

**CONFIDENTIAL – ATTORNEY EYES ONLY MATERIAL
SUBJECT TO PROTECTIVE ORDER DATED OCTOBER 18, 2016
(REDACTED)**

**REBUTTAL TESTIMONY OF DAVID W. STONESIFER, CPA
Appearing on Behalf of the Area 4 Milk Dealers
Testimony before the Pennsylvania Milk Marketing Board
2016 Cost Replacement Hearing – Milk Marketing Area 4
December 8, 2016**

Submitted: November 14, 2016

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Introduction

I am David W. Stonesifer, CPA, and my address is 2763 Century Boulevard, Reading, Pennsylvania 19610. I am an audit partner in the firm of Herbein + Company, Inc. I am a licensed certified public accountant in the Commonwealth of Pennsylvania, the state of Missouri and the state of Arizona. I have been in practice for twenty years. I serve as the lead partner in charge of approximately twenty audit engagements annually. In this capacity I supervise a team of auditors conducting substantive audit procedures as well as review, evaluation and testing of internal controls for corporations primarily in the dairy and agricultural sectors. My responsibilities also include final sign off authority on the audited financial statements for these aforementioned engagements. I also serve on our firm's audit engagement quality review team. Members of this team provide internal audit training for our professional staff and conduct detailed quality reviews for attest engagements prepared by other partners within the firm. I conduct between fifty and seventy of these quality reviews annually. I attach my Curriculum Vitae, as **Exhibit 1**, which further outlines my education, recent continuing education and experience.

Thank you for the opportunity to provide testimony today on behalf of the Area 4 Milk Dealers Association. **[BEGIN CONFIDENTIAL ATTORNEY EYES ONLY MATERIAL]** [REDACTED]

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Generally Accepted Auditing Standards

All auditors of financial statements must conduct their audits in accordance with Generally Accepted Auditing Standards (GAAS). These standards are a set of ten principles that auditors must follow; the goal of which is to aid the auditor in planning, conducting and reporting the results of audits. These standards are divided between the categories of 1) General Standards 2) Standards of Field Work and 3) Standards of Reporting. See **Stonesifer Exhibit 2** (also available at <http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00150.pdf>). I believe four of these standards to be highly relevant **[BEGIN CONFIDENTIAL ATTORNEY EYES ONLY MATERIAL]** [REDACTED] **[END CONFIDENTIAL ATTORNEY EYES ONLY MATERIAL]**

(1) Independence – This standard is the second of the General Standards and requires that “The auditor must maintain independence in mental attitude in all matters relating to the audit.” This is a core principle of auditing and it requires that the auditor enter engagements free of bias, both for and against a company. It is not appropriate for an auditor to opine on positions within the financial statements or the financial statements as a whole without a strict adherence to the principle of independence from the client.

(2) Understanding of the Entity – This standard is the second of the Standards of Field Work and requires that “The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements.....” This standard is imperative to any audit as it is the basis for the design of all audit testing to be performed. Simply stated, the audit environment is different at every company and the auditor must have an understanding of the client’s financial environment and internal controls to adequately and effectively perform the audit. **[BEGIN CONFIDENTIAL ATTORNEY EYES ONLY MATERIAL]** [REDACTED]

[REDACTED] **[END CONFIDENTIAL ATTORNEY EYES ONLY MATERIAL]** An auditor must be able to understand this internal control environment to properly audit supporting evidential matter.

