

Livestock Financial Protection Board
2018-19 Annual Report

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Message from Chair

As the Chair, on behalf of the Livestock Financial Protection Board (LFPB or Board), I am pleased to present to you the Annual Report describing the work for the year ending March 31, 2019.

As a Board, we continue to focus on administering the Fund for Livestock Producers (Fund); investigating claims; granting or refusing the payment of all claims and recovering any money to which the Board is entitled. As Fund administrator, one of our goals is to ensure long-term sustainability of the Fund. Once again, the Fund's investment strategy performed well and helped the Fund maintain both a healthy and stable funding ratio.

The following are some highlights for the 2018/19 fiscal:

- The Fund remained actuarially sound with a balance of \$7.88 million (\$2.58 million above the actuarial target of \$5.30 million)
- Investment income of \$261,664
- Rate of return on investment of 3.65%
- Three board members were re-appointed and one new board member appointed.
- Transition from previous vendor to Agricornp for the delivery of the Ontario Beef Cattle Financial Protection Program (OBCFPP or Program) and Governance, Secretariat and Financial services to the LFPB.

In the 2018/19, two claim applications were submitted to the Board regarding non-payment from a licensed dealer. The Board reviewed and discussed the claims presented and decision letters were sent to the claimants (seller) and defaulters (buyer). (See Appendix 1 for more details).

Looking forward, the Board will continue to focus on ensuring the sustainability of the Funds and integrity of the program as we continue to meet our mandate.

Respectfully submitted,



Larry Witzel

Chair, Livestock Financial Protection Board

Governance

The Livestock Financial Protection Board (LFPB or Board) is classified as a Board-Governed Provincial Agency (Trust) under the Agencies & Appointments Directive (AAD).

The Board operates at arm's length from the Government but is accountable to the Government in exercising its mandate. The Board members are accountable to the Minister of Agriculture, Food and Rural Affairs (the Minister), through the Chair, for setting goals, objectives, and the strategic direction for the Board. It operates under the authority of the Farm Products Payments Act (FPPA) and in accordance with the Memorandum of Understanding (MOU) between the Minister and the Chair.

The LFPB administers the fund, investigates and adjudicates all claims under the program, collects fees for the program and recovers any money it is entitled under the Act.

Memorandum of Understanding (MOU)

A memorandum of understanding (MOU) reflects the relationship between the Board and Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA or Ministry) and establishes the accountability framework between the Minister and the Chair. The MOU outlines the responsibilities between the Minister, the Chair, the Deputy Minister and the Board of Directors as well the administrative, financial, and auditing arrangements with OMAFRA.

With respect to the MOU under the AAD, in normal course of a change in Minister or Chair, MOU's must be updated as necessary and signed by the parties within 180 days. A six-month extension was provided to this required timeline for renewing or affirming the MOU, extending this requirement to June 2019. The Chair and the Minister have signed the appropriate documentation, effective July 24, 2019, affirming to the continued use of the existing MOU (that was effective June 5, 2017).

Board of directors

Mandate of Board

The Board is responsible to the Minister and is constituted under the authority of the FPPA and its regulations:

- *Ontario Regulation 560/93 – Fund for Livestock Producers*
- *Ontario Regulation 321/11 - Fees Payable to Boards*

The Board's legislative mandate is outlined in section 4(1) of the FPPA as follows:

It is the function of a board and it has power,

- a) to administer its fund;*
- b) to investigate all claims made to it under the FPPA and to determine the extent of their validity;*
- c) to grant or refuse the payment of all claims or any part thereof and determine the amounts and manner of payment; and*
- d) to recover any money to which it is entitled under the FPPA by suit in a court of competent jurisdiction or otherwise.*

Ontario Beef Cattle Financial Protection Program

The Program was established in 1982 through provincial legislation and regulation (*Livestock and Livestock Products Act*; *Regulation 725*; *FPPA*; *Ontario Regulations 560/93 and 321/11*) to provide protection to cattle sellers¹ in the event that a buyer (packing plant operators, abattoir operators, auction market operators, country dealers and cooperatives) defaults on a payment.²

The Program has two components which are:

1. The annual licensing of dealers under the *Livestock and Livestock Products Act* (LLPA), and
2. The administration of the compensation fund established under the FPPA. The Board is responsible for the administration of the Fund. All income in the Fund comes from remittance fees and investment income.

