

**Dairy Farmers of Newfoundland
and Labrador**
Financial Statements
July 31, 2022

Dairy Farmers of Newfoundland and Labrador

July 31, 2022

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Independent Auditors' Report

To the Members
Dairy Farmers of Newfoundland and Labrador

Opinion

We have audited the financial statements of Dairy Farmers of Newfoundland and Labrador, which comprise the statement of financial position as at July 31, 2022 and the statements of operations, net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Dairy Farmers of Newfoundland and Labrador as at July 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Board standards PS 4200 - government not for profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted accounting standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The comparative figures were audited by another Chartered Professional Accountant and an unqualified audit opinion was issued on November 23, 2021.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Public Sector Accounting Board standards PS 4200 - government not for profit organizations, 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.

In preparing these financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to a 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 to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 our 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions 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.

We 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 we identify during our audit.



Chartered Professional Accountants

Paradise, Newfoundland and Labrador
October 25, 2022

Dairy Farmers of Newfoundland and Labrador

Statement of Financial Position

July 31, 2022

	2022	2021
Assets		
Current Assets		
Cash (Note 2)	\$ 2,933,875	\$ 2,869,075
Accounts receivable	2,449,881	2,246,525
Note receivable (Note 3)	15,000	15,000
Harmonized sales tax receivable	4,850	5,518
Prepays	103,903	65,182
	5,507,509	5,201,300
Property and equipment (Note 4)	60,503	27,909
	\$ 5,568,012	\$ 5,229,209
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities (Note 5)	\$ 2,986,288	\$ 2,541,544
Deferred revenue (Note 6)	117,819	6,524
	3,104,107	2,548,068
Accrued severance (Note 7)	55,159	51,610
Deferred government grant (Note 8)	32,483	-
	3,191,749	2,599,678
Net Assets		
Unrestricted net assets	2,376,263	2,629,531
	\$ 5,568,012	\$ 5,229,209

Commitments (Note 16)

Approved on Behalf of the Board:

Lee Noel, Chairperson

Craig Lester, Vice-chairperson

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

Dairy Farmers of Newfoundland and Labrador

Statement of Operations

For the Year Ended July 31, 2022

	2022	2021	Budget
Revenue (Note 10)	\$ 1,256,737	\$ 1,415,673	\$ 1,125,000
Operating expenses			
Salaries and benefits	204,468	201,056	206,000
Professional fees	86,420	20,223	45,000
Per diem and honorarium	55,650	31,590	40,000
Milk testing	42,368	36,056	35,000
Travel	24,801	1,451	20,000
Conference and meetings	20,945	6,177	10,000
Office supplies, postage and phone	20,432	19,492	19,500
Contract wages	19,317	13,192	14,000
Depreciation	18,848	13,480	-
Rent and utilities	18,684	17,459	19,000
Computer handheld devices	18,118	4,989	11,250
Research	10,000	10,000	10,000
Donations, dues and subscriptions	9,837	2,933	2,500
Insurance	6,070	3,848	4,000
Board annual and semi-annual meetings	3,654	3,716	15,000
Equipment leasing	2,342	2,723	2,800
Interest and bank charges	1,519	3,197	3,000
Advertising	865	500	4,500
ProAction	250	-	-
Miscellaneous	224	650	1,500
CDC audit fees	-	10,000	10,000
Capital expenditures	-	-	3,000
	564,812	402,732	476,050
Other income (expenditures)			
School Milk Foundation	(339,665)	(339,665)	(339,665)
Dairy Farmers of Canada	(325,257)	(362,304)	(370,000)
Special projects (Note 12)	(280,271)	(24,394)	(30,000)
Federation of Agriculture	-	(24,375)	-
New entrant quota repurchase (Note 13)	-	(447,829)	-
Secondary processing (Note 14)	-	-	-
	(945,193)	(1,198,567)	(739,665)
Excess of expenditures over revenue	\$ (253,268)	\$ (185,626)	\$ (90,715)

The accompanying notes are 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, 2022

	2022	2021
Net assets, beginning of year before restatement	\$ 2,629,531	\$ 2,776,107
Transfer of investment in capital assets (Note 9)	-	39,050
Nets assets, beginning of year as restated	2,629,531	2,815,157
Excess of expenditures over revenue	(253,268)	(185,626)
Net assets, end of year	\$ 2,376,263	\$ 2,629,531