(3) Audit Evidence – This standard is the third of the Standards of Field Work and requires that “The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.” Audit evidence can come in all forms including copies of invoices, cancelled checks, etc. However, evidential matter that auditors view with the highest regard is evidence obtained from outside, independent third parties. Examples of third party evidence would include third party confirmations, directly obtained bank statements and independently issued third party **[BEGIN CONFIDENTIAL ATTORNEY EYES ONLY MATERIAL]** [REDACTED] **[END CONFIDENTIAL ATTORNEY EYES ONLY MATERIAL]**

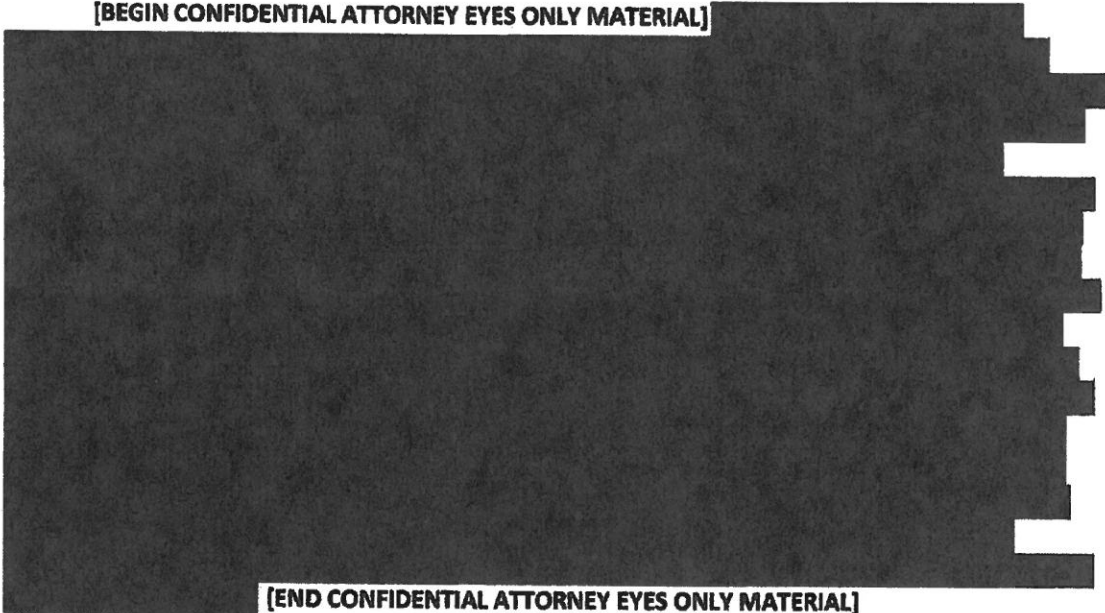
(4) GAAP – Lastly, the first of the Standards of Reporting requires that “The auditor must state in the auditor’s report whether the financial statements are presented in accordance with

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generally accepted accounting principles.” Reporting the results of operations, particularly determining and presenting net income, is one of the most critical aspects of financial reporting. GAAP provides specific guidance as to how certain items should be presented in the income statement. GAAP requires presentation of income in an “all inclusive” manner. Net income should include all items of revenue, expense, gain and loss during a reporting period. GAAP is intended to ensure that when a potential lender, shareholder, or regulator reviews a financial statement, that the reader is assured the financial statement paints an accurate picture of the financial status of the particular company.

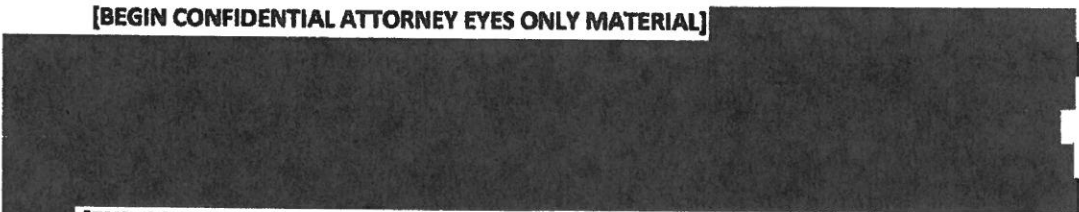
**Preparation of the Form 60s
Involves Critical Elements Of A Financial Audit Including Compliance With GAAP**