There are approximately 160 licenses issued to dealers (livestock abattoirs, associations, auction markets, country dealers, and packing plants) each year as part of the Program.

The Program provides protection for producers and for licensed dealers.

Board structure

Section 4(1) of O. Reg. 560/93 requires that the LFPB be composed of at least five members consisting of one member each from Beef Farmers of Ontario (BFO), Canadian Meat Council (CMC) and the operators of community sales under the *Livestock Community Sales Act*, together with such other members as the Minister considers advisable. Members of the Board are appointed by the Minister for terms up to three years and may be reappointed. The regulation also requires the Minister to appoint a Chair and a Vice Chair from among its members.

¹ Sellers include both producers and licensed dealers. Dealers licensed under the *Livestock and Livestock Products Act* who sell livestock are designated as producers for the purposes of clause (d) of the definition of "producer" in section 1 of the Act, but the designation is only in respect of sales of livestock by the dealers to: (a) other dealers licensed under the *Livestock and Livestock Products Act*; or (b) other producers.

² The buyer could also be a producer, where the claimant is a licensed dealer.

These individuals, in addition to administering the Fund, draw upon their expertise in the livestock industry in hearing and adjudicating cases before them. The Board may also call upon technical experts and professionals to provide assistance.

Five members of the Board constitute a quorum for transacting the Board's business. The Board is made up of industry representatives from a wide range of livestock industry sectors. This broad industry knowledge is important in understanding the clientele and the claim files.

In 2018/19, three board members were re-appointed including the Chair and Vice-chair and one new board member was appointed. As of March 31, 2019, there are six Board members, which includes the Chair and Vice Chair. The table below shows the names of members for fiscal 2018/19 and the term of their appointments.

Board membership (as of March 31, 2019)

No.	Position	Member	Term	Location
1.	CHAIR (PART-TIME)	LARRY WITZEL	17-Apr-2007 - 31-Mar-2022 (Chair since 17-Apr-2017)	TAVISTOCK
2.	VICE-CHAIR (PART-TIME)	PAUL SHARPE	02-Dec-2017 – 28-Feb-2022 (Vice-Chair since 02-Dec-2015)	GUELPH
3.	MEMBER (PART-TIME)	MURRAY ALLEN	05-Sept-2008 - 28-Jan-2021	ALFRED
4.	MEMBER (PART-TIME)	LAURIE NICOL	20-Apr-2018 - 31-Mar-2021	GUELPH
5.	MEMBER (PART-TIME)	JENNIFER HALEY	06-Oct-2008 - 05-Oct-2021	ST. GEORGE
6.	MEMBER (PART-TIME)	HOWARD GREIG	06-Mar-2019 – 05-Mar-2022	OWEN SOUND

Board Staff

The Board does not have staff, but rather has agreement with Agricorp and OMAFRA for the delivery of the Program and support to the Board. A transition of services from the previous vendor to Agricorp to assist with the ministry with the delivery of the Program and for governance, secretariat and financial services for the LFPB occurred in December 2018.

Transition from previous vendor to Agricorp

Since 2015/16, Ontario Beef Cattle Financial Protection Program Inc. (Beef Inc.) had provided the Ministry with assistance in administering the licensing component of the Program and provided the Board with fund investment and administrative and adjudication support.

In May 2018, the Chair of Beef Inc. informed OMAFRA in writing that the organization would not extend its services to OMAFRA and the Board beyond its current service agreement, expiring December 31, 2018. The letter contains a recommendation that Agricorp become the delivery agent for the Program. The BFO also provided OMAFRA with a letter supporting the recommendation of Beef Inc.

Agricorp provided the Ministry with a delivery plan that was approved by the Minister in December 2018 to the transfer of delivery of the OBCFPP to Agricorp. The transition was communicated publically, with stakeholders including information on Agricorp's website.

Agricorp's proposal outlined a phased approach to transition the Program. For the interim delivery phase (approximately 12-18 months), OMAFRA's Director in Animal Health and Welfare Branch is remaining the Program Director with authority for licensing. Agricorp is assisting with the licensing components for determining financial responsibility of dealers based on a financial assessment. Both parties are collaborating on processes during this interim phase.

As part of the transition from the previous vendor to Agricornp, the LFPB formed a transition committee that consisted of the Chair, Vice-Chair and a board member to work with OMAFRA and Agricornp on transition.

