

**BEFORE THE PENNSYLVANIA MILK MARKETING BOARD  
COOPERATIVE MILK PROCUREMENT COSTS HEARING**

**July 7, 2020**

**Testimony of**

**Matthew I. Hartland, CPA/ABV**

Presented on behalf of the Pennsylvania Association of Dairy Cooperatives:

Dairy Farmers of America, Inc.,  
Lanco Dairy Farms Co-op, Inc.,  
Land O' Lakes, Inc., and  
Maryland & Virginia Milk Producers' Cooperative Association, Inc.

My name is Matthew Hartland. My business address is 1800 Fruitville Pike, Lancaster, Pennsylvania, 17604. I am a manager in the Business Consulting Services Group of RKL LLP. I am a Certified Public Accountant and Accredited in Business Valuation and I have worked in public accounting since 2006. My experience is primarily concentrated in business valuation, financial analysis, financial modeling, general management consulting, and litigation support. My educational and professional background are summarized in PADC Exh12.

I am testifying today on behalf of the Pennsylvania Association of Dairy Cooperatives, or the "PADC", whose members include Dairy Farmers of America, Inc., Lanco Dairy Farms Co-op, Inc., Land O' Lakes, Inc., and Maryland & Virginia Milk Producers Cooperative Association, Inc. My testimony today is focused on the milk procurement costs of PADC cross-section coops for 2017 and 2018. I have assisted the PADC cross-section coops in compiling, reviewing and reporting their respective milk procurement costs for 2017 and 2018. I have summarized the milk procurement costs of these cross-section cooperatives and am here today to present the results of the cross-section.

### **2017 and 2018 Milk Procurement Costs**

First, I would like to give a little overview of the process involved in arriving at the 2017 and 2018 cross-section summaries. The process started with the PMMB Board Staff providing each of the PADC coops a copy of the Form 60C with instructions requesting that the PADC cooperatives complete the form with their milk procurement costs for calendar years 2017 and 2018. Then, each of the cooperatives independently compiled their milk procurement costs for calendar years 2017 and 2018 and completed the Form 60C for each year in accordance with the regulations set forth in Section 149.46.

Based on my review of the information provided, each of the cooperatives used the financial information that was included and audited in their annual certified financial statements in accordance with generally accepted accounting principles. The Completed 60C Forms were then reported to the PMMB staff as requested.

In preparation for this hearing, RKL was engaged to review each of the 60C Forms reported by the PADC cooperatives for the years 2017 and 2018 and prepare a cross-section of the results for each year. To begin that process, I requested all supporting documentation for each of the reported 60C Forms. I reviewed the information provided by each of the Coops and began compiling files for each reported Form 60C for 2017 and 2018 with the supporting information. In my professional judgement, in order to have sufficient support to a reasonable degree of professional certainty for the figures reported on the 60C Forms, additional information was requested as needed.

In some cases, I have suggested revisions to the reported 60C Forms or ask for a revised 60C Form if I was not able to trace the reported numbers back to the financial reports. Similarly, additional volume information was requested from each cooperative, and in some cases, adjustments were made, in order to confirm that reported costs were aligned with reported pounds.

Having thoroughly reviewed the information provided to me, I was able to trace the reported costs for each cooperative back to their audited financial statements. I have also reviewed cost allocations made and verified formulas and computations within the worksheets provided by the cooperatives. I also had multiple calls and emails with the accounting staff at PADC cross-section cooperatives to discuss the information provided, and after reviewing all the

information provided I have a high level of confidence with the support provided by each cooperative for the reported procurement costs.

### **2017 and 2018 Cross-Section Procurement Costs**

Once I had completed my review of the cooperatives' 60C Forms for 2017 and 2018 and the related support information, I summarized the results of each cooperative's reported milk procurement costs into a cross-section for each year. A summary is attached as PADC Exhibit 30. The first page of this exhibit shows the nine cost centers defined in the milk marketing regulations Section 149.46 and two columns with weighted average, cost per-hundredweight figures for each cost center for both years 2017 and 2018.

As we did previously in this hearing with the 2016 data, we have presented two weighting methodologies for purposes of determining the weighted average cost for each cost center. The first weighting methodology is based on each cooperative's deliveries to PA Class 1 plants and the second is based on each cooperative's PMMB Class 1 pounds. A summary of the actual weighting applied to each cooperative in the cross section is presented on page two of PADC Exhibit 30.

The result of the cross-section for 2018 is a weighted average cost per-hundredweight of \$0.3487 based on the weighting of deliveries to PA Class 1 plants and \$0.3451 based on the weighting of PMMB Class 1 pounds. The result of the cross-section for 2017 is a weighted average cost per-hundredweight of \$0.3341 based on the weighting of deliveries to PA Class 1 plants and \$0.3297 based on the weighting of PMMB Class 1 pounds.

Based on my review of the information provided to me, I can testify to a reasonable degree of professional certainty that the resulting weighted average cost per-hundredweight for the cooperative cross-sections that I am reporting to you today is accurate and supported by

reliable information that was prepared in accordance with generally accepted accounting principles. Based on this cross-section, the weighted average cost per-hundredweight incurred by Pennsylvania dairy cooperatives in procuring milk to Pennsylvania Class 1 plants is \$0.3487 based on 2018 results and \$0.3341 based on 2017 results using the first weighting method, and \$0.3451 based on 2018 results and \$0.3297 based on 2017 results using the second weighting method.

I would like to thank the Pennsylvania Milk Marketing Board for the opportunity to present this testimony and the exhibits of our findings.