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The Auditor's Report

In this issue

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Clarifying Charitable Donation Account (CDA) Accounting

"Community: a group of people living in the same place or having a particular characteristic in common"

Some may say credit unions are a community. Whether a credit union was formed based on a geographic area or a local company, all credit unions are founded on the idea of 'people helping people.' To keep that movement alive, many credit unions, if not all, support various charitable organizations in their respective communities. The National Credit Union Administration (NCUA) has allowed the formation of a charitable donation account to help credit unions achieve this goal of giving back.

Under the NCUA regulation §721.3, a credit union may create a charitable donation account to donate money to a qualified charity. A qualified charity is a charitable organization or other non-profit entity recognized as exempt from taxation under section 501(c)(3) of the Internal Revenue Code. A charitable donation account is defined in §721.3 (2) as:

"A charitable donation account (CDA) is a hybrid charitable and investment vehicle, satisfying the conditions in paragraphs (b)(2)(i) through (vii) of this section, that you may fund as a means to provide charitable contributions and donations to qualified charities. If you fund a CDA that satisfies all of the conditions in paragraphs (b)(2)(i) through (vii) of this section, then you may do so free from the investment limitations of the Federal Credit Union Act and part 703 of this chapter."

The funds must be held in a segregated custodial account and must be specifically identified as a CDA. The maximum aggregate funding of all CDAs is limited to five percent of the credit union's net worth at each quarter end for the duration it owns the CDA.

The funding credit union and trustee or other manager of the account, must document the terms and conditions controlling the account in a written agreement. The Board of directors must adopt written policies governing the creation, funding, and management of a CDA and must review the policies annually.

Per §721.3 (2)(iv), all CDA agreements and policies must include at a minimum:

A) Provide that the CDA will make charitable contributions and donations only to charities you name therein that are exempt from taxation under section 501(c)(3) of the Internal Revenue Code;

B) Document the investment strategies and risk tolerances the CDA trustee or other manager must follow in administering the account;

C) Provide that you will account for all aspects of the CDA, including distributions to charities and liquidation of the account, in accordance with generally accepted accounting principles;

D) Indicate the frequency with which the trustee or manager of the CDA will make distributions to qualified charities as provided in paragraph (b)(2)(v) of this section.

The credit union is required to distribute to one or more qualified charities a minimum of 51 percent of the account's total return on assets (realized interest, capital gains, dividends, and distributions, but exclusive of account fees and expenses) over the period of up to 5 years. A credit union may choose to distribute the earnings to the charity (s) more frequently during each five-year period but must ensure that a distribution occurs at least every five years.

Donating to charitable organizations is a great way to help your community and credit unions should be commended for their unwavering support of their members. However, proper accounting and transparency of these donations is important to maintain the trust of your members and their communities. If you need more information regarding CDAs, please contact our firm.

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

Latest Accounting Pronouncement

On June 16, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, "Financial Instruments-Credit Losses", (Topic 326) (the ASU) requires an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debit securities and provides a simplified accounting model for purchased financial assets with credit deterioration since their origination.

The ASU requires credit unions to measure impairment on their existing loan portfolios on the basis of the current estimate of contractual cash flows not expected to be collected. The estimate of expected credit losses is based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable supportable forecasts that affect the expected collectability of the assets' remaining contractual cash flows. This new model is called the Current Expected Credit Loss (CECL) model.

The transition to the CECL model will bring with it significantly greater data requirements and demand a more complex methodology to accurately account for expected losses under the new parameters. The transition will also require a significant increase in the allowance for loan and lease losses (ALLL) account balance. FASB has allowed for this one-time increase in the ALLL to come directly from undivided earnings, rather than reflected through the provision for loan losses expense account. The increase, or the adjustment to the ALLL, will reduce net worth, however it does spare a negative impact to the income statement. This ASU applies to all financial assets that are not accounted for at fair value and are exposed to potential credit risk.

The implementation date for "private" companies, which includes credit unions, is for fiscal years beginning after December 15, 2020. Early application of the standard is permitted for fiscal years beginning after December 15, 2018.

League Conference Recaps

I would like to thank everyone who visited our booth at the Georgia Credit Union Affiliates conference in May and the Carolinas Credit Union League, League of Southeastern Credit Unions, and ACUIA conferences in June. We really enjoy seeing old friends and making new friends in the credit union industry. We had a great time with our "*guess how many corks*" game. Winners walked away with a bottle of wine and a goodie bag. See pictures below of some of our winners at the CCUL conference in Myrtle Beach. Nearman, Maynard, Vallez will be at one more conference this year. Please come visit us at the CUNA Supervisory Committee & Internal Audit Conference, December 4-7, 2016, in Las Vegas, NV. Chris Vallez will be on hand and speaking on "Ratios and the Picture They Paint." Hope to see you in Vegas!!

From top left: Sharon and Danny Smith, Lithium FCU; Container of corks—can you guess how many?; Floyd Jordon, Dixies FCU; Doug Green, Riegelwood FCU with Cynthia Austin, MBA, CICA, NCCO, Internal Audit Manager, Nearman, Maynard, Vallez, CPAs.

Nearman Maynard•Vallez
Certified Public Accountants

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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2016 AICPA Credit Union Conference Recap

The AICPA's "2016 Conference on Credit Unions" was held in Orlando, Florida October 24th – 26th and by all accounts was a big success! There were over 450 CFOs, practitioners, and credit union volunteers who attended the educational sessions. The objective of this conference is to enhance the technical knowledge of practitioners, internal auditors, supervisory committee members and credit union management, particularly CFOs. An overwhelming majority of those attending believe we met this objective.

With the final rule issued by the FASB this June on the "Current Expected Credit Loss" (CECL) methodology, the agenda was packed with sessions on the subject. Topics included CECL implementation including a look at various models allowed under the new rule. Although the effective date of CECL is 2021, some have already started identifying the type of loan loss history needed to estimate reserves. Other session topics included a review of Accounting Standards Update, a regulatory update, and a great economic update.

Next year's conference will be held in New Orleans, LA. Those that can't attend in person can use the AICPA's on-line option. Hope to see you there.

Chris Vallez, CPA, MBA, CICA
Partner, Nearman, Maynard, Vallez, CPAs and Chairman, AICPA National Conference on Credit Unions

Happy Holidays

Happy Holidays from everyone at Nearman, Maynard, Vallez, CPAs. We hope your holidays will be filled with joy and laughter through the New Year.

Please take note of our 2016 holiday hours:

For Thanksgiving our firm's offices will be closed Thursday, November 24th and Friday, November 25th.

In addition, our offices will be closed Monday, December 26th through Friday, December 30th for the Christmas and New Year holidays.

Our offices will re-open on Monday, January 2nd.