At the February 5th LFPB meeting, Agricornp finance staff provided an update and recommendations on financial services and activities that Agricornp can provide to the Board. These activities were supported by the Board and will be outlined in a service agreement between Agricornp and the LFPB for secretariat, governance and financial services.

The LFPB authorized Agricornp to act as the investment manager for the LFPB Fund. As investment managers of the Fund, Agricornp finance staff investigate investment options and prepare formal proposals and recommendations for the Board's consideration. Proposals are made considering the Board's current investment policy and the direction as outlined in the MOU. The LFPB directs Agricornp Finance staff to execute investment decisions.

Agricornp is currently providing secretariat support to the Board for adjudicating claims, which includes coordination, attendance and preparing draft documents. Other services include assisting the Board in preparing its annual report, business plan and other documentation required for compliance with the MOU and the Agencies & Appointments Directive.

Legal services and inspection services

Legal services to the Board are provided by the Ministry of the Attorney General through the Ministry of Agriculture, Food & Rural Affairs Legal Services Branch. The lawyer assigned to the Board provides the Board with advice, opinions, and other legal assistance in judicial reviews, claim adjudication and recovering monies owed to the Board, and also contributes to the continuing education of Board members.

The Ministry's Regulatory Compliance Unit in OMAFRA provides the Board with investigative services.

Operational performance and activities

The Board's activities are geared towards fulfilling its mandate. There were three Board meetings in the 2018/19 fiscal year (two meetings held in-person and one held via conference call).

Administer the Fund for Livestock Producers

The key activity of the Board is to administer the Fund including oversight and management of the Fund's investments to ensure financial compensation is available for livestock producers when required.

All money to which the Board is entitled is paid into the Fund. Contribution to the Fund is based on a fixed rate per head of livestock in a transaction. Under *O. Reg. 321/11 - Fees Payable to Boards*, a fee of ten cents per head of cattle sold is payable to the Board, unless the sale is on consignment, in which case the ten cent fee is owed by each of the consignee and consignor.

Fees are self-reported and remitted by the buying dealer on behalf of the producer when the sale is made directly by a producer, by the selling dealer when the sale is by a dealer, and by the consignee on behalf of the consignor and on their own behalf, where the sale is on consignment. Fees are payable on or before the 15th day of the month following the month of sale unless less than 1,000 head are sold or purchased annually, in which case the fee is payable annually.

The Fund is used to:

1. Provide compensation to qualified sellers in the event that certain buyers default on payment.
2. Offset the cost of determining financial responsibility of dealers as part of the licensing component of the Program.
3. Pay Board expenses (other than for the remuneration of those of its employees who are public servants employed under Part III of the *Public Service of Ontario Act, 2006*).³
4. Pay for professional, technical or other assistance to or on behalf of the Board.

A claim may be made if a seller hasn't been paid according to the timelines in the regulations, if the buyer has ceased operation, or if the buyer's assets have been placed in the hands of a receiver or trustee. *O. Reg. 560/93* lays out discretionary grounds under which a claim may be denied. Examples of grounds for refusing payment include the claimant extending credit to the buyer; the Director under the LLPA not being notified promptly where payment was not received on time, and the claim not being submitted on time.

If the Board approves a claim from a producer made in respect of a dealer, the Board pays 95% of the portion of the claim that it recognizes as valid.

Where an approved claim relates to a licensed dealer selling to a producer or feeder cattle finance co-operative who defaults on payment, compensation is 85% of the portion of the claim that the Board recognizes as valid, up to a maximum of \$125,000. In these cases, there is no compensation for claims of less than \$5,000. Where an approved claim relates to a licensed dealer selling to another licensed dealer, the Board pays 95% of the portion of the claim that it recognizes as valid.

Actuarial review

As part of its ongoing efforts to ensure the solvency of the Fund, the MOU requires the Board to undertake periodic actuarial reviews. The Board has determined that a review every five years (or as needed) will be

³ Legal services are provided by the Ministry of the Attorney General through the Ministry of Agriculture, Food & Rural Affairs Legal Services Branch and investigative support are currently provided by OMAFRA. Both are paid for by the Ministry. The Ministry also pays Board members' remuneration (per diem, meal and travel).

done in order to ensure the actuarial soundness of the Fund. A fee increase was recommended and implemented on July 1, 2016 from five cents to ten cents per head. The next actuarial review is planned for the 2020/2021 fiscal year.

