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The Auditor's Report

In this issue

A PUBLICATION OF
Nearman Maynard•Vallez
Certified Public Accountants

Nearman, Maynard, Vallez, CPAs Celebrates 35 Years of Serving Credit Unions!

Thirty five years ago Steve Nearman started the firm with just a handful of clients and a new concept. Steve began the process of building a new type of auditing firm; limiting the practice to serving only credit unions. Steve was impressed with the fact credit unions existed only to serve their members and the feeling of community among all credit unions; the people helping people philosophy.

Nearman Maynard•Vallez
35 YEARS 1979 - 2014

Nearman, Maynard, Vallez CPAs now serves over 160 credit unions in 27 states throughout the United States and is ranked 3rd in the national market share ranking of CPA firms, by Callahan and Associates, for credit unions with total assets over $40 million. We still limit our audit services exclusively to credit unions and by doing so we have an in-depth knowledge of credit unions' unique needs and how to serve those needs. As the credit union industry evolves and the environment they operate in changes, so do our services.

2014 has started out to be one of the most challenging years yet. The economy continues to show signs of stress along with the job market, trade, the Federal Reserve, housing and taxes. Yet, the credit union industry is strong and ready to serve their members in this time of need. Now is the time for credit unions to show the value of credit union membership.

Being auditors, you might think our only goal is to ensure the financial statements we certify are materially correct. Since 1979, our mission has been to provide quality, efficient, and professional services to the credit union industry. We offer our clients more than just audit services. We also serve as a resource and provide accounting expertise, operational knowledge, and compliance services. Our firm newsletter, technical guides, consultations, and involvement in industry conferences have helped us develop loyal clients and exceptional relationships with examiners. Our dedication to service is what separates us from other firms.

As we celebrate our 35th year of partnering with credit unions, we want to thank all of our clients, our Associates, and others within the credit union industry for their continued support. We look forward to the opportunities that lie ahead in helping our clients accomplish their goals as we continue to strive to provide complete, quality, and professional services to the credit union industry.

Partners of Nearman, Maynard, Vallez CPAs -

Cecil D. Maynard III CPA, MPA, CFE, FCPA, CFF
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Is There Room For Improvement On Interim Reporting?

Is your Credit Union disclosing enough or not enough information of your performance each quarter?

Interim financial statements are unaudited summaries of compiled company data for a period less than a year, i.e. a month or quarter. This is in comparison to the quarterly call reports prepared by each Credit Union.

The purpose of interim reporting is to keep the NCUA, employees, members, and the public informed of how well or poorly the Credit Union is doing. With there being several parties involved in reviewing information provided, each Credit Union should ensure enough data is reported.

Below are some guidelines in preparing interim financial statements:

- Interim reporting should be based on the accounting principles used in the last year's annual report unless there was a change approved by the Board of Directors in the current year.
- Gains or losses cannot be deferred to a later interim period or year-end financial statements.
- Revenue should be recognized as earned throughout the interim period, just as the annual financial statements.
- Expenses must be related to revenue earned during the interim period and not associated with any future revenue earned or projected.
- Do not include predicted items within the financial statements before they occur.
- Be sure all accounting within the Credit Union is up-to-date and in compliance with ASC (Accounting Standards Codifications), GAAP (Generally Accepted Accounting Principles), and NCUA (National Credit Union Association)

Interim statements should increase communication between all parties with up-to-date information between annual reporting periods.

Relevant improvements to your Credit Union on interim financial reporting will be advantageous to all parties involved.

Keep in mind that, once the Credit Union starts preparing these statements, it needs to continue. Missing an interim financial statement might trigger an alarm among various parties.

Alysha Pruitt, Auditor
Nearman, Maynard, Vallez, CPAs

Change of Opinion...Recent Opinion Letter Changes

If you are reading the Independent Auditor's Report, or colloquially referred to as The Opinion Letter, for the first time this year you may notice some hallmark changes to the underlying report. The AICPA, in an ongoing endeavor to simplify overall accounting and auditing standards by making standards easier to comprehend and implement, has redrafted most of the AU sections in Codification of Statements on Auditing Standards. This effort parallels with the clarity movement and the convergence with Generally Accepted Accounting Principles (GAAP) and the International Standards on Auditing (ISAs).

