ISSUE
02
2018

# The Auditor's Report

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A PUBLICATION OF Nearman Maynard • Vallez Certified Public Accountants

## Revenue Recognition Standard

On May 28, 2014, the Financial Accounting Standards Board (FASB) completed its Revenue Recognition project by issuing Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The new guidance includes the following:

- Removes inconsistencies and weaknesses in existing revenue requirements.
- Provides a more robust framework for addressing revenue issues.
- Improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
- Provides more useful information to users of financial statements through improved disclosure requirements.
- Simplifies the preparation of financial statements by reducing the number of requirements to which an organization must refer.

This change in revenue recognition will replace almost all existing revenue recognition guidance in current U.S. generally accepted accounting principles (GAAP). However, the effects of the new revenue recognition guidance on the financial statements of credit unions will be somewhat limited because, for the most part, financial instruments and related contractual rights and obligations are excluded from its scope. Income recognition and measurement, the largest source of revenue for credit unions, will not be impacted by this accounting change. However, other sources of income for credit unions could be affected by this change. One example of how credit unions may be affected by this change is the income recognition when other real estate owned (OREO) property is sold.

The new guidance that will be applied to the sale of OREOs is more principles based. For example, profit recognition will no longer be explicitly dependent upon required minimum stated percentages for the buyer's initial net investment and continuing investment as is the case under current GAAP. Under the new guidance, the determination of when the sale of an OREO should be recognized will require more judgment to be exercised in certain circumstances. For example, as it pertains to the criteria for determining how a contract should be accounted for under the new guidance, judgment will need to be exercised in evaluating if: (a) a commitment on the buyer's part exists, (b) collection is probable in circumstances where the initial investment is minimal and (c) the buyer has obtained control of the asset, including the significant risks and rewards of ownership . If there is no commitment on the buyer's part, collection is not probable, or the buyer has not obtained control of the asset, then a gain cannot be recognized under the new guidance.


Credit unions should carefully review the new guidance and consider whether other noninterest sources of income will be impacted by this change. For example, revenue recognition related to certain customer loyalty programs, such as those associated with credit cards, may be impacted if fulfillment of the loyalty program is considered a performance obligation within the scope of the new guidance.

The effective date for credit unions is for annual reporting periods beginning after December 15, 2018, and interim and annual reporting periods after those reporting periods.

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## About Us

Since 1979, Nearman, Maynard, Vallez, CPAs has provided auditing and consulting services exclusively to credit unions throughout the United States. Our dedication to credit unions has given us the unique ability to provide exceptional service at a reasonable price. Our primary objective is to assist our clients in accomplishing their goals through our experience, service, & commitment. If your Supervisory/Audit Committee or Management is interested in obtaining information on the subjects in this issue or about our many services, call or email us today.

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## Charity Golf Tournament

On October 5, 2018, Nearman, Maynard, Vallez, CPAs sponsored and participated in LSCU's Broward and Southernmost Chapters' annual golf tournament. The tournament raised $50,000 for the league's charities. The tournament was also able to make a sizeable donation to the LSCU Foundation to benefit those effected by Hurricane Michael. The Nearman team came in third place and one of the members of the foursome won a prize for best swing!

## Happy Holidays!

Warmest wishes for Happy Holidays and a Happy New Year from everyone at Nearman, Maynard, Vallez, CPAs. Please take note of our holiday hours:

Our offices will be closed Monday, December 24th through Tuesday, January 1st for the Christmas and New Year holidays. Our offices will re-open on Wednesday, January 2nd.

## Change To The Effective Date of CECL


The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that amends the transition requirements and scope of the credit losses standard issued in 2016. This ASU mitigates transition complexity by requiring entities other than public business entities—including credit unions—to implement it for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. This aligns the implementation date for their annual financial statements with the implementation date for their interim financial statements.

Second, the ASU clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the leases standard.

The effective date and transition requirements are the same as the effective dates and transition requirements in the credit losses standard, as amended by the new ASU. More information is available at www.fasb.org.

## Compliance Reminder

Don't forget the due dates for the following required annual compliance audits are fast approaching. If you haven't planned for these audits, be sure to contact your auditor now to get your reviews scheduled.

- **ACH and BSA Audits:** Due date December 31st of each year.
- **Safe Act Review:** Due annually. (NCUA defines "annual" as within a calendar year)

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## AICPA Conference Recap


The AICPA's "2018 Conference on Credit Unions" was held in Las Vegas October 22nd –24th and this year we hit it big! The CFOs, practitioners, and credit union volunteers who attended the conference, both in person and on-line, were presented with educational sessions and networking opportunities that exceeded expectations. Lots of sessions on the Current Expected Credit Loss (CECL). We achieved our objective by providing technical knowledge to practitioners, internal auditors, supervisory committee members, credit union management.

This year's Keynote Speaker was Jeff Yabuki, President & CEO of Fiserv. He provided insight on technological changes affecting financial institutions and consumer trends. Other session topics included business lending, changes to auditing standards, and asset liability management. Overall attendees were very pleased with the sessions and provided excellent input for next year's conference which will be held in Nashville, Tennessee October 21st – 23rd. Hope to see you there or on-line.

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