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The Auditor's Report

In this issue

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Simplified Financial Reporting for Employee Benefit Plans (EBPs)

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update 2015-12 (ASU) which simplifies several reporting requirements to reduce cost and complexity for practitioners. The ASU is broken out into three separate parts and is effective for fiscal years beginning after December 15, 2015; earlier application is permitted. Parts I and II should be applied retrospectively, while part III should be applied prospectively.

The guidance in part I of the ASU applies to reporting requirements under the scope of Topics 962 (Defined Contribution Pension Plans) and 965 (Health and Welfare Benefit Plans).

The first amendment requires fully benefit-responsive investment contracts to be measured and disclosed at contract value as opposed to previous guidance that required fair value reporting of contract on the face of the balance sheet with an adjustment to contract value and other reporting requirements under Accounting Standards Codification 820 (ASC). In some cases, the complexity and cost of determining fair value of these contracts created reporting difficulties. The ASU clarifies that contract value is the relevant measure for fully benefit-responsive investment contracts since contract value is the amount a participant would receive at a benefit payment transaction. In addition, the ASU clarifies that indirect investments in fully benefit-responsive investment contracts through investment companies are NOT in the scope of the current guidance and will continue to be reported at fair value in accordance with ASC 820 fair value reporting.

The guidance in part II of the ASU applies to reporting requirement under the scope of Topics 960 (Defined Benefit Pension Plans), as well as Topics 962 and 965 as noted in part I above.

The ASU eliminates certain previously required reporting requirements. Specifically, the ASU no longer requires the following disclosures:

a. investments that represent 5% or more of net assets available for benefits.
b. net appreciation/depreciation of investments by general type.
c. investment information disaggregated based on nature, characteristic, and risks under ASC 820.

In addition, part II also eliminates the requirement to disaggregate investments within a self-directed brokerage account and also removes the requirement to include specific investment strategy disclosures for funds that file Form 5500 as direct filing entities (DFEs) when the plan measures those investments at Net Asset Value (NAV) as the practical expedient. The guidance in part III of the ASU applies to all of the Topics 960, 962 and 965.

The ASU allows plans to measure investments as of a month-end date that is closest to the plan's fiscal year end if that year-end is not a calendar month end. This application does require disclosure of an alternative measurement date as well as any financial effects on contributions and distributions.

FASB's intent of this ASU is to ultimately simplify reporting and disclosure requirements of EBPs while increasing the usefulness of the financial statements to the end-user.

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Audit Manager

Latest Accounting Pronouncements

1. In January 2016, The FASB issued ASU 2016-01 "Financial Instruments – Overall – Recognition and Measurement of Financial Assets and Financial Liabilities." This main objective in developing this Update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information.

The Update has two areas of interest to credit unions. One is the removal of the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The other has a more significant potential impact.

The ASU requires entities to record equity securities at fair value with adjustments to fair value recorded through the income statement. Currently many securities meeting the definition of an equity security are recorded as available-for-sale with fair value adjustments recorded as part of other accumulated comprehensive income. Securities meeting the definition of an equity security include any ownership interest in an entity. Credit unions with investments in mutual funds, stocks, limited partnerships, and trusts could see unacceptable levels of earnings volatility on their income statements.

Removing the disclosure of fair value of financial instruments is effective immediate upon issuance of the ASU. The effective date for the accounting for equity securities for credit unions is for fiscal years beginning after December 15, 2017.

2. On February 25, 2016, the FASB issued ASU No. 2016-2 "Leases" (Topic 842). The ASU is intended to improve financial reporting about leasing transactions and affects all companies and other organizations. The ASU will require organizations that lease assets (referred to as "lessees") to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases.

While the accounting by the lessor will remain largely unchanged from current GAAP, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense patter (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines.

The effective date for credit unions is for fiscal years beginning after December 15, 2019. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

2016 Credit Union 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 meet you and discuss your credit union's auditing needs.

- Georgia Credit Union Affiliates - May 11-14, 2016 - Savannah, GA
- Carolinas Credit Union League - June 2-4, 2016 - Myrtle Beach, SC
- League of Southeastern Credit Unions - June 15-16, 2016 - Orlando, FL
- ACUIA - June 21-24, 2016 - Reno, NV
- AICPA National Conference on Credit Unions - October 24-26, 2016 - Orlando, FL
- CUNA Supervisory Committee & Internal Audit Conference - December 4-7, 2016 - Las Vegas, NV

Get to Know Our Strategic Alliances

Over the past 30+ years, Nearman, Maynard, Vallez CPAs' dedication to the credit union industry has provided us with a unique understanding of the professional services desired by our clients. We have learned that not only do our clients want quality services at reasonable prices; they require a wide variety of services. Our primary objective has always been to assist our clients in accomplishing their goals through our experience, service, and commitment.

To better meet that objective and our clients' ever changing needs, our firm has formed alliances with some top professionals in the industry. These alliances are not "contracted" third party vendors, but highly respected colleagues that we "recommend" to our clients, giving them an option of additional services, if needed. By joining forces with these outstanding firms, we can combine our unique talents to broaden the level of service to our clients. The alliance of our firms creates a working relationship that enhances the services, support capabilities, and offerings of the firms to the direct benefit of our clients and the credit union industry.