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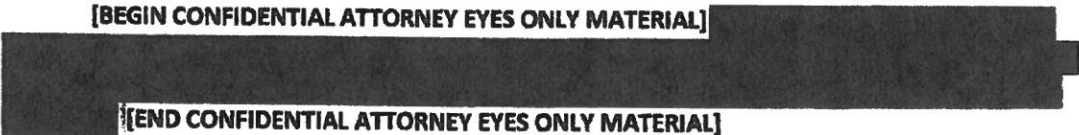
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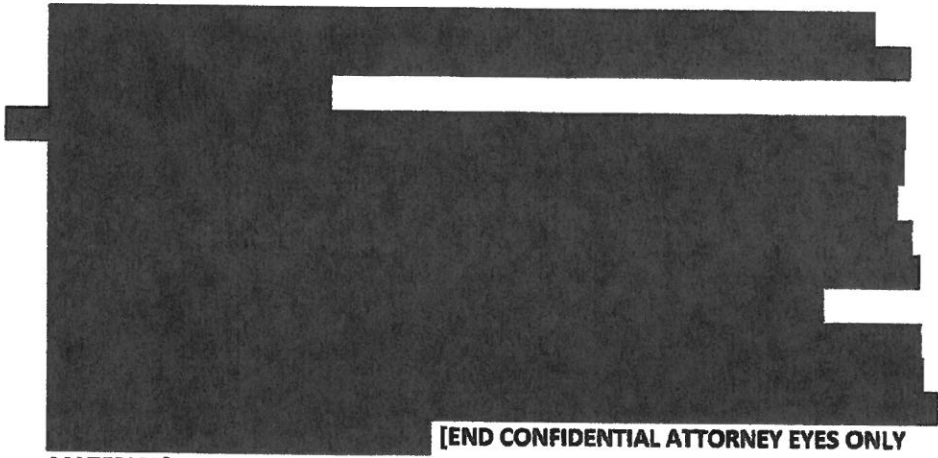
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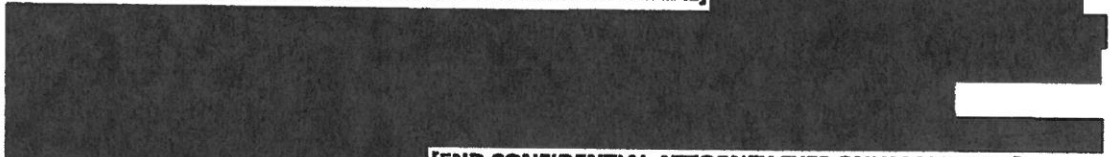
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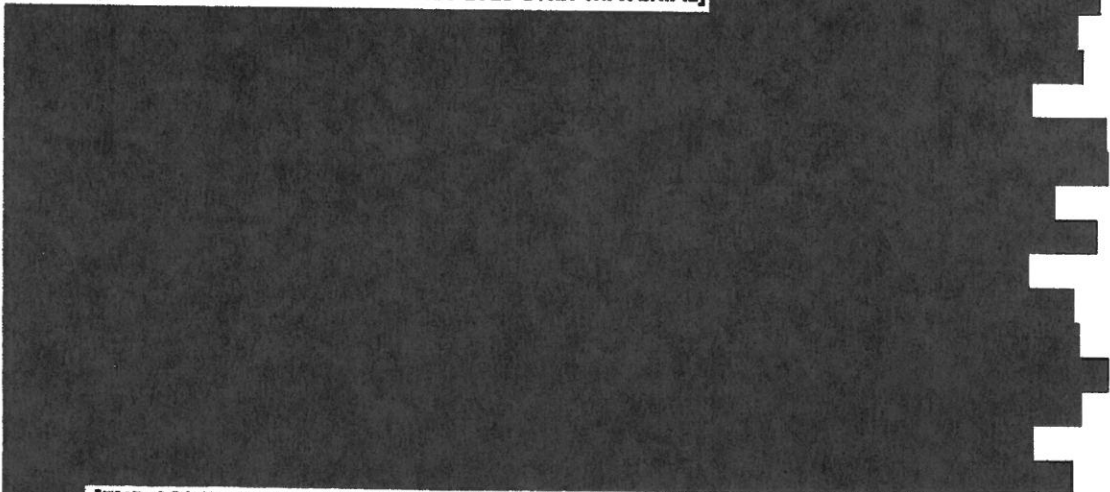
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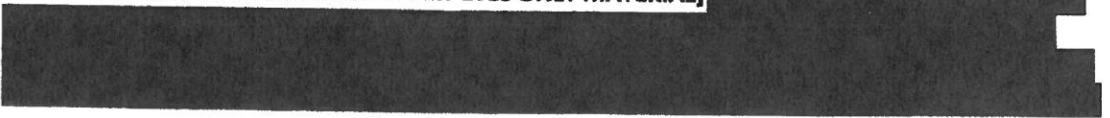
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Exhibit 1

