



Annuities, Other Benefits, and Internal Controls



Agenda

- Introduction
- Accounting for Annuities and other similar plans
- Discussion on internal control deficiencies & segregation of duties
- Common frauds relating to internal controls
- Q&A – ask the auditors

Introduction



Scott Runyan, Partner, GBQ Partners LLC



Mike Jones, Partner, GBQ Partners LLC



Common ways Credit Unions Fund Benefits and Other Investment Types

- *Insurance policy on an individual*
- *Collaterally Assigned Split-Dollar Agreements*
- *Life Notes*
- *Abacus exchange for a security*
- *Fixed Income Annuity Agreements*

1

Insurance Policy on an Individual



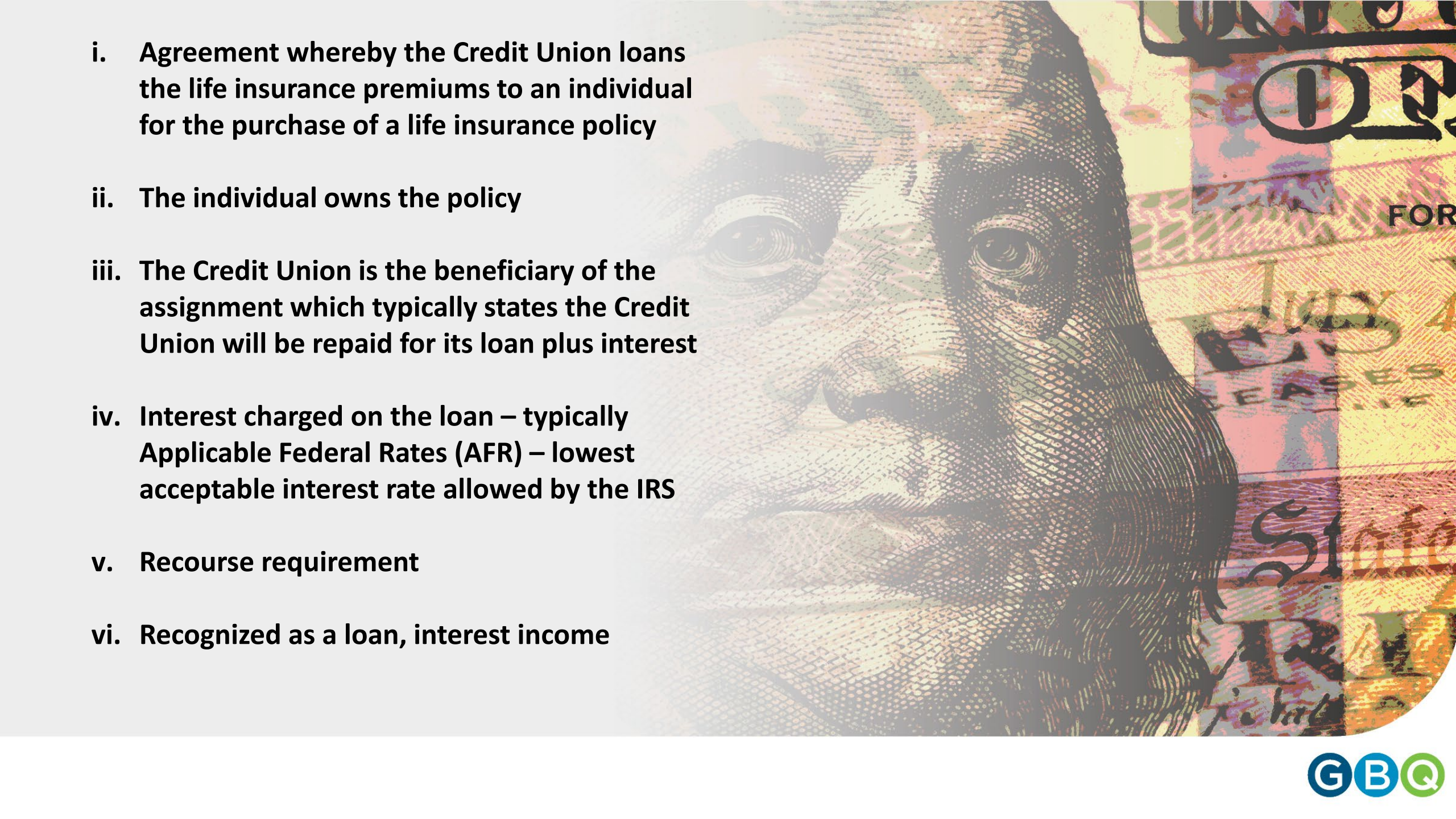
- Ownership interest in the policy, the Credit Union is the beneficiary
- Credit Union pays the premiums
- Policy typically has surrender charges for a set period of time
- Can recognize the lower of the cash surrender value of the policy or the accumulated amount of premiums paid
- Cash surrender values are lower than the premiums paid in the first few years so there is a P&L expense initially