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

Dairy Farmers of Newfoundland and Labrador

Statement of Cash Flows

For the Year Ended July 31, 2022

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of expenditures over revenue	\$ (253,268)	\$ (185,626)
Depreciation	18,848	13,480
Changes in non-cash working capital balances		
Accounts receivable	(203,356)	(288,052)
Harmonized sales tax receivable	668	(1,681)
Prepays	(38,721)	(11,304)
Accounts payable and accrued liabilities	444,744	(6,359)
Accrued severance	3,549	4,640
Deferred revenue	111,295	(42,219)
Deferred government grant	32,483	-
	116,242	(517,121)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(51,442)	(2,339)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long term debt	-	(40,000)
Net increase (decrease) in cash	64,800	(559,460)
Cash, beginning of year	2,869,075	3,428,535
Cash, end of year	\$ 2,933,875	\$ 2,869,075

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

Dairy Farmers of Newfoundland and Labrador

Notes to the Financial Statements

For the Year Ended July 31, 2022

1. Significant Accounting Policies

Nature of organization and basis of accounting

Dairy Farmers of Newfoundland and Labrador is a Commodity Board under the Natural Products Marketing Act of Newfoundland and Labrador. The organization's principal activities are to provide services to and facilitate the purchase and resale of milk on behalf of the dairy farmers of Newfoundland and Labrador. As a not for profit enterprise, the organization is exempt for income taxes under section 149(l) of the Income Tax Act of Canada.

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Board standards PS 4200 - government not for profit organizations.

Property and equipment

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is provided for using the declining balance and straight line methods over the estimated useful lives as follows for the major classes of assets:

Computer equipment	45%
Software and website	5 years
Furniture and equipment	20%

Impairment of long lived assets

In the event that facts and circumstances indicate that the organization's long-lived assets may be impaired, an evaluation of recoverability would be performed. Such an evaluation entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required. The organization considers that no circumstances exist that would require such an evaluation.

Deferred revenue

Contributions for specific projects are recognized as related expenses are incurred and any unapplied portion is included in deferred revenue.

Revenue recognition

Market share quota revenue including fluid and industrial milk, pooling charges, transportation and levies is recognized when milk is shipped from producers for processing.

Government funding for specific projects is recognized when received.

Dairy Farmers of Newfoundland and Labrador

Notes to the Financial Statements

For the Year Ended July 31, 2022

1. Significant Accounting Policies continued

Financial instruments

The organization has determined that the estimated fair value of the financial assets and liabilities do not differ considerably from their book value.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for public sector enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The organization uses estimates with respect to the collectibility of accounts receivable and the estimated useful lives of property and equipment. Actual results could differ from those estimates and may have impact on future periods.

2. Cash

Under a banking agreement with the Bank of Montreal interest is paid on cash balances held on account at Prime minus 1.7%. Dairy Farmers of Newfoundland and Labrador also maintains an approved line of credit of \$600,000 at an interest rate of Prime. As security the organization has provided a general security agreement with an interest in all movable assets and first charge on accounts receivable and property and equipment. As at July 31, 2022 the balance on the line of credit was \$nil (2021 - \$nil).

3. Note receivable

The Real Dairy Company of Newfoundland Ltd. was established under agreement with the Dairy Farmers of Newfoundland and Labrador to promote secondary processing of milk products. To date, the company receives 100% of its' funding from the organization and the advance was provided to fund working capital for the start up of the project. The note is non-interest bearing and is due December 31, 2022.

4. Property and equipment

	Cost	Accumulated Depreciation	2022 Net Book Value	2021 Net Book Value
Computer equipment	\$ 25,855	\$ 22,918	\$ 2,937	\$ 2,041
Software and website	60,992	48,793	12,199	24,398
Furniture and equipment	40,838	39,662	1,176	1,470
Transportable milk samplers	49,101	4,910	44,191	-
	\$ 176,786	\$ 116,283	\$ 60,503	\$ 27,909

Dairy Farmers of Newfoundland and Labrador

Notes to the Financial Statements

For the Year Ended July 31, 2022

5. Accounts payable and accrued liabilities

	2022	2021
Trade accounts payable and accrued liabilities	\$ 2,949,581	\$ 2,505,526
School Milk Foundation	30,895	30,807
Employee deductions	5,812	5,211
	<u>\$ 2,986,288</u>	<u>\$ 2,541,544</u>

6. Deferred revenue

	2022	2021
Real Dairy Company of Newfoundland Ltd.	\$ 29,536	\$ 6,524
Transportation division	88,283	-
	<u>\$ 117,819</u>	<u>\$ 6,524</u>

7. Accrued severance

Dairy Farmers of Newfoundland and Labrador employee contracts include severance payable based on years of service and current salary levels. The right to severance vests with employees with five years of continuous service, and accordingly no provision has been made in the accounts for potential severance that has not vested. The amounts are payable when eligible employees cease employment with the organization.

