

Post Meeting Bulletin

From the 68th National Annual Meeting & Technical Program



The National Society of Accountants for Cooperatives (NSAC) held its 68th Annual Meeting & Technical Programs at the Hyatt Regency Crystal City in the metropolitan Washington DC area, August 4-6, 2003. Following are highlights from some of the presentations made.

Monday – Tax Seminar (The Basics)

A “Principles of Cooperative Taxation” seminar was offered during the morning session of the Tax Seminar, held on Monday, August 4th. This is a four-hour session, offered to introduce the registrants to the business principles and operating practices that distinguish a cooperative from other business forms. The purpose of this session is to give the participant, who may be new to cooperatives, a basic understanding of what makes a cooperative unique. [Registrants for the Basic Tax Seminar joined the Advanced Seminar registrants for the luncheon and full afternoon sessions.]

The material offered in the session covered, among other things:

- ☞ the history of cooperatives,
- ☞ how cooperatives are organized,
- ☞ exempt v. non-exempt cooperatives and
- ☞ a number of definitions of cooperative terms that are important in developing an understanding of the cooperative structure.

The presentation also gives the participant an overview of the litigation that has occurred between the IRS and cooperatives in the area of patronage determination. A part of the session is devoted to the use of a case study to illustrate key points of the presentation as well as to stimulate discussion.

Monday – Advanced Tax Seminar, morning program

The Advanced Session of the Tax Seminar opened on Monday morning, August 4, 2003 with a presentation, **Losses in Your Regional Cooperatives**, **Don Frederick, Jack Flesher & Dale Carlson** covering the handling of losses

in regional cooperates. Don and Jack covered the general rules of deductibility and the various methods available to cooperatives for dealing with patronage losses, while Dale dealt more specifically with the circumstances regarding the Farmland equities held by regional cooperatives.

This was followed by LLC's From Cradle to Grave, **Mike McIntyre and Ron Hennen**. Ron focused on the issues that need to be addressed at the formation of an LLC so that problems do not arise further on in the life of the entity, should a member wish to withdraw. Mike focused on specific legal and administrative details that LLC's and their members need to follow to be certain to preserve the limited liability status of the organization.

After the morning break, the programmed moved to Update on Sarbanes-Oxley Rules and Tax Shelter Regulation. **Don Butwill Mark Schneider and Don Butwill** provided an overview of the recently finalized IRS regulations covering disclosure requirements for taxpayers participating in tax shelters as defined in the regulations, noting their potential impact upon cooperatives. In addition, Mark gave a brief overview of the rules under the Sarbanes-Oxley SEC final rules and their impact on the tax services provided to certain corporations by their auditors.

The morning concluded with a well received presentation, Recent Developments in Deferred Compensation. **Karen Field** covered recent developments in the rules covering deferred compensation plans. Karen's presentation included a brief introduction of the basics of deferred compensation plans, leading then to a discussion of recent IRS rule changes and well as legislative changes.

Monday – Combined Basic & Advanced Tax Seminar, afternoon program

Small Cooperative Roundtable, led by a panel consisting of **Dale Carlson, Dwayne Campbell, Tony Burrell, Ed Bercot and Mike McIntyre**, and

“Please find a way to expand on this program. The information I get while participating in the Small Cooperative Roundtable is worth the price of registration.”

Hot Topics for Large Cooperatives . After lunch the session continued with the concurrent sessions for the Small Cooperative Roundtable, always a very well received session, as well as the Hot Topics for Large Cooperatives. The large cooperative session had a different format this year, with a panel of moderators, including Larry Boeshart, George Benson, Gary McDavid, and Don Butwill. The discussions included a range of issues currently facing cooperatives.

Current Developments, **George Benson and Randy Jones** Randy Jones, of the NCFC, and George Benson followed the concurrent sessions with their annual review of current developments. Randy covered the legislative scene from Washington, while George covered recent developments in IRS ruling and court cases.

IRS Subcommittee Developments The day ended with the annual report from the IRS subcommittee, reported by **David Antoni**. In addition, **Steve Piecara** of the National Rural Electric Cooperative Association made a presentation on “synthetic leasing” transactions being utilized by electric cooperatives. Mike Dolan closed the session, covering recent changes and developments within Internal Revenue Service.

Tuesday, August 5 - Morning General Sessions

Top 100 Coops, Coop Diversity in 2002 – Barry Silver, a Managing Director at the National Cooperative Bank

This is the ninth year that the National Cooperative Bank has compiled the Top 100 Coop list. It includes agricultural, energy, finance, grocery, hardware, food distributors, and recreational coops. All Top 100 had sales of at least \$346 million. Cenex Harvest States replaced Farmland as the largest ag cooperative. Agricultural, groceries, and energy coops all showed a 4% increase in revenues from 2001, while finance cooperatives showed a 16% drop in revenues.