Over the next few issues of The Auditor's Report, we will be profiling our alliances. This month we would like to introduce James L. This & Associates. James L. This and Associates provides consulting services for credit unions in the areas of strategic planning, executive recruitment, board assessments, merger negotiation and executive compensation. James This was co-founder of The Paragon Group and Volunteer Leadership Institute. He has worked with credit unions nationwide for over twenty-five years. Below is an article on strategic planning written by James This.

To see a complete list of our alliances, visit our website at http://www.nearman.com/strategic-alliances.htm.

Positive Outcomes of Strategic Planning

In today's competitive and complex environment credit unions must create and renew powerful strategic plans to coalesce vision and identify a sustainable competitive advantage. The planning process generates innovative and creative ideas that serve as the blueprint for the credit union's future.

Strategic planning puts the credit union in charge of its future. Credit unions succeed by proactively looking at the emerging environment and choosing their preferred future. Rather than reacting to future events and conditions, thriving credit unions anticipate them and create strategies to turn them to their advantage.

Strategic planning has four primary purposes:

1. Anticipate Change
   - Look at likely changes in the environment and assess their impact on the members and the credit union
   - Identify ways to take advantage of the changes
2. Focus Effort
   - Clearly define the purpose of the credit union
   - Establish long-term goals for the next five years
   - Communicate the purpose and goals to everyone in the credit union
   - Develop a sense of ownership of the plan
3. Measure Results
   - Establish Key Performance Indicators (KPI's) we can measure
   - Provide solid criteria for evaluation and reward
4. Prioritize Action
   - Identify priority initiatives for the next twelve to eighteen months that align with the purpose and goals
   - Concentrate the credit union's resources on key issues

In addition, a well drafted plan compels credit union leadership to agree upon the one or two competitive values that will drive future priorities. Board members and Management should choose one or two drivers from the following list of competitive values:

- Price
- Convenience
- Product
- Service
- Experience

The competitive values are used to create a unique differentiation that sets you apart from your challengers.

A well-crafted plan has four major components – set in collaboration between the board and management.

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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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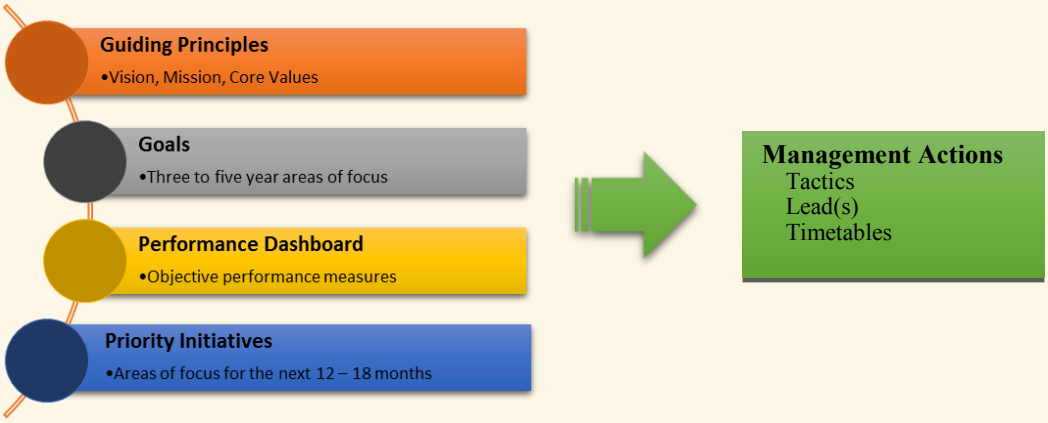

The **Guiding Principles** define how the credit union will make life better for the members and the principles it will embrace when conducting business.

The **Goals** describe the broad courses of action the credit union will take during the next three to five years.

The **Performance Dashboard** specifies how the credit union will measure success.

The **Priority Initiatives** are the primary projects the credit union will emphasize during the next 12 – 18 months. These will receive organizational priority and drive the specific activities of departments and branches.

The **Action Plans** are the specific tactics that management will use to achieve the **Priority Initiatives**. They will specify leads and timetables. They will be reviewed at least quarterly by the board.

James This, CEO
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Profile: James This, Principal, James L. This & Associates

James This is a nationally recognized consultant, facilitator and trainer in the areas of strategic planning, leadership development, interpersonal communication and marketing. Jim is one of the principals of James L. This and Associates. He is probably best known as a founding partner of The Paragon Group – one of the most respected consulting firms in the credit union industry. Through these companies, Jim has helped credit unions for over twenty-five years.

Jim's specialties include strategic planning, executive recruitment, leadership development and executive assessment. He is a frequent speaker at industry conferences and schools and one of the creators of the Volunteer Leadership Institute. The Institute is the premiere source of continuing education for credit union volunteers.

Jim earned his BA from Wake Forest University and his Ph.D. from the University of Southern California. He holds the title of Senior Professional in Human Resources from the Society for Human Resource Management.

Jim's career has found him in three arenas—financial services, teaching and management consulting. During his long association with the Washington State Employees Credit Union he held key positions as Marketing Manager and Executive Vice President. He has taught at the University of Southern California, the University of Texas, Permian Basin, St. Martin's College, South Puget Sound Community College and The Evergreen State College.

He is a member of the Board of Directors of the Washington Center for the Performing Arts. Jim is an avid golfer and proud grandfather.