GARDINER
+ COMPANY

Certified Public Accountants

WINTER 2024 NEWSLETTER

Cooperatives: What we've seen in 2023

by Jim English, CPA, Partner

BETTER THAN EXPECTED!

Time and time again, that was the response when asking coop managers and board members about the 2023 harvest. I think the same can be said when discussing the financial years of our cooperative clients. Many had a bleak outlook when their 2023 fiscal year started, struggling to budget a local income in the black with uncertainty and volatility on the agronomy side, interest rates expecting to rise rapidly, no carry in the grain markets and continued inflation. In the end, most companies saw local savings decline or stay flat, but declines were less than expected, and some even saw increased local income.

Many of the challenges that faced coops in 2022 continue to be issues in 2023, in particular, rising interest rates, inflation and labor shortages.

Interest rates rose from around 5% to nearly 8%. About a 60% increase in rates but interest expense rose on average less than 10%. Coops adapted to higher interest costs by better handling cash flow through inventory management and improved timing of grain sales. Expenses continue to rise but not nearly at the pace they did a year ago.

Here are more 2023 highlights and trends:

Income Statement

+ Despite seeing record or near record sales in 2022, sales in 2023 by and large were up as prices stayed higher for most of the year.
+ Grain margins and service income were higher, particularly grain storage. Storage numbers coming back as sustained high prices encourage/allow producers to hold on to their grain longer along with excellent yields in some areas. Improved margins as coops learned how to navigate marketing in these inverted markets and fewer logistical issues compared to 2022.
+ Last year we saw unprecedented agronomy margins. They came back to Earth in 2023, although, for the most part, still very good. Chemical sales remained strong as farmers were willing to invest more in fungicides and insecticides with the higher grain prices. Margins slipped some as certain products saw devaluation but very similar to pre-2022 levels.
+ Gas gallons flat to declining as we return to pre COVID trends. Diesel gallons appeared flat to lower.

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- Gas margins continue to trend higher. Up an average of 3 cents each of the last 5 years. Diesel margins were flat after jumping 8 cents in 2022. LP margins saw a nice increase in 2023, approximately 14 cents per gallon after 4 years of relatively flat margins.
- As previously mentioned, operating expenses continued higher. On average, I would estimate 5.5% versus the 10% plus increases in 2022.
- Personnel costs were 5-6% higher which was similar to last year's increase. This would have been higher if companies could get all of their job vacancies filled.
- Fixed costs were also up 6-7% higher after similar increases in 2022. This would include depreciation, property taxes, rent, insurance and term interest. Interest has already been discussed, but property insurance has become one of the highest rising expenses.
- Saw great improvement in managing variable or other operating expenses keeping increases below 5%. In 2022, these expenses were up nearly 20% over 2021. This would include seasonal interest, advertising, utilities, data processing, truck expense, repairs and supplies. In most cases, an intentional effort to lower expenses where possible.
- The upside of higher interest rates, increased interest income. Many companies sitting on large amounts of cash late this summer, pre-harvest and thus we saw increased interest income.
- Substantial increase in regional income. Regional cooperatives had successful years in 2022 much like the local coops which resulted in a significant amount of patronage refunds allocated in 2023.
- So, what does it all add up to? Most companies saw lower local earnings as agronomy margins normalized while expenses continued to rise. However, increased patronage filled the void for many so bottom lines looked similar to 2022.

Balance Sheets

- Balance sheets remain strong.
- One of the biggest changes in balance sheets this year was the implementation of a new accounting standard that required operating leases to be included on the face of the balance sheet. Some companies implemented early prior to this year but now all companies were required to adopt. The adoption of this new accounting standard resulted in recognition of right-of -use asset and a lease liability based on the discounted future lease payments over the lease term. In the past, disclosures were made in footnotes regarding operating leases but with increased transparency in mind, those leases will now be included on the face of the balance sheet.
- Cash balances much higher heading into 2023 harvest. Result of many factors described below.
- Receivables are lower as input and grain prices are much lower than the previous year.
- Cash required for margin deposits down substantially as commodity prices come down and less forward contracting being done by producers.
- Grain inventories are down substantially as companies are carrying as little grain inventory as possible along with lower commodity prices.
- Supply inventories are reduced as fuel, feed and agronomy prices decrease. Also, some instances of carrying less inventory as coops deal with risk and cash management. Last year companies carrying more chemical inventory in fear of not being able to obtain due to supply chain issues.
- Property, Plant and Equipment is consistent with last year. Capital expenditures may have slowed slightly with rising construction costs, increasing interest rates and delays in finding contractors to complete the projects. However, I expect that trend to be short-lived as companies assess needs to stay efficient, competitive while adequately serving their members' needs.