2

Collaterally Assigned Split-Dollar Agreements



- 
- i. Agreement whereby the Credit Union loans the life insurance premiums to an individual for the purchase of a life insurance policy**
 - ii. The individual owns the policy**
 - iii. The Credit Union is the beneficiary of the assignment which typically states the Credit Union will be repaid for its loan plus interest**
 - iv. Interest charged on the loan – typically Applicable Federal Rates (AFR) – lowest acceptable interest rate allowed by the IRS**
 - v. Recourse requirement**
 - vi. Recognized as a loan, interest income**

Fund Benefits



3

Life Notes



- **Investment in a security is taken back in exchange for an insurance policy**
- **Fixed term for repayment**
- **Might or might not carry an interest rate depending on the agreed-upon terms**
- **Classification – Other Asset**

Fund Benefits

4

**Abacus exchange
for a security**



- 
- **Life insurance is exchanged for a security interest in an equity fund**
 - **Fund is valued annually at its Net Asset Value (NAV)**
 - **Security interest can appreciate or depreciate based on annual change in the NAV – unrealized gain/loss**
 - **Lockout period – restricted sale period**
 - **Classification – Equity Security**



5

Fixed Income Annuity Agreements

- a. Fixed rate of earnings but also ties in death benefits on an individual**
- b. Initial bonus accounting – clawback period**
- c. Surrender charges – based on contract, typically decrease over a set period**
- d. Accounting for clawbacks and surrender charges**
- e. Recognized at the lower of the cost or fair value (taking into account clawbacks & surrender charges)**
- f. Classification – Other Assets**
- g. Excel example**



Accounting for Fixed Income Annuity Agreements-Bonus Clawbacks and Surrender Charges 2026

Example - Credit Union invests \$4,000,000 on January 1, 2026 in a fixed income annuity.

Contract contains an initial "bonus" value credited to the CU account for \$400,000.

Contract contains a clawback provision for the "bonus" - 90% at the end of yr 1, decreasing by 10% annually.

Contract contains surrender charges of 9% at the end of year 1, decreasing by 1% annually.

Investment has earnings credited to the account

					Bonus not					Reserve
				Reported	Earned	Surrender	Accounting	P&L Impact	Accumulated	if using Reported
	Invested value	bonus	earnings	Acct Balance	Clawback	Charges	Value	For Year	P&L Impact	Acct Bal
12/31/2026	4,000,000	400,000	240,000	4,640,000	360,000	417,600	3,862,400	(137,600)	(137,600)	(777,600)
12/31/2027	-	-	240,000	4,880,000	320,000	390,400	4,169,600	307,200	169,600	(710,400)
12/31/2028	-	-	240,000	5,120,000	280,000	358,400	4,481,600	312,000	481,600	(638,400)
12/31/2029	-	-	240,000	5,360,000	240,000	321,600	4,798,400	316,800	798,400	(561,600)
12/31/2030	-	-	240,000	5,600,000	200,000	280,000	5,120,000	321,600	1,120,000	(480,000)
12/31/2031	-	-	240,000	5,840,000	160,000	233,600	5,446,400	326,400	1,446,400	(393,600)
12/31/2032	-	-	240,000	6,080,000	120,000	182,400	5,777,600	331,200	1,777,600	(302,400)
12/31/2033	-	-	240,000	6,320,000	80,000	126,400	6,113,600	336,000	2,113,600	(206,400)
12/31/2034	-	-	240,000	6,560,000	40,000	65,600	6,454,400	340,800	2,454,400	(105,600)
12/31/2035	-	-	240,000	6,800,000	-	-	6,800,000	345,600	2,800,000	-