Claims Inspection and Adjudication

The process begins when the seller files a claim with the Board or indicates an intention to file a claim.

Upon receiving a claim application, the Board engages a Compliance and Advisory Officer (inspection staff with the Ministry's Regulatory Compliance Unit) to collect the pertinent information and documents relating to the claim from the claimant, the purchaser or other parties. When the investigation is completed, this information and the documents are provided to the Board who would then make a decision regarding payment from the Fund. The Board may offer an opportunity for the parties to make submissions or attend a hearing before making its final decision.

The Board works to adjudicate cases within 60 days of receiving the file from the investigators. Where a hearing is held, it may take longer to make a decision. After the claims adjudication process is completed, the Board sends a decision letter to the claimant and buyer. Claim decisions are based on the Board reviewing the claim application and the inspection report and in consideration of the O. Reg 560/93 made under the FPPA relating to the claim.

In 2018/19, two claim applications were submitted to the Board in October and November, 2018, regarding non-payment from licensed dealers. A comprehensive investigation was completed to establish the facts regarding the claims. The Board worked closely with the OMAFRA Regulatory Compliance Unit to gather information so as to make informed and impartial decisions. The Board reviewed and discussed these claims in 2018/19 and into 2019/20. Prior to the Board making a final decision, a hearing was held on one of the claims in April 2019 as an opportunity for the parties to provide additional information regarding the claim. Following the hearing, the Board made decision on the claim application and the written decision was sent to all the parties involved in the claim. (See Appendix 1 showing the history of claims to the Fund up to March 31, 2019).

Recovery of Money Owed

The Board, through legal counsel and the Program Director, work to recover money owed to the Board. (See Appendix 2 for recovery history). As per the MOU, in 2010/11 a recovery policy was developed and is currently in force. The recovery policy states that the Board will make every reasonable attempt to recover monies that is owed to the Board. Its objectives are to recover as much outstanding debt as is reasonably achievable using a variety of tools and options.

Analysis of financial performance

The Office of the Auditor General of Ontario conducts an annual audit of the Board's financial statements. The LFPB's fiscal year is April 1 to March 31.

The Board administers the Fund established under the FPPA. Should a licensed dealer or producer default, the Board adjudicates any claim(s) and determines the payment (if any) to be made from the Fund.

In 2018/19 there was no claims paid out of the Fund and no monies recovered to the Fund.

The balance of the fund at the beginning of the fiscal year was \$7,591,604 and at the end of fiscal 2018/19 it was \$7,885,451, an increase of \$293,847 or 3.87%. See Appendix 3: Audited Financial Statements.

Fund Performance and Investments

Investment income is one important source of revenue for the Fund.

The Board is responsible for the prudent management of the Fund's investments and is required to invest the Fund in accordance with the principles in sections 26, 27, 27.1 and 27.2 of the Trustee Act.

The Board has an Investment Policy that outlines general investment goals and objectives of the Board and describes the strategies for investment Funds. The policy aligns with the guidelines set out in the MOU, which incorporates sections of the Trustee Act.

Under the MOU, the Board must review the Investment Policy at least annually and amend it as required. Additionally, the Investment Policy must be reviewed by an actuary as part of any actuarial review to ensure it remains relevant to the prevailing and forecasted nature of the Fund's liabilities. The investment policy was reviewed and approved in September 2018.

Board Revenues

Interest income on these investments totaled \$261,664 for the 2018/19 fiscal year. In the 2017/18, investment income was \$246,024 and in 2016/17 it was \$237,478. The small increase between the 2017/18, fiscal year and the two previous years was due to an improved interest rate environment plus an increase in total investments.

Contributions from remittance fees

The amount of money earned by the Fund from check-off fees was \$206,302 for 2018/19 fiscal year compared to \$199,631 for the 2017/18 fiscal year.

Board expenses

The Board is authorized to use the Fund to:

- Pay valid claims (which are recoverable from the defaulter);
- Offset the cost of determining financial responsibility (one component of licensing);⁴
- Pay Board expenses; and
- Pay for professional, technical or other assistance to or on behalf of the board.