- On the liability side of the balance sheet, with increased amounts of cash, we are seeing less seasonal and term debt.
- As mentioned, supply inventory is down and correspondingly accounts payable is lower as well.

Conclusion – We all know commodity prices rise and fall. It appears we are on the way back down. How coops managed their inventory and continue to do so will determine how successful they will be. It appears that coops have survived higher interest rates and like most things, what doesn't kill you makes you stronger. The lessons learned about risk and cash management won't soon be forgotten.

In all my years of working with coops I have seen their resiliency, initiative and responsiveness to overcome whatever comes their way.

As always, it will continue to take the great, concerted efforts of employees, management, and Boards of Directors to navigate these rapidly changing times. As always, we will be there to work with you.

Happy 40th Anniversary to CPA and Audit Manager Paul Archer!

Congrats to Paul on 40 years with the firm! Paul's background in agriculture and experience as a farmer has helped him develop an extra level of trust with his clients as well as understand their concerns. Thank you for your dedication and hard work all these years!

New Audit and Reporting Standards Issued

by Dennis Gardiner, Managing Partner

Our team members stay busy throughout the year completing the audit work and reports for you. Along with staying on task, we have had a few new audit (AICPA) and reporting (FASB) standards to learn about and interpret as we ready ourselves for the upcoming audit season. Here are the changes for this season:

New Audit Standards – effective with December 31, 2023 audits

SAS No. 143 Auditing Accounting Estimates and Related Disclosure outlines the responsibilities of auditors regarding accounting estimates and the associated disclosures during a financial statement audit. This standard helps auditors handle the challenges posed by the growing complexity of scenarios arising from new accounting standards that involve estimates. SAS No. 143 is part of a broader initiative to enhance audit quality and helps auditors adapt to new accounting standards while focusing on factors influencing estimation uncertainty and potential bias.

SAS No. 144 offers guidance on utilizing pricing information from pricing services while assessing management's estimates concerning the fair value of financial instruments. Additionally, enhancements have been made to the guidance when utilizing an auditor's specialist's work.

SAS No. 145 New Risk Assessment Standard, was issued to address global deficiencies in auditor risk assessment procedures. Key changes include: enhanced requirements and guidance on understanding the entity's internal control system, assessing control risk, and considering economic, technological, and regulatory factors. The standard introduces revised and new requirements, such as: redefining significant risk, evaluating specific controls, separate assessments of inherent and control risk, and a "stand-back" requirement for completeness in identifying significant transactions, balances, and disclosures. These modifications aim to bolster the auditor's risk assessment approach and improve the overall audit process.

New Reporting Standards

FASB ASU 2023-09 is to enhance the transparency and utility of income tax disclosures to better comprehend an entity's operations, associated tax risks, and tax planning impact on its tax rate and future cash flow prospects. Effective for December 31, 2026 audits, early adoption permitted.

FASB ASU 2023-05 focuses on improving the accounting treatment of contributions made to a joint venture at its formation, particularly in the joint venture's separate financial statements. The main goals are to offer decision-useful information to investors and capital allocators and to reduce diversity in accounting practices. Currently, GAAP lacks specific guidance on recognizing and initially measuring assets contributed and liabilities assumed during a joint venture's formation. This has resulted in varied practices. To address this diversity and enhance investor information, a new accounting basis has been mandated for joint ventures. Under this basis, joint ventures will recognize and initially measure assets and liabilities at fair value, aligning with business combinations guidance to ensure consistency in reporting across joint ventures. Effective for joint ventures formed on or after January 1, 2025, early adoption permitted.

FASB ASU 2023-01 requires entities to assess whether a related party arrangement among entities under common control, known as a common control arrangement, qualifies as a lease. If confirmed, the entity must classify and account for the lease as it would for an arrangement with an unrelated party, based on legally enforceable terms and conditions. This marks a departure from Topic 840, where entities considered the economic substance of an arrangement influenced by related party nature. The shift in Topic 842 emphasizes a consistent treatment for leases, irrespective of related party involvement, prioritizing legally enforceable terms and conditions over economic substance. Effective for December 31, 2024 audits, early adoption permitted.

You are likely to sense additional inquiries from our team members as they work through the necessary documentation for the audit standards. The reporting standards will kick in as the year(s) passes. Much like your businesses, there are changes all around what we do.

