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The Auditor's Report

In this issue

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Workplace Violence: Identifying Risks and Having a Plan

Safety in the workplace has become an important issue in today's society as workers become more concerned about the potential threat of criminal activity. Workplace violence can be identified in many forms, but more recently acts by external or internal sources that result in serious injury have been highlighted in the media. Financial institutions are known to have cash on hand which can make them a potential target for criminal activity from outside sources. Often institutions have deterrents in place in an attempt to prevent crime. Security systems, video surveillance, and even off-duty police officers are often used to discourage an attempt to commit crimes but determined criminals can find a way around these systems. Should any and all of these systems fail, the institution should have plans and procedures in place to assist in mitigating the risk of injury.

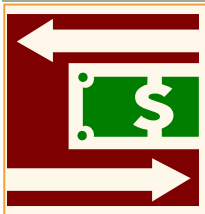
Some important aspects of creating an action plan involve evaluating responsibilities of personnel, avenues of escape, and securing the scene to avoid any additional chances for harm. The responsibilities of personnel should include not only the actions that should be taken by an employee that would have direct contact with an intruder, such as a teller, but also the responsibilities for others in the building such as management who could assist by either helping evacuate or secure employees in a safe area. Responsibilities also should include preventative tasks such as maintaining security equipment and ensuring employee training. Security devices are great tools that can assist law enforcement in apprehending a suspect. However, many times devices such as tracking units or video surveillance systems do not get inspected routinely and if not working properly they cannot assist police.

Employees should receive periodic training on not just how to respond to a potential threat, but how to reduce the risk overall. Closing and opening procedures that include two or more people, situational awareness and identifying suspicious activity outside the facility are ways employees can reduce the risk of becoming a target. During the times of closing and opening employees are at the greatest risk because there are few people and these employees have access to unlock the building. Often walking to or from a vehicle we become distracted by cell phones, carrying too many items, or talking and become less aware of our surroundings. One of the biggest ways to prevent criminal activity during these times is to simply pay attention and report unusual activity. Look for suspicious vehicles or people in the parking lot, avoid blind spots around corners, walk with someone and park in well lit areas during times of darkness.

Having a plan for all employees in case a situation occurs can greatly reduce the potential for harm or injury. If your institution does not currently have an action plan in place, consider developing one and going over the plan with all employees. Local law enforcement agencies can provide input and assist with creating procedures and responses to threats that are likely to help both the institution and the law enforcement agency. Most agencies have officers dedicated to helping businesses develop strong action plans and even offer training on crime prevention. Planning and a clear set of procedures can help save lives and reduce the potential for injury during criminal activity.

Derek Shelnutt, MPAcc, Auditor
Nearman, Maynard, Vallez CPAs

Prior to joining Nearman, Maynard, Vallez, CPAs as an Auditor, Derek was a night shift commander at the rank of Sergeant for a metro Atlanta police department. Derek has worked cases involving crimes against financial institutions as well as providing crime prevention training to local businesses.



Accounting Updates

1) 2014 Accounting Standards Updates Affecting Real Estate Loans:

During 2014 FASB has issued two new accounting standard updates that impact the accounting and disclosure requirements related to real estate secured loans and disposition of such loans upon foreclosure. The main reasoning behind these standard updates is due to inconsistent reporting and practice by reporting entities.

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 when 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 the amount of foreclosed residential real estate property held by the creditor and 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.

In August 2014, the FASB issued ASU 2014-14 "Classification of Certain Government Guaranteed Mortgage Loans upon Foreclosure," (Subtopic 310-40): The amendments in this update are to reduce the diversity in practice of how creditors classify government-guaranteed mortgage loans. This amendment affects creditors that hold government guaranteed mortgage loans, including those guaranteed by the FHA and the VA. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor.

The amendments in this Update are effective for private business entities for annual periods beginning after December 15, 2015.

2) Accounting Bulletin 14-1; Recording TDRs:

The National Credit Union Administration (NCUA) issued Accounting Bulletin 14-1 which clarifies circumstances under which a credit union can cease recording loans as Troubled Debt Restructured (TDR) loans that are subsequently restructured. As the economy has improved there has been an increasing question of whether TDR loans could if ever relinquish the TDR designation. The NCUA along with other banking regulators agreed upon an interpretation of generally accepted accounting principles (GAAP) that upon certain circumstances a TDR loan could cease to carry such a designation.

According to the accounting bulletin, a credit union may cease to record a loan as a TDR if the TDR is subsequently restructured as long as at the time of the restructuring the following exists:

- The member is not having financial difficulties.
- The Credit Union is not granting a concession to the member under the new restructuring.
- The subsequent restructuring agreement is made at market terms (The contractual interest rate is not less than a market rate for new debt with similar credit risk characteristics and other terms no less favorable to the Credit Union than given for new debt).

The bulleting did note one exception to the new guidance. It noted that if the original TDR included forgiveness of loan principal that subsequent restructurings would always be considered as a TDR.

It is recommended that any TDR loan restructuring that meets the new criteria be fully documented as how it meets the requirements to cease being classified as a TDR. Supporting documents should be retained in the loan file.

The guidance is in effect immediately and can be applied prospectively and to loans outstanding as of Sept. 30, 2014.

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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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Happy Holidays

At the close of another year we gratefully pause to wish everyone a warm and happy Holiday Season.

Please take note of our 2014 holiday hours:

For Thanksgiving our firm's offices will be closed Thursday, November 27th and Friday, November 28th.

In addition, our offices will be closed Monday, December 22nd through Friday, December 26th for the Christmas holiday.

Our offices will re-open on Monday, December 29th, but will be closed again on Thursday, January 1, 2015 in observance of New Year's Day.

2014 AICPA National Credit Union Conference Recap

This October the American Institute of Certified Public Accountants (AICPA) held their annual "National Credit Union Conference" in Denver, CO. The conference was a big success!!! There were over 440 CFOs, practitioners, and credit union volunteers who gathered to attend the educational sessions and network with their peers. The objective of this conference is to enhance the technical knowledge of public practitioners, internal auditors, supervisory committee members and credit union management; particularly CFOs. An overwhelming majority of those attending believe we met this objective.

This year's speakers included the newest NCUA Board member, Rick Metsger. Mr. Metsger delivered an excellent summary of the direction of the NCUA Board and the credit union movement. Other session topics included a detailed look at the Financial Accounting Standards Board (FASB) proposal to changing the allowance for loan losses methodology. The proposed model, the "Current Expected Credit Losses" (CECL) model, could result in a significant increase to all credit union's allowance for loan losses reserve. Expect much more to come in the next few months on how this potential change could affect your credit union. Overall attendees were very pleased with the sessions and gave excellent input for next year's conference.

Next year's conference will be November 2nd – 4th in Austin, TX. As the Chairman of the Conference Steering Committee, I ask that you to join us in Austin for another excellent conference.

Chris Vallez, CPA, MBA, CICA
Partner
Nearman, Maynard, Vallez, CPAs P.A.

2014 CUNA Supervisory & Internal Audit Conference

Our firm will be exhibiting at CUNA's Supervisory & Internal Audit Conference - December 7-10, 2014 in Las Vegas.

In addition, one of our partners, Chris Vallez, will be speaking. Be sure to stop by our table to meet our Associates and check out Chris' session on Accounting for Foreclosed and Repossessed Property.