Total Board administration expense (excluding claims payment) in the 2018/19 fiscal year was \$174,119. This was \$69,947 under budget primarily due to the transition from the previous vendor to Agricorp that

⁴ Under the financial protection program, all dealers must be licensed annually, with licensing dependent upon a positive assessment of financial responsibility by the program administration. Section 7(2) of the FPPA allows the Board to use the Fund to pay the whole or any part of the costs incurred in determining financial responsibility.

occurred January 1, 2019. Governance, Secretariat and financial services support, paid by the Board, was lower than budgeted as Agricorp only invoices for the time worked (previous vendor was a set-quarterly rate). OMAFRA also covered full program administrative costs (determining financial responsibility) from January to March 2019 to support the immediate transition for interim delivery of the program.

Financial position

The table below shows the budget to actual and the variance for 2016/17, 2017/18 and the 2018/19 fiscal years.

	Budget 2017/18	Actual 2017/18	Variance 2017/18	Budget 2018/19	Actual 2018/19	Variance 2018/19
Opening Equity		\$7,349,117			\$7,591,604	
Revenue						
Fees	\$224,000	\$199,631	\$ (24,369)	\$228,000	\$206,302	\$ (21,698)
Interest	\$270,000	\$246,024	\$ (23,976)	\$290,000	\$261,664	\$ (28,336)
Recoveries	\$ 10,000	\$0	\$ (10,000)	\$ 40,000	\$0	\$ (40,000)
Total Revenue	\$504,000	\$445,655	\$ (58,345)	\$558,000	\$467,966	\$ (90,034)
Expenses						
Claims paid	\$250,000	\$0	\$ (250,000)	\$230,000	\$0	\$ (230,000)
Admin Expense	\$241,170	\$203,168	\$ (38,002)	\$244,066	\$174,119	\$ (69,947)
Total Expenses	\$491,170	\$203,168	\$ (288,002)	\$474,066	\$174,119	\$ (299,947)
Net Surplus (Deficit)	\$ 12,830	\$242,487	\$229,657	\$ 89,934	\$293,847	\$209,913
Closing Equity		\$7,591,604			\$7,885,451	

Performance measures and targets

In its 2019-2022 Business Plan, the Board identified several key priorities for action. What follows is a brief summary of key accomplishments regarding each of these priorities in the 2018/19 fiscal year. The table below shows the targets achieved/not achieved and actions to be taken.

Goal: Protecting the long term viability of the Fund for Livestock Producers			
Performance Measure/Indicator	Baseline 09/10	Targets 18/19	Targets achieved/not achieved and action to be taken
The Fund remains actuarially sound with a balance of \$5.8M as recommended by the 2015 actuarial study.	\$5.8 M	\$6.15 M	Achieved - fund balance at \$7.88 million
Actuarial study completed at least once every five years to assess the long term financial sustainability of the Fund in relation to the contribution and payout Rates	July 2010	July 2015	Achieved - the Board completed an actuarial study in September 2015. Next actuarial is scheduled for 2020/21 fiscal year.
Unqualified audit opinion from the annual audit	Achieved	Ongoing	Achieved
Review investment policy annually to ensure that investment targets are met (e.g. return on investment) and take actions as necessary	ROI of 3.97 %	ROI of 3.5 %	Achieved - rate of return on investment of 3.65%
Debt collection (recoveries) policy drafted and implemented (monitor debt recovery rate)		Cumulative debt recovery rate of 30%	As part of the transition from previous vendor to Agricorp, this target can not be confirmed for 18/19 as it is unclear how this was calculated by the previous vendor. This target and measure will be discussed with the Board as part of the business planning process.
Budget is approved by the Board by May 31 st as part of the business planning Process	May 31 st	May 2018	Achieved
Quarterly Financial Reports completed and submitted to the Ministry within 15 days of the end of the quarter	Achieved	Quarterly	Achieved
All payments from the Fund are in 100% compliance with the FPPA (monitoring to ensure compliance with section 5(2); 5(5) and 7(2))	Payments compliant with FPPA	Ongoing	Achieved. The Fund was used to pay board expenses and there were no claims paid in 18/19.