Hospitality Suite at the Hyatt Regency, Minneapolis

by Emily Bell, Marketing Manager

Thank you to everyone who was able to attend our hospitality room in Minneapolis on December 7th. We have had the pleasure of hosting a hospitality room during this annual event for many years now and were very pleased with the turn out this year! We enjoyed spending time with each one of our guests and we hope that we got around to talk with every one of you. It was great to be able to visit in a more relaxed environment and we want to thank you for setting aside extra time to spend with us. Planning has already begun for 2024 at the Hyatt Regency and we look forward to seeing you all again next December!

NEW IN 2024

Cooperatives: What we expect to see in 2024

by Mark A. Rodruck, CPA, Partner

What does 2024 have in store for the industry and our clients? The following is a short list of potential circumstances that all will be facing when making decisions for your company: inflation, staffing shortages, increasing labor costs, increasing fixed expenses, drought concerns in many areas, overcoming lack of drying income, managing cashflow to mitigate high interest rates, to name a few. As always, our perspective comes from being involved in your audits, board and annual meetings, planning sessions, and visiting with management. Time can and usually does prove us wrong, but we see value in attempting to look forward. Now on to our thoughts:

+ Local (Operating) Earnings – As we move on from 2023, how will 2024 compare? We expect sales dollars to be down as grain, agronomy, feed, and fuel prices are trending downward. Grain yields by region varied with some seeing better than expected yields and others not so much. With softening grain prices, we expect storage and handling to increase, hopefully offsetting the loss of drying income. The inverted grain markets and limited carry advantages have helped keep interest costs down. However, this along with geo-political issues will make marketing opportunities difficult. On a positive note, global grain stocks remain tight, hopefully leaving more upside price risk than down. Mother nature gave agronomy great weather to get off to a good start following harvest. Expect to see crop nutrient tons increase to maximize grain yields. Even though agronomy margins were down from fiscal year '22's highs they were still respectable. There will be challenges, but we expect margins to stay firm. Feed tons continue to improve with margins expected to modestly improve in 2024. We expect to see expenses continue to grow with challenges in insurance premiums and significantly increased deductible levels. May need to evaluate margin structures to overcome increased expenses. With all that said, we expect to see flat to lower local earnings in 2024.
+ Regional Income – Coming off of a very good regional year in 2023, we expect to see the trend continue into 2024 with increased regional income.
+ Capital Expenditures – We expect to see grain and agronomy projects continue with efforts towards technology, efficiencies and serving your members.

However, these projects could be scaled back or slowed down with high interest rates, increasing project costs, and delays in sourcing materials and labor.

+ Expenses – Controlling expenses and looking for efficiencies will continue into 2024. After coming through inflation and labor market issues in 2022 and 2023, we hope to see personnel cost increases normalize. Fixed expenses will probably climb due to past capital projects and increased insurance premiums and deductibles. We have seen increased interest in captive insurance groups to help control these costs. Even with higher interest rates, which seem to have peaked and my trend downwards late in 2024, hopefully interest costs will remain steady with lower input costs, cashflow management, and improved timing of grain sales. Operating expenses will continue to be scrutinized as we move through 2024. Technology will also be an important investment for the future.
+ Credit Risk – Most have done a great job, with lots of effort, managing their credit risk. Continue the efforts and stay focused on our credit policies.
+ Fraud and Cyber Security – This is an area that everyone should stay focused on with what has happened in the industry. Threats continue to become more sophisticated, and as you continue to get larger, the risk also grows. With the costs of cyber insurance rising, some will look for alternative ways to manage these risks. Continue to invest in education, training, and technology to battle these risks. Threat assessments and penetration testing are also very important.
+ Mergers and Acquisition's – Staying consistent with my thoughts from 2023, companies continue to talk trying to gain efficiencies, maximize talent and help with retirement of key management positions. Not sure if these will lead to mergers or if they could lend themselves to unique ways to cooperatively work together and maximize labor talents?
+ People – Staffing will continue to be a concern in 2024. The workplace is going to have to find creative ways to keep and attract talent. This will most likely take higher wages, but also evaluations of working environments and benefits.
+ Technology – The message will remain consistent with 2023. With a shrinking labor market, companies will turn to technology to do more with less. Will technology help solve some of the labor shortages as it has in the past? The current environment demands us to be very mobile and to be able to conduct business from anywhere.

The future continues to shine in agriculture. Like I have said in the past, you won't find a better group of people to work for and with.

There are a number of opportunities that will be driven by efficiency, growth and profitability. Cooperatives and agriculture have always adapted and evolved to stay relevant in the industry. We look forward to continuing our relationships with current customers and growing with new ones. Have a great 2024!