Further, under AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report, one can note both a structural and a verbiage departure from previous codification. The financial statement reader will now see The Opinion Letter segregated into four parts: Report on the Financial Statements, Management's Responsibility for the Financial Statements, Auditor's Responsibility and the Opinion – All meant to provide clarity to stakeholders by establishing accountability and responsibility on the part of both the Management team and external Auditors.

From Unqualified to Unmodified

When expressing an opinion, under AU-C section 705 and 706, the auditor is now to express what is known as an unmodified opinion. For several years now, there has been an in-room discussion amongst practitioners alike over the recently changed unqualified opinion and what exactly does it mean to be unqualified. With the new change in opinion verbiage, there should no longer be any doubts in the minds of those responsible in reviewing financial statements.

Again, this change parallels with the clarity effort and the underlying plan to converge and synchronize to International standards. See table below for additional changes in language to the Reports on Audited Financial Statements.

Extant Term	Clarified Term
Standard Report	Term not used because we refer to the opinion and not the report
Clean Opinion/ unqualified opinion	Unmodified opinion
Explanatory paragraph	Emphasis-of-matter paragraph or other matter paragraph (as applicable)
Explanatory language	Additional communication

(AICPA, Professional Standards)

Marco Lavalle, MBA, Senior Auditor
Nearman, Maynard, Vallez, CPAs

Accounting Standards Updates

Definition of a Public Business Entity

In December 2013, the Financial Accounting Standards Board (FASB) issued **Accounting Standards Update (ASU) 2013-12 "Definition of a Public Business Entity."** This ASU was issued as a proactive way to determine which entities would be within the scope of the Private Company Decision-Making Framework. The objective is to develop a private company decision-making framework (the guide) for the FASB and the Private Company Council (PCC) to use in determining whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, or transition guidance for private companies reporting under U.S. Generally Accepted Accounting Principles (GAAP). The Private Company Decision-Making Framework focuses on user-relevance and cost-benefit considerations for private companies as potential justification for alternatives.

This Update defines credit unions as a private company. However, even if an entity is defined as a private company, an entity may not necessarily be eligible to apply all financial accounting and reporting alternatives within GAAP that are made available to private companies. Decisions about what types of entities are eligible for any alternatives within GAAP will be made when determining the scope of each alternative.

Intangibles-Goodwill and Other (Topic 350)

In January 2014, the FASB issued **ASU 2014-02 "Intangibles-Goodwill and Other (Topic 350)."** The amendments in this Update allow an accounting alternative for the subsequent measurement of goodwill. An entity within the scope of the amendments that elects the accounting alternative in this Update should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. An entity that elects the accounting alternative is further required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. When a triggering event occurs, an entity has the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the entity must perform the quantitative test to compare the entity's fair value with its carrying amount, including goodwill (or the fair value of the reporting unit with the carrying amount, including goodwill, of the reporting unit). If the qualitative assessment indicates that it is not more likely than not that goodwill is impaired, further testing is unnecessary. The goodwill impairment loss, if any, represents the excess of the carrying amount of the entity over its fair value (or the excess of the carrying amount of the reporting unit over the fair value of the reporting unit).

The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after December 15, 2014. Early application is permitted.

Reclassification of Residential Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued **ASU 2014-4 "Reclassification of Residential Estate Collateralized Consumer Mortgage Loans upon Foreclosure," (Subtopic 310-40)**: The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

The amendments in this Update are effective for private business entities for annual periods beginning after December 15, 2014.