Key Points to remember



- 1) Even if you have no intention to terminate the contract early, accounting rules require clawback provisions and surrender charges to be taken into account to calculate the fair value of the investment.
- 2) The investment must be recognized at the lower of cost or fair value.

3) The difference between the total recognized value on the FS and the Accounting Value (column J) is evaluated as an error and materiality does apply

- a) If the difference is higher than the Passed Adjustment Threshold, it will need to be reported but not booked
- b) If the difference is higher than overall materiality, an adjustment to the FS will be required.



Fraud - Current Headlines

Jackson Area Federal Credit Union Conserved – NCUA

Judge Freezes Assets In Alleged \$95M JAFUCU Fraud Case – CU Today

Former JAFUCU head, husband sued for allegedly embezzling \$91M – WLBT.com

Rolex watches, handbags, and a house in Honduras: Third defendant named in \$91M embezzlement case – WLBT 3 On Your Side

Lawsuit alleges Jackson credit union fraud included a Tesla and more – Mississippi Clarion Ledger

Man named in \$91M suit no longer employed with state Insurance Dept. – WLBT.com

Credit Union Fraud Prevention:

Key Internal Controls for CEOs

Focus Areas:

Cash, Investments, and Loans

Board/Committee and Management Oversight



CEO Fraud-Risk Framework – Overall Controls

- Segregation of duties
- Dual control and approvals
- Independent reconciliations (all GL accounts)
- Exception reporting and monitoring
- Mandatory vacations and job rotation
- Strong audit and board / committee oversight



Key Cash Controls

- Dual custody for vault cash and cash shipments
- Daily teller balancing and supervisory review
- Independent reconciliation of cash accounts
- Surprise cash counts and branch audits (agree to GL)
- Restricted system access and transaction limits
- Review of cash over/short reports and trends



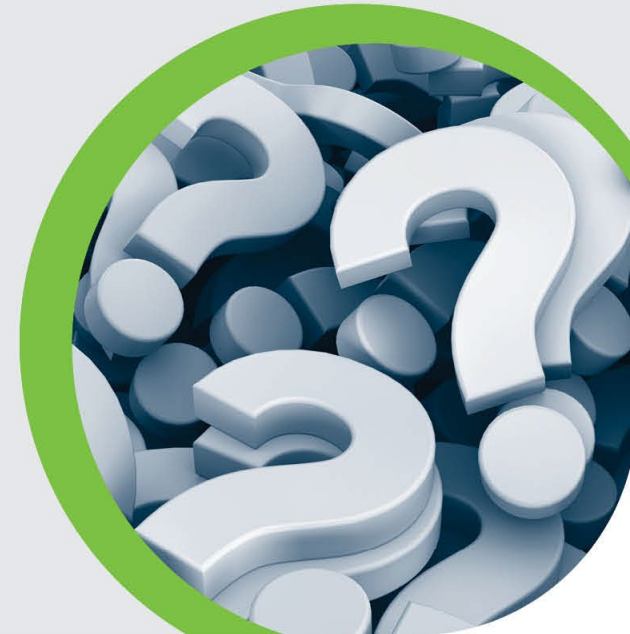
Key Investment Controls

- Formal investment policy approved by the board
- Separation of trading, settlement, and accounting functions
- Independent confirmation of securities holdings
- Monthly investment reconciliations
- Pre-purchase approval and concentration limits
- Ongoing