8. Deferred government grant

Government of Newfoundland and Labrador grant to assist in the purchase of transportable milk samplers is being amortized on the same basis as the related assets.

9. Transfer of investment in capital assets

During the year the organization retroactively adopted the Public Service Accounting Board policy to recognize depreciation expense in the statement of operations. To facilitate the change, net investment in capital assets has been reclassified and included with net assets. The application of these changes has resulted in an increase of \$13,480 in prior years' excess of expenditures over revenue and opening net assets have increased by \$39,050.

Dairy Farmers of Newfoundland and Labrador

Notes to the Financial Statements

For the Year Ended July 31, 2022

10. Revenue

	2022	2021	Budget
Board levies	\$ 1,158,890	\$ 1,157,154	\$ 1,100,000
New entrants (Note 11)	60,480	206,540	-
Interest	32,373	24,263	25,000
Amortization of deferred government grant	3,609	-	-
Administration	1,385	3,195	-
Government loan forgiveness	-	20,000	-
Milk quality penalty	-	4,521	-
	\$ 1,256,737	\$ 1,415,673	\$ 1,125,000

11. New entrants levy

Dairy Farmers of Newfoundland and Labrador has entered into agreements under varied terms with select producers acquiring quota and entering the market. Revenue of \$60,480 (2021 - \$206,540) related to these agreements was recorded during the year.

12. Special projects

	2022	2021
Revenues		
2% More milk campaign	\$ 154,022	\$ 60,890
Milk marketing campaign	-	36,000
	154,022	96,890
Expenditures		
2% More milk campaign	269,422	60,890
Dairy project	116,550	-
Tank calibration	23,909	-
DFNL - Agropur No Bull partnership	20,000	20,000
National cost of production study	4,412	4,394
Milk marketing campaign	-	36,000
	434,293	121,284
	\$ (280,271)	\$ (24,394)

Dairy Farmers of Newfoundland and Labrador

Notes to the Financial Statements

For the Year Ended July 31, 2022

13. New entrant quota repurchase

In the prior year, the organization exercised its right to repurchase milk quota from a new entrant exiting the industry. Under the terms of the contract the quota could be repurchased for the lessor of the purchase price paid to the Dairy Farmers of Newfoundland and Labrador and the fair market value. The exercise price of \$447,829 was the amount originally paid by the new entrant.

14. Secondary processing

	2022	2021
Revenue		
Real Dairy Company of Newfoundland Ltd. allocation	\$ 102,988	\$ 118,749
Expenditures		
Real Dairy Company of Newfoundland Ltd.	102,988	118,749
	\$ -	\$ -

15. Risk management

Credit risk

The organization does not face significant credit risk exposure. The fair values of items that meet the definition of financial instruments approximate their carrying values. These items include accounts receivable and notes receivable

Liquidity risk

Liquidity risk is the risk that the organization may not have cash available to satisfy financial liabilities as they come due. In addition to available cash on hand, the organization maintains a committed credit facility to ensure that it has sufficient funds to meet current and foreseeable future financial requirements at a reasonable cost.

16. Commitments

The Dairy Farmers of Newfoundland and Labrador has a commitments for the lease of office space and equipment. The organization's share of the annual lease agreement is \$15,908 and expires May 17, 2025.

Dairy Farmers of Newfoundland and Labrador

Notes to the Financial Statements

For the Year Ended July 31, 2022

17. COVID-19

On March 11, 2020, the World Health Organization assessed the coronavirus outbreak (COVID-19) as a pandemic. The outbreak has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The extent to which COVID-19 impacts the future financial results of Dairy Farmers of Newfoundland and Labrador will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and actions taken to contain the virus or its impact, among others.

18. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted during the year.

Dairy Farmers of Newfoundland and Labrador

Schedule of Milk Revenue and Expenditures

For the Year Ended July 31, 2022

	2022	2021
Revenues		
Milk income	\$ 50,080,959	\$ 49,371,159
Milk transportation	3,963,513	3,574,057
CDC special class pooling	1,145,721	1,383,203
	\$ 55,190,193	\$ 54,328,419
Expenditures		
Milk expenses	\$ 50,080,959	\$ 49,371,159
Milk transportation	3,963,513	3,574,057
CDC special class pooling	1,145,721	1,383,203
	\$ 55,190,193	\$ 54,328,419
Excess of revenue over expenditures	\$ -	\$ -