David W. Stonesifer, CPA *Curriculum Vitae*

EDUCATION

Albright College – B.S. Degree in Accounting (1996)
Presidential Scholar

Lewis D. Pepe Memorial Accounting Award Recipient

EMPLOYMENT

Herbein + Company, Inc., Reading, PA

October 2008 to present

Partner – Accounting & Auditing Department

- Member of the Firm's Audit Quality Review Team
- Partner with final sign off responsibility for the majority of the Firm's dairy and cooperative clients

June 2005 to September 2008

Senior Manager – Accounting & Auditing Department

July 2002 to May 2005

Manager – Accounting & Auditing Department

January 2000 to July 2002

Supervisor – Accounting & Auditing Department

June 1998 to January 2000:

Senior Accountant – Accounting & Auditing Department

July 1997 to June 1998:

Advanced Staff Accountant – Accounting & Auditing Department

September 1996 to July 1997:

Staff Accountant – Accountant & Auditing Department

February 1995 to April 1995:

Tax Department Intern

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS

CPA – Commonwealth of Pennsylvania, State of Arizona, and State of Missouri

Past President – Reading Chapter of Pennsylvania Institute of Certified Public Accountants

Former Executive Council Member – Pennsylvania Institute of Certified Public Accountants

Member – American Institute of Certified Public Accountants

Member – Pennsylvania Institute of Certified Public Accountants

Member – National Society of Accountants for Cooperatives – Capital Chapter

National Conference Planning Committee Chairman – National Society of Accounts for Cooperatives

Board Member – Albright College Business Advisory Council

Former board member and finance committee member – YMCA of Reading & Berks County

Former board member – Greater Reading Young Professionals Network

David W. Stonesifer, CPA

RECENT SPEAKING ENGAGEMENTS

Reading Chapter PICPA – Accounting Profession Leadership Panel Discussion (2016)

Albright College – Preparing Yourself for Your First Professional Interview (2016)

Internal Herbein + Company Training – Basic Cooperative and Dairy Accounting Training (2015)

Quality Check Dairies Annual Meeting – The Benefits of Cost Benchmarking (2015)

International Dairy Foods Association – Capital Budgeting (2015)

RECENT CONTINUING EDUCATION COURSES TAKEN

“Mind the GAAP” – October 2016

“Reading Chapter PICPA Leadership Panel and Networking” – September 2016

“Lease Accounting Standards” – August 2016

“Legal, Tax and Accounting Conference – National Council of Farmer Cooperatives” – February 2016

“Ethics and Professional Conduct for Arizona” – January 2016

“Accounting and Auditing Update” – January 2016

“Affordable Care Act Training” – October 2015

“Basic Cooperative and Dairy Accounting Training” – Instructor, October 2015

“2015 Tax, Finance and Accounting Conference – National Society of Accountants for Cooperatives” – August 2015

“2015 AICPA National Advanced Accounting and Auditing Technical Symposium” – July 2015