Mortgage Servicing Requirements

To summarize Mortgage Servicing Requirements effective January 10th, 2014, NCUA issued two Regulatory Alerts. Credit Unions should review their operations and make the necessary changes to comply with the new and revised Mortgage Servicing Rules. Regulatory Alert NO 14-RA-03 summarizes the CFPB's new Truth in Lending Act Mortgage Servicing Rule. The Regulation Z Amendments affects:

- Periodic Statements
- Adjustable Interest Rate Notices
- Payment Crediting and Payment Statements

**Small servicers are exempt from the periodic statement requirements of the rule. Visit* http://www.ncua.gov/Legal/Documents/Regulatory%20Alerts/RA2014-03.pdf *for more detail.*

Regulatory Alert NO 14-RA-04 summarizes the CFPB's new Real Estate Settlement Procedures Mortgage Servicing Rule. Regulation X addresses:

- Forced Placed Insurance
- Error Resolution and Information
- Servicing Policies, Procedures, Requirements
- Early Intervention with Delinquent Members
- Continuous Contact with Delinquent Member

Loss Mitigation

**Small servicers are exempt from certain parts of the rule. Visit* http://www.ncua.gov/Legal/Documents/Regulatory%20Alerts/RA2014-04.pdf *for more detail.*

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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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Benefits of Co-Sourcing the Internal Audit Function

The internal audit function plays an essential role in an organization's business risk management and continued compliance with regulations. However; in the current environment of changing regulation and increased fraud, internal audit departments can become overwhelmed. Certified Public Accounting (CPA) firms can assist those internal audit departments complete their duties. Some benefits for co-sourcing some of the internal audit projects with a CPA firm include.

Expertise - An accounting firm presumably possesses the expertise and knowledge required to carry out the internal audit project that in house staff may lack. With the ever changing compliance requirements, auditing standards and guidelines in the accounting industry it would be beneficial for a company to co-source internal audit areas. Doing so can avoid possible issues and complications from being out of compliance with an area the in house staff may not feel qualified to review. CPA firms are kept abreast of new rules and regulations decreasing the likelihood an organization may fall out of compliance. Also, one of the main benefits of co-sourcing is that the contracted firm can focus solely on completing the internal audit project as opposed to in-house staff who may have to tackle multiple job requirements aside from internal auditing. Moreover, most accounting firms conduct tens or hundreds of audits per year creating the added benefit of having experience with many different systems giving the firms the ability to tailor internal audit procedures and methods best suited for their client.

Enhanced independence - Although internal auditors answer to audit or supervisory committees, they are in constant contact with an organization's management creating a possible conflict of interest for fear of retaliation that may arise from negative findings. Thus, in-house internal audit departments can at times be ineffective if employees fear reprisal for performing their work properly and uncovering issues within the organization that may reflect negatively on management. Lastly, an outside firm may provide greater objectivity given their independence from the organization's management improving the quality of work performed.

Cost savings - The credit union would save money by co-sourcing a particular internal audit project by taking advantage of the training and certifications of the staff at the CPA firm versus paying to train and maintain certifications for employees who may only perform the project once a year or less frequently.

In summary, utilizing an external firm to assist with the current internal audit function can be beneficial in several ways. In addition to the benefits discussed above, it is important to remember that when you "co-source" with an outside firm, the internal audit department is not replaced, but is enhanced with better knowledge and efficiency. For more information regarding internal audit co-sourcing, please contact our office. We will be happy to discuss any questions or needs you may have.

Jennifer Hoskins, CPA, MPA, CICA, Partner
Nearman, Maynard, Vallez, CPAs

2014 Conferences

Nearman, Maynard, Vallez, CPAs will be "out and about" visiting with the credit union community this year. If you plan on attending any of the following conferences, please stop by our booth. We would love to discuss your credit union's auditing needs.

- Georgia Credit Union Affiliates - May 13-17, 2014 - Savannah, GA
- CUNA CFO Council - May 18-21, 2014 - Chandler, AZ
- Carolinas Credit Union League - May 29-31, 2014 - Myrtle Beach, SC
- League of Southeastern Credit Unions - June 11-13, 2014 - Orlando, FL
- ACUIA - June 17-20, 2014 - Baltimore, MD
- AICPA National Conference on Credit Unions - October 20-22, 2014 - Denver, CO
- CUNA Supervisory Committee & Internal Audit Conference - December 7-10, 2014 - Las Vegas, NV