The largest growth in cooperatives was in purchasing coops, where members pool their resources to purchase goods and services at a lower cost, to provide joint advertising, to offer educational opportunities, or to provide financial services. Examples of these types of coops are ACE Hardware, AMOROK (dry wall distributors) and Carpet One (with 1,500 retail carpet members).

For more information on the NCB's Top 100 Coops, at <http://www.co-op100.coop>.

SEC Update – Robert J. Comerford, Professional Accounting Fellow, US Securities and Exchange Commission

While the Sarbanes-Oxley Act is aimed at SEC companies, it will impact non-SEC companies also. While the requirements are aimed at SEC registrants, they will become best practices for the rest of the companies, including coops. The Act is complex and detailed, stressing the importance of a code of ethics for the management team and the important role a board auditing committee plays. Auditors also will be held to a higher standard and be required to maintain independence. If an audit firm

provides audit services, then they cannot offer bookkeeping, actuarial services, or financial system design and development services.

In a policy statement issued April 25, 2003, the SEC recognized the Financial Accounting Standards Board (FASB) as the generally accepted by the Commission. It further stated that accounting standards should be principles-based rather than rules-based and should offer few exceptions. They should be kept current and with considerations for convergence to international accounting standards.

Marketing Farm Products – William T. “Bill” Hawks, USDA Under Secretary, Marketing & Regulatory Programs.

Abraham Lincoln created the US Department of Agriculture (USDA) during his presidency. Its purpose is to work with producers and consumers to deliver wholesome healthy foods. Under Mr. Hawks leadership, the Marketing & Regulatory Department has set goals to develop better partnerships with the growers, States, ag associations, scientific groups, and consumers. He wants to expand domestic and international markets, to invest in the infrastructure to insure that agriculture is healthy, both biologically and economically, and to promote agriculture as a profession.

Mr. Hawks stated that agriculture needs to change to survive. It will be essential to combine science and marketing to better feed the world while gaining market share for the US producers.

Legislative Update – Elizabeth Crewson Paris, Tax Counsel for the US Senate Finance Committee.

The election of the current administration has

“This presenter was sharp. She knew more about the issues related to our interests than I have ever heard any single person from the Hill speak about.”

raised the spotlight on cooperatives through the leadership positions of Senators Grassley and

Baucus in key Senate Committees. The Energy Tax Incentive Act of 2003 passed the Senate on July 31, 2003. In it, coops can allocate the small ethanol producers' credit to its members. Improvements were made to allow small refineries to expense capital costs related to compliance with environmental standards. Cooperatives control about 5% of the US's refinery volume.

The Senate will also be considering in the next session the Dividend Allocation Rule which allows coops to pay preferred stock dividends out of non-patronage earnings. Also scheduled for consideration will be modifications to the coop marketing rules to include value added processing involving animals. Also, in the future, LLCs and cooperatives will be examined to determine how closely they resemble each other. Is there a need for both, and if not, how that will affect future tax laws.

You Don't Need A Big S on Your Chest - H. F. "Goldie" Gouldthorpe, VP Quality & Communications for Owens & Minor.

In a light-hearted and energetic fashion, Goldie discussed his book I've Always Looked Up to Giraffes which compares the traits of giraffes to good leaders. Giraffes, like good leaders, are always looked up to, stick their necks out, have good vision, move fast, have big hearts, are good listeners, are very perceptive of their surroundings, care about others, are competitive, are tireless, have fun, and look at things differently.

"Upbeat and funny, Goldie still brought home the message that you need to care for those who are caring for you and your organization."

Goldie's three steps to success are 1) Let people know you care about them, 2) Let people know they make a difference, and 3) Ask yourself and your employees what can be done to make

your company better. If you do these three things, your employees will exceed your expectations.

FASB Update - What Have We Done To You Lately? Sue Bielstein, FASB

Sue Bielstein, who also presented at NSAC's 2001 National Annual Meeting in Vancouver, BC, was back this year to address specific accounting standards. Preceding that, Sue provided information on recent changes at the FASB, much in response to Sarbanes-Oxley, the resulting new SEC rules, and the ongoing formation and implementation of the Public Company Accounting Oversight Board.

Sue discussed SFAS No. 144, *Impairment or Disposal of Long-Lived Assets*. She described the incentives for issuing Statement 144 as being "significant implementa-

"This is a speaker who should be addressing our group every year. Her talk was extremely informative and helpful and reminds me why I continue to be a member of NSAC"

-tion issues relating to Statement 121," and the "inconsistencies in accounting for assets to be disposed of." Statement 144 has been designed to clarify and replace Statement 121.

By far, the most pertinent and question-provoking segment of Sue's presentation were her remarks regarding SFAS No. 150, *Liabilities and Equity*.

NOTE: There will be a full length article on this presentation in the upcoming issue of *The Cooperative Accountant*.