SAVE THE DATE

FEBRUARY 18-20, 2024

Grain & Feed Association of Illinois

Union Station Hotel, St. Louis

Booth 109

Potential Fraud Use of ChatGPT

by Mark Gardiner, CPA, CFE, Partner

ChatGPT was launched on November 30, 2022, by OpenAI. At the Consumer Electronics Show in Las Vegas in January 2023, it took the technology world by storm. Cybercriminals, fraudsters, high school and college students started using it to their advantage. ChatGPT was now being used to do students' homework, including writing papers. Cybercriminals and fraudsters began using it to create various scams, including:

+ Phishing emails
+ Creation of malware and viruses
+ The production of ransomware
+ To steal personally identifiable information
+ Deepfakes with voice impersonations
+ And even romance fraud

These are just a few of the various scams ChatGPT is capable of creating. In fact, the U.S.-Israeli cybersecurity company called CheckPoint noticed a spike in dark web messaging when ChatGPT was introduced.

The GPT in ChatGPT stands for Generative Pretrained Transformer; it has been trained on an abundant amount of data to generate human-like responses for a wide range of prompts and questions. It is capable of performing a wide array of tasks, including:

+ Completing sentences and paragraphs. This allows individuals to write more efficiently.
+ Conversing
+ Generating text. For example, it can write a story or a poem.
+ Answer questions

ChatGPT acquires knowledge as it evolves, drawing insights from a diverse range of resources in the process, including Wikipedia, news articles and scientific journals. ChatGPT is constantly evolving and updating, because it learns as it develops content.

How can we use ChatGPT to help combat fraud?

+ We can ask ChatGPT on ways to commit fraud and the various steps to prevent these particular frauds.
+ Steps for internal and external auditors to incorporate into their audit plans to detect fraud during their audits.
+ Ask it for current fraud trends and how to protect ourselves against them.
+ We can ask ChatGPT for help with creating a fraud awareness training session.

Just as cybercriminals will use ChatGPT to create fraudulent schemes, we can use ChatGPT to combat fraud and develop tactics to fight it.

Alternative Compliance Examination Engagements

by Elizabeth Thyer, CPA, Partner

Coronavirus State and Local Fiscal Recovery Funds were awarded to municipalities in March 2021 to be used for responding to the public health emergency or to its negative economic impact, to provide premium pay to essential workers, to replace lost revenues and to make necessary investments in water, sewer or broadband infrastructure.

When these funds are expended, the amount expended during each fiscal year is included in the determination of whether or not a single audit is required for that fiscal year.

Entities may meet the requirements for having an alternative compliance examination engagement performed instead of a full single audit if the entity spent $750,000 or more in federal awards during the fiscal year and meet both of the following criteria: 1) the total SLFRF award received is at or below $10 million AND 2) other federal awards expended (not including SLFRF award funds) are less than $750,000 during the fiscal year. Entities who meet the requirements for an alternative compliance examination engagement may still elect to have a single audit.

The alternative compliance examination engagement is a separate engagement and one compliance opinion is issued along with a schedule of findings and responses. This report may be issued at the same time or different time as the financial statement report. The alternative compliance examination engagement report is due nine months after the fiscal year end and a data collection form is required to be submitted to the Federal Audit Clearinghouse upon completion.

Beneficial Ownership Reporting

by Blake Miller, CPA, CFE, Partner

The 2021 Corporate Transparency Act created a new beneficial ownership information (BOI) reporting requirement for small businesses starting January 1, 2024. The purpose of this legislation was to combat bad actors from concealing their ill-gotten gains through shell companies or other opaque ownership structures in the U.S. The act will be administered by the Financial Crimes Enforcement Network (FinCEN) which is a bureau of the U.S. Department of Treasury.

Who has to report?

All companies created by filing a document with a secretary of state within the U.S. This includes corporations, limited liability companies and other entities, including foreign companies registered with a secretary of state to do business in the U.S. There are some significant exemptions to this reporting requirement and some major ones are (non-exclusive list):

+ Securities reporting issuer (public companies)
+ Credit Unions
+ Commodity Exchange Act registered entities
+ Tax-exempt entities (charities)
+ Subsidiary of certain exempt entities
+ Large operating companies

To qualify for the Large operating company exclusion, you must meet all of the following:

+ Employ more than 20 full-time employees in the United States (full-time is defined as an average of at least 30 hours per week or 130 hours per month)
+ Operating presence within the United States
+ File a Federal income tax return with gross receipts more than $5,000,000

What is to be reported?

If you must report, they want to know who has substantial control over the company and who owns or controls at least 25% of the reporting company. Substantial control includes senior officers of the Company, anyone with the ability to appoint or remove a senior office of the Company, and anyone who directs or has substantial influence over the important decisions made by the Company.