“Capital Chapter National Society of Accountants for Cooperatives” – June 2015

“2015 Legal, Tax, and Accounting Conference – National Council of Farmer Cooperatives” – February 2015

“Repair Regulations” – January 2015

“The Best Individual Income Tax Update” – January 2015

“Government Economic Development Loans” – December 2014

“Audit Peer Review Summary and Planning Course” – November 2014

“2014 Tax and Accounting Conference – National Society of Accountants for Cooperatives” – August 2014

“Ethics and Professional Conduct for Arizona” – July 2014

“AICPA National Advanced Accounting and Auditing Technical Symposium” – July 2014

“Legal, Tax and Accounting Conference – National Council of Farmer Cooperatives” – February 2014

“WPA Busy Season Tax Meeting” – January 2014

“Cooperative Training” – Instructor, November 2013

“Accounting and Auditing with Allison Henry” – November 2013

“Reading Chapter PICPA Professional Issues Update” – November 2013

“iPad Effective Business Usage” – September 2013

“Tax and Accounting Conference for Coops” – August 2013

“Financial Reporting Framework” – August 2013

“Impact of Obama Care” – July 2013

“2013 AICPA National Advanced Accounting and Auditing Technical Symposium” – July 2013

“Financial Statement Analysis” – June 2013

“Accounting and Auditing Standards Update” – February 2013

David W. Stonesifer, CPA

EXPERT WITNESS TESTIMONY

Maine Milk Commission – Expert Testimony – Retail Margin Study (in process 2016)

Maine Milk Commission – Expert Testimony – Dealer Margin Study (2015)

Maine Milk Commission – Expert Testimony – Retail Margin Study (2013)

AU Section 150

Generally Accepted Auditing Standards

(Supersedes SAS No. 1, section 150.)

Source: SAS No. 95; SAS No. 98; SAS No. 102; SAS No. 105; SAS No. 113.

Effective for audits of financial statements for periods beginning on or after December 15, 2001, unless otherwise indicated.

.01 An independent auditor plans, conducts, and reports the results of an audit in accordance with generally accepted auditing standards. Auditing standards provide a measure of audit quality and the objectives to be achieved in an audit. Auditing procedures differ from auditing standards. Auditing procedures are acts that the auditor performs during the course of an audit to comply with auditing standards.

Auditing Standards

.02 The general, field work, and reporting standards (the 10 standards) approved and adopted by the membership of the AICPA, as amended by the AICPA Auditing Standards Board (ASB), are as follows:

General Standards

1. The auditor must have adequate technical training and proficiency to perform the audit.
2. The auditor must maintain independence in mental attitude in all matters relating to the audit.
3. The auditor must exercise due professional care in the performance of the audit and the preparation of the report.

Standards of Field Work

1. The auditor must adequately plan the work and must properly supervise any assistants.
2. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.
3. The auditor must obtain sufficient appropriate¹ audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.

*Standards of Reporting*²

1. The auditor must state in the auditor's report whether the financial statements are presented in accordance with generally accepted accounting principles.³
2. The auditor must identify in the auditor's report those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. When the auditor determines that informative disclosures are not reasonably adequate, the auditor must so state in the auditor's report.
4. The auditor must either express an opinion regarding the financial statements, taken as a whole, or state that an opinion cannot be expressed, in the auditor's report. When the auditor cannot express an overall opinion, the auditor should state the reasons therefor in the auditor's report. In all cases where an auditor's name is associated with financial statements, the auditor should clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking, in the auditor's report.

[As amended, effective for audits of financial statements for periods beginning on or after December 15, 2006, by Statement on Auditing Standards (SAS) No. 105. As amended, effective for audits of financial statements for periods beginning on or after December 15, 2006, by SAS No. 113.]

.03 Rule 202, *Compliance With Standards*, of the AICPA Code of Professional Conduct [ET section 202.01], requires an AICPA member who performs an audit (the auditor) to comply with standards promulgated by the ASB.⁴ The ASB develops and issues standards in the form of SASs through a due process that includes deliberation in meetings open to the public, public exposure of proposed SASs, and a formal vote. The SASs are codified within the framework of the 10 standards.

