
**Notes to Financial Statements**  
**For the year ended July 31, 2017**

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**10. Comparative figures**

Comparative figures may have been restated to reflect the financial statement presentation adopted for 2017.

(Schedule 1)

**Dairy Farmers of Newfoundland and Labrador**  
**Schedule of Milk Income and Expenditures**  
**For the year ended July 31, 2017**

	<b>Budget</b>	<b>2017</b>	<b>2016</b>
<b>INCOME</b>			
Milk income	\$ -	\$ 41,253,474	\$ 13,850,570
Milk transportation	-	2,850,170	1,223,995
Dumped milk	-	81,302	81,863
CDC special class pooling		1,009,688	1,927,553
DFC levy industrial milk		142,466	136,543
		45,337,100	17,220,524
P5 fluid milk income	1,560,000	1,469,413	985,446
		\$ 46,806,513	\$ 18,205,970
<b>EXPENDITURES</b>			
Milk expenses		41,253,474	13,850,570
Milk transportation		2,850,170	1,223,995
Dumped milk		81,302	81,863
CDC special class pooling		1,009,688	1,927,553
DFC levy industrial milk		142,466	136,543
		\$ 45,337,100	\$ 17,220,524
P5 fluid milk expense		2,186,472	672,083
		\$ 47,523,572	\$ 17,892,607
Net milk income in excess of milk expenses		\$ (717,059)	\$ 313,363

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