Goal: Strengthening Board governance and accountability			
Performance Measure/Indicator	Baseline 09/10	Targets 18/19	Targets achieved/not achieved and action to be taken
Investment activities in compliance with MOU and Board Investment policy	Compliant	Ongoing	Achieved
Annual Report submitted 90 days after the Auditors report	120 days	90 days	Achieved
Business Plan submitted to the Ministry by December 31 st	March 31/10	Dec 31/18	Achieved
Submit Quarterly Risk Assessment Report to the Ministry	Within 15 days of the end of the quarter	Ongoing	Achieved
Submit Quarterly Financial Statements to the Ministry within 15 days of the quarter end	Within 15 days of the quarter end	Ongoing	Achieved
Stakeholders informed of Boards finances via annual inserts in the BFO's annual report	February annually	Ongoing	Achieved
Goal: Ensuring that there is an adjudication process in place that is simple, fair, and accessible, with minimal delays			
Number of days from receipt of report completed by investigators until the Board makes and issues its decision	60	60	Two claim applications were made in 2018/19, however they were not resolved until the next fiscal.
Decisions rendered on average in 30 days.	Refer to <i>FPPA</i> and consult with legal counsel	Refer to regulation and consult with legal counsel	Two claim applications were made in 2018/19, however they were not resolved until the next fiscal.
Number of judicial reviews where the court ruled against the Board's decision	0	0	There were no judicial reviews in 2018/19.
Board at quorum	5 or more members appointed	5 or more members appointed	Achieved – board at quorum with 6 active members in 2018/19.

Appendix 1: History of Claims up to March 31, 2019.

Year	# of Claims Received	# of Claims Paid	Amount Claimed \$	Amount Paid \$
1982	11	4	72,039.50	5,357.90
1983	12	5	377,713.20	135,476.30
1984	4	1	645.90	581.30
1985	23	11	287,441.00	258,696.90
1986	3	0	9,475.30	-
1987	142	15	1,813,633.50	1,451,326.50
1988	126	77	833,111.20	567,861.20
1989	8	5	66,882.60	46,715.50
1990	31	23	1,352,067.60	1,183,260.60
1991	2	0	9,810.80	-
1992	1	0	7,500.00	-
1993	1	0	-	-
1994	28	20	825,975.30	742,852.70
1995	2	1	12,110.70	10,899.60
1996	34	34	193,869.80	174,482.80
1997	2	0	17,852.50	-
1998	7	6	165,370.60	138,723.50
1999	1	1	11,384.60	7,969.20
2000	48	47	2,203,876.00	1,977,548.00
2001	142	125	995,275.60	807,618.80
2002	0	0	-	-
2003	17	8	3,782,026.70	210,319.00
2004	40	19	337,875.50	296,894.40
2005	10	6	211,152.40	70,842.90
2006	0	0	-	-
2007	0	0	-	-
2008	0	0	-	-
2009	18	1	703,100.80	18,727.90
2010	1	0	654,105.50	-
2011	38	22	2,230,621.71	567,980
2012	264	172	1,535,925.68	285,911.94
2013	61	61	1,225,030.94	1,218,609.00
2014	1	1	883.62	883.62
2015	3	2	192,596.12	164,451.82
2016	13	9	1,232,333.84	409,006.26
2017	0	0	-	-
2018	0	0	0	0
2019	2	0	174,954.96	0
Total	1,096	676	\$21,536,643.47	\$10,752,997.64
Recovered				\$3,568,194.30
Net Paid Out				\$7,184,803.34

Appendix 2: History of Claims Recovered

Year	Amount Recovered (numbers are rounded)
Prior to 1998	\$ 1,135,254.00
1998	\$ 3,302.00
1999	\$ -
2000	\$ 435.00
2001	\$ 385,000.00
2002	\$ -
2003	\$ 39,760.00
2004	\$ 78,977.00
2005	\$ 119,950.00
2006	\$ -
2007	\$ 350,000.00
2008	\$ -
2009	\$ -
2010	\$ 31,044.00
2011	\$ 332,869.00
2012	\$ 216,541.00
2013	\$ 561,382.00
2014	\$ 291,809.00
2015	\$ -
2016	\$ 21,870.00
2017	\$ -
2018	\$ -
2019	\$ -
Total Recovered	\$ 3,568,193.00

Appendix 3: Audited financial statements

Financial Statements of

Livestock Financial Protection Board
(Fund for Livestock Producers)

Year Ended March 31, 2019

Management's responsibility for financial reporting

The accompanying financial statements have been prepared by management, in accordance with Canadian Public Sector Accounting Standards. Management is responsible for the accuracy, integrity and objectivity of the information contained in the financial statements. The financial statements include some amounts that are necessarily based on management's best estimates and have been made using careful judgment.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. The systems include formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board meets regularly to oversee the financial activities and annually reviews the financial statements.

These financial statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards. The Independent Auditor's Report, which appears on the following page, outlines the scope of the Auditor General's examination and opinion.