Continued on the next page.

Reporting Timeline

All existing businesses as of January 1, 2024 will have until the end of 2024 to file the required documentation with FinCEN.

ANY COMPANIES ESTABLISHED AFTER JANUARY 1, 2024 WILL HAVE 90 DAYS TO COMPLY WITH THE FILING REQUIREMENTS AND NEW COMPANIES AFTER JANUARY 1, 2025 WILL HAVE 30 DAYS TO FILE.

A person who willfully violates the reporting requirements may be subject to civil penalties of $500 for each day the violation continues and criminal penalties. FinCEN has allowed for third-party service providers to submit the information on behalf of the reporting company. If you use a third-party service provider, it is recommended that you obtain a transcript of the BOI report for your records.

IRS Cracks Down On Dubious ERC Claims

by Robert Bell, CPA, Audit + Tax Manager

The IRS is taking action to prevent fraudulent claims within the Employee Retention Credit (ERC) program. This credit provided crucial relief to many during the pandemic, however, some bad actors saw an opportunity to exploit it. Here is the summary of key points:

- 20,000 initial letters sent: Targeting claims filed by non-existent businesses or those without employees during the eligibility window (March 2020 – December 2021).
- More Letters Coming: Disallowances and refund requests will be issued to those who mistakenly claimed the credit.
- Focus on two areas: (1) Claims from entities not in existence during the eligibility period; and (2) those with no paid employees during the period.

The IRS has a voluntary disclosure program where it gives a chance to rectify any issues with questionable ERC claims. They also have a claim withdrawal option where claimants can withdrawal inaccurate claims penalty free.

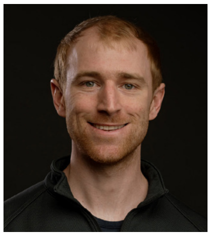
Beware of aggressive marketing! If it sounds too good to be true, it probably is. Some red flags are companies claiming a fast ERC windfall with low costs. We've seen promises (and claims) of qualifying all eligible quarters without even reviewing the financial statements.

It's important to maintain meticulous records with detailed documentation of payroll, closures and government orders. Keeping these records are crucial evidence in the event of an IRS inquiry.

If your business has filed for the ERC and receives a letter questioning the claim, stay calm, gather your documentation and don't hesitate to call us. We are here to help!

NEW AI & Software for 2024

by Matt Gardiner, Audit Manager, CPA



Canopy

We are thrilled to announce that we will be transitioning from NetClient to Canopy for our client document management. This change is part of our ongoing commitment to improving our service and providing a seamless, user-friendly experience. Canopy, a renowned practice management platform in the industry, offers a wide array of features that are designed to streamline workflows, enhance data security, and promote client transparency.

Canopy will allow you to easily view, manage, and upload documents from your computer, or you can even scan a document directly from your phone using the Canopy App. This will allow us to more easily share documents with you for increased security and less reliance on e-mail, and also enable us to leverage e-signatures.

This change is set to improve our firm's overall efficiency and client service.

With Canopy, you can expect advanced document management capabilities, including secure document sharing, easier navigation, and real-time collaboration. These enhancements will facilitate our communication and interaction, making it even easier for us to serve your needs.

MindBridge

As we head into the new year, our firm is increasing its use of the MindBridge AI Auditor software to aide in our audits. In our 2023 audits where we leveraged the platform, we increased our audit efficiency by targeting a risk-based audit approach guided by the program's recommendations alongside our many years experience in this industry.

MindBridge allows us to analyze 100% of the transactions your company had for the period under audit, meaning every single transaction is analyzed by its 40+ control points.

This reduces the noise in the vast amount of data your company generates and pinpoints our testing to areas of a higher risk.

Additionally, the program allows us to compare the current year to up to four prior years to give forecasts and enhanced analysis. In 2023, we used this to offer improved margin analysis, evaluate trends in revenues and expenses, and look at key financial ratios on a month-to-month basis for every year put into the program.

The move to MindBridge for your audit comes at no additional cost — we are excited to leverage this platform to improve our audit process for our clients. You may be asked to provide us historical general ledger detail along with opening trial balances as we look to increase the number of audits utilizing this program. Our audit staff will help guide you through obtaining the detail to make this happen.

HAPPY RETIREMENT TO CRISTINA BUCKSBAUM!

Cristina Bucksbaum has announced her retirement from Gardiner + Company CPAs as of December 8th 2023. We thank Cristina for her dedicated services to our clients and the many contributions she made during her 12 years with the firm. Cristina enjoyed a 27 year career in public accounting. Please join us in wishing Cristina well in her future endeavors and the next chapter of her life!

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