Ethics in the Workplace - Nan DeMars, an ethics behaviorist, author, seminar leader, columnist, and TV-Radio talk show host

Nan began her presentation by asking several workplace ethics related questions including:

“Would you lie for your boss?” “Would you steal small items from your office?” and “Would you use

“Nan DeMars has a strong “Ethical Compass” that leads her to bring us such a forceful program.”

company assets for personal gain?” She discussed her take on the Enron and other recent business debacles. She stated that blind loyalty is a thing of the past. You must use your Ethical Priority Compass which means that you must protect yourself first, your cooperative second and your boss third.

Nan believes that you must expect honesty and ethics, a value system and trust from your employees and cooperative leadership in the new millennium. Companies are using the following activities to focus on ethics: 1) codes of ethics, conduct and mission statements, 2) accountability and enforcement of the codes, 3) expanded employee handbooks, 4) ethics departments and compliance officers, and 5) fraud/ethics hotlines.

Wednesday, August 6th Technical Program

PCOAB Update – Thomas Ray, Deputy Chief Auditor – Public Company Accounting Oversight Board

Thomas Ray, the Deputy Chief Auditor for the Board, gave an overview of the new Public Company Accounting Oversight Board (PCAOB). This was the first speech given by Mr. Ray to a group of accountants since he joined PCAOB.

The Board was created by the Sabanes-Oxley Act of 2002 in the wake of corporate and accounting scandals, such as Enron and WorldCom. The Board’s mandate is to “protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports” of public companies. The Board operates as a

private, non-profit corporation; members and employees are not government employees.

The Board’s responsibilities are:

- 1) Registration of public accounting firms that audit “issuers.”
- 2) Inspections of registered public accounting firms.
- 3) The setting of auditing, quality control, ethics, and independence standards for the auditors of public companies.
- 4) Investigations and enforcement.

The PCAOB will not be the standards setting group, but rather will be a standards reviewing group to insure the quality of the audits. SAS 82 and 99 to detect financial fraud are good standards but may not have been implemented very well. In terms of sanctions, the PCAOB will have more power than the AICPA in dealing with public accounting firms. Mr. Ray stated that the inspections are the heart and soul of PCAOB.

Mr. Ray also said auditors need to be skeptical and not have a checklist mentality. Auditing for fraud will be a standard.

When asked who will oversee auditing standards of non-public companies, Mr. Ray said the Board doesn’t know yet, but that the standards would probably not be different. PCAOB is obviously moving the process along but has a long way to go.

Personal Financial Planning – Kevin King, Director of Personal Financial Counseling for Ernst & Young’s Richmond Office.

The new tax law will provide many opportunities for tax savings in the areas of lower individual tax rates, modifications to the marriage penalty, accelerated depreciation, lower rates on capital gains, lower tax rates on dividends, and

“Kevin King gave an excellent presentation. He answered the questions I did not have to ask. Five Stars!”

others. Changes have also

been made to deferred compensation plans. Education IRAs and Qualified Tuition Programs (Section 529) offer opportunities to save for children's college education and do so with some tax savings on the earnings of these plans.

Mr. King stated that the Alternative Minimum Tax could be coming into play because these tax tables have never been indexed for inflation like regular tax tables. This could cause triggering of the AMT in Middle America and could get ugly because it could potentially affect 50 million taxpayers.

White Collar Crime – Charles E. Price, II, Federal Bureau of Investigation Special Agent

Charles E. Price, II is a Special Agent for the FBI. Mr. Price gave the group an overview of the differences of investigating Traditional Crime vs. White Collar Crime from the perspective of a guy who is a street agent and not management or an administrator.

“Presenting this speaker at the end of the program was a great way to finish the meeting. He was entertaining, opened my eyes to FBI activities and how the bad guy thinks.”

The overview began with a discussion of the mission of the FBI, before and after September 11, 2001. The focus of the FBI is changing from chasing criminals to counter-terrorism, counterintelligence, cyber-crimes and working with the other government departments such as the CIA. preventing terrorism. The make up of agents is also changing from accountants, lawyers, police and military types to that of engineers, technology types and linguists. While still dealing with organized crime, bank robberies, and kidnapping, the focus is more on protecting America from attacks within by outside organizations.

Special Agent Price spent a good deal of his time showing how the FBI broke up a white collar bank embezzlement scheme. It was interesting to see how they unraveled the organization by identifying lesser members of the group and

using them to lead them to the mastermind.

Using a series of pictures and tape

recordings, the audience got a close hand view of how white collar crime is detected and stopped.

The 68th Annual Meeting and Technical Program concluded noon on Wednesday, August 6th. If you were unable to attend, we hope you have enjoyed reading these highlights and that you will plan NOW to attend the 69th Annual Program in Denver, CO, August 2-4, 2004! **Mark your calendars now**, get this event planned for in your budget and join us for another fantastic educational opportunity and networking event.



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