Becky Philpott
Interim Chief Financial Officer, Agricorp



Theresa Moisan
Finance Manager, Agricorp

December 16, 2019



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Livestock Financial Protection Board
and to the Minister of Agriculture, Food and Rural Affairs

Opinion

I have audited the financial statements of the Livestock Financial Protection Board (Fund for Livestock Producers) (the Board), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and fund balance and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2019, the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and my auditor's report thereon, in the Board's 2019 Annual Report. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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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 standards, 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 the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- 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 Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board 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.

I 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 I identify during my audit.

Toronto, Ontario
December 16, 2019

Susan Klein, CPA, CA, LPA
Assistant Auditor General

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Livestock Financial Protection Board
(Fund for Livestock Producers)
Statement of financial position
As at March 31, 2019

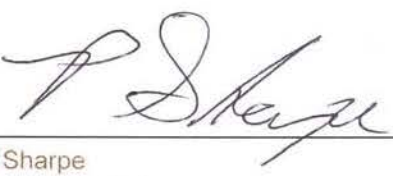
	2019	2018
Current assets		
Cash	\$ 2,029,499	\$ 412,261
HST recoverable	39,769	45,014
Short-term investments (note 3)	1,830,588	1,381,882
Total current assets	3,899,856	1,839,157
Long-term investments (note 3)	4,000,000	5,752,447
Total assets	7,899,856	7,591,604
Liability		
Accounts payable (note 5)	14,405	-
Total liability	14,405	-
Fund balance	7,885,451	7,591,604
Liabilities and fund balance	\$ 7,899,856	\$ 7,591,604

See accompanying notes to financial statements

Approved on behalf of the Board



Larry Witzel
Board Chair



Paul Sharpe
Board Vice - Chair

Livestock Financial Protection Board
(Fund for Livestock Producers)
Statement of operations and fund balance
Year ended March 31, 2019

	2019	2018
Revenue		
Fees	\$ 206,302	\$ 199,631
Interest income	261,664	246,024
Total revenue	467,966	445,655
Expenses		
Administration (note 5)	174,119	203,168
Total expenses	174,119	203,168
Excess of revenue over expenses	293,847	242,487
Fund balance, beginning of year	7,591,604	7,349,117
Fund balance, end of year	\$ 7,885,451	\$ 7,591,604

See accompanying notes to financial statements

Livestock Financial Protection Board
(Fund for Livestock Producers)
Statement of cash flows
Year ended March 31, 2019

	2019	2018
Cash provided by operating activities		
Excess of revenue over expenses	\$ 293,847	\$ 242,487
Changes in non-cash working capital		
Decrease / (increase) in HST recoverable	5,245	(25,991)
Decrease / (increase) in accrued interest	3,741	(4,881)
Increase in payables	14,405	-
Cash provided from operating activities	317,238	211,615
Investing activities		
Purchase of investments	-	(1,750,000)
Proceeds from investments	1,300,000	1,550,000
Cash provided/(used) from investing activities	1,300,000	(200,000)
Increase in cash	1,617,238	11,615
Cash, beginning of year	412,261	400,646
Cash, end of year	\$ 2,029,499	\$ 412,261

See accompanying notes to financial statements

Livestock Financial Protection Board

(Fund for Livestock Producers)

Notes to the financial statements

Year ended March 31, 2019

1. Establishment of the Board (Fund)

The Farm Products Payments Act designated the Livestock Financial Protection Board (Board) as the Board to administer the Fund for Livestock Producers (the Fund). The Fund was established effective June 12, 1982, by regulation made under the Farm Products Payments Act.

The purpose of the Fund is to protect livestock sellers against loss through default in payments by a buyer. For defaults in payments by dealers, claimants are reimbursed 95% of an approved claim. For defaults in payments by producers, claims over \$5,000 are paid the lesser of 85% of an approved claim and \$125,000. The Board seeks recovery of any claims paid from the defaulter.

Under Ontario Regulation 321/11, producers, licensed dealers, consignors and consignees are required to pay the Board a fee of ten cents per head of livestock.

As a Board-governed provincial agency, the Fund is exempt from income taxes.

2. Significant accounting policies

a) Basis of accounting

The financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards, including the 4200 series standards for government not-for-profit organizations.

b) Financial instruments

Financial instruments consists of cash, investments, HST recoverable and accounts payable.