.04 The nature of the 10 standards and the SASs requires the auditor to exercise professional judgment in applying them. Materiality and audit risk also underlie the application of the 10 standards and the SASs, particularly those related to field work and reporting.⁵ When, in rare circumstances, the auditor departs from a presumptively mandatory requirement, the auditor must document in the working papers his or her justification for the departure and

² The reporting standards apply only when the auditor issues a report. [Footnote added, effective for audits of financial statements for periods beginning on or after December 15, 2006, by SAS No. 113.]

³ When an auditor reports on financial statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles (GAAP), the first standard of reporting is satisfied by stating in the auditor's report that the basis of presentation is a comprehensive basis of accounting other than GAAP and by expressing an opinion (or disclaiming an opinion) on whether the financial statements are presented in conformity with the comprehensive basis of accounting used. [Footnote added, effective for audits of financial statements for periods beginning on or after December 15, 2006, by SAS No. 113.]

⁴ In certain engagements, the auditor also may be subject to other auditing requirements, such as Government Auditing Standards issued by the comptroller general of the United States, or rules and regulations promulgated by the U.S. Securities and Exchange Commission. [Footnote renumbered by

how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. [As amended, effective December 2005, by SAS No. 102. As amended, effective for audits of financial statements for periods beginning on or after December 15, 2006, by SAS No. 113.]

Interpretive Publications

.05 *Interpretive publications* consist of auditing interpretations of the SASs, appendixes to the SASs,⁶ auditing guidance included in AICPA Audit and Accounting Guides, and AICPA auditing Statements of Position.⁷ Interpretive publications are not auditing standards. Interpretive publications are recommendations on the application of the SASs in specific circumstances, including engagements for entities in specialized industries. An interpretive publication is issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with the SASs. [As amended, effective September 2002, by SAS No. 98.]

.06 The auditor should be aware of and consider interpretive publications applicable to his or her audit. If the auditor does not apply the auditing guidance included in an applicable interpretive publication, the auditor should be prepared to explain how he or she complied with the SAS provisions addressed by such auditing guidance.

Other Auditing Publications

.07 *Other auditing publications* include AICPA auditing publications not referred to previously; auditing articles in the *Journal of Accountancy* and other professional journals; auditing articles in the *AICPA CPA Letter*; continuing professional education programs and other instruction materials, textbooks, guide books, audit programs, and checklists; and other auditing publications from state CPA societies, other organizations, and individuals.⁸ Other auditing publications have no authoritative status; however, they may help the auditor understand and apply the SASs.

.08 If an auditor applies the auditing guidance included in an other auditing publication, he or she should be satisfied that, in his or her judgment, it is both relevant to the circumstances of the audit, and appropriate. In determining whether an other auditing publication is appropriate, the auditor may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying the SASs and the degree to which the issuer or author is recognized as an authority in auditing matters. Other auditing

⁶ Appendixes to SASs referred to in paragraph .05 of this section do not include previously issued appendixes to original pronouncements that when adopted modified other SASs. [Footnote added, effective September 2002, by SAS No. 98. Footnote renumbered by the issuance of SAS No. 105, March 2006. Footnote subsequently renumbered by the issuance of SAS No. 113, November 2006.]

⁷ Auditing interpretations of the SASs are included in the codified version of the SASs. AICPA Audit and Accounting Guides and auditing Statements of Position are listed in appendix D. [Footnote renumbered by the issuance of SAS No. 98, September 2002. Footnote subsequently renumbered by the issuance of SAS No. 105, March 2006. Footnote subsequently renumbered by the issuance of SAS

publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are presumed to be appropriate.⁹

Effective Date

.09 This section is effective for audits of financial statements for periods beginning on or after December 15, 2001.