All financial instruments are recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record investments at fair value. Guaranteed Investment Certificates (GIC's) are recorded at cost plus accrued interest, which approximates fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations and fund balances. A statement of remeasurement gains and losses has not been presented as there is nothing to report therein.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and fund balances. Any unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations and fund balances when realized.

The Board is required to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

Level 1 – unadjusted quoted market prices in active markets for identical assets or liabilities;

Level 2 – observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and

Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Livestock Financial Protection Board
(Fund for Livestock Producers)
Notes to the financial statements
Year ended March 31, 2019

c) Revenue recognition

The Fund's revenue is comprised of fees paid under the Farm Products Payments Act and investment income.

Per regulation under the Act, fees are remitted to the Board directly by producers, licensed dealers and consignors and are recognized when received.

Investment income is recognized as earned and amounts not yet received are included in the carrying value of investments.

Claim recoveries are recorded when received, due to the inherent uncertainty regarding the amount and timing of any recovery.

d) Expenses

Expenses are recorded on an accrual basis, net of recoverable sales tax.

3. Investments

	Fair Value Hierarchy		2019		2018
Short-term (<1 year)					
Financial institutions - GICs	Level 2	\$	1,769,218	\$	1,321,060
Mortgage on land	Level 2		61,370		60,822
Total short-term			1,830,588		1,381,882
Long-term (1 - 5 year)					
Financial institutions - GICs	Level 2		-		1,752,447
Mortgage on land	Level 2		4,000,000		4,000,000
Total long-term			4,000,000		5,752,447
Total investments		\$	5,830,588	\$	7,134,329

The Mortgage on Land is a mortgage on development lands in the City of Kitchener, Ontario bearing interest at 5% per annum. The Board renewed the mortgage agreement with the principal due December 10, 2022, with interest paid semi-annually. In the event of the sale or any other conveyance of all or part of the lands, at the option of the Board, the principal and accrued interest shall be immediately due and payable. At any time, the mortgagor can pay all or any part of the principal without notice or penalty.

The Fund's portfolio has interest rates ranging from 2.15% to 5% (2018 - 1.46% to 5%) with maturities ranging from February 2020 to December 2022 (2018 - February 2019 to February 2022).

Livestock Financial Protection Board
(Fund for Livestock Producers)
Notes to the financial statements
Year ended March 31, 2019

4. Financial instruments risk management

a) Credit risk

Credit risk is the risk that other parties fail to perform as contracted. Credit risk on investment securities arises from the Funds' position in term deposits, corporate debt securities, and government bonds. Board investment policy restricts the types of investments which reduces credit risk.

b) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to meet all cash flow obligations as they come due. The Board seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it is able to satisfy financial liabilities as they come due. Cash that is surplus to working capital requirements is managed by the Board and invested in accordance with its investment policy.

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises three types of risk: currency risk, interest rate risk and equity risk. Currently, the Fund is exposed only to interest rate risk.

d) Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Funds' financial position, operations and cash flow. Fluctuations in interest rates have a direct impact on the market valuation of the Funds' fixed income securities portfolio.

Although investments are generally held to maturity, realized gains or losses could result if liquidation of investments is required to meet obligations. There have been no significant changes from the previous year in the exposure to risk or to the policies, procedures and methods used to measure the risk.

Mortgage on Land is a fixed rate debt instrument, which is not subject to interest rate fluctuations.

5. Related party transactions

The Minister of Agriculture, Food and Rural Affairs (the Ministry) and the Board entered into a three year agreement, ended December 31, 2018, with the Ontario Beef Cattle Financial Protection Program Inc. (not a related party) to assess the financial responsibility of livestock dealers and to provide administrative and secretarial support to the Board. Agricornp has assumed these responsibilities effective January 1, 2019.

In Fiscal 2019 the Board paid the Ontario Beef Cattle Financial Protection Inc. \$159,485 (2018 - \$197,000) and has a liability to Agricornp of \$14,405 (2018 - \$0). These costs are included in Administration in the Statement of Operations and Fund Balance. Certain administrative expenses, specifically the cost of investigative services and legal services were absorbed by OMAFRA, and were not included in the Statement of Operations and Fund Balance. The cost of these services amounted to \$9,236 (2018 - \$8,600).

6. Comparative Figures

Certain comparative figures have been reclassified to conform to the basis of the financial presentation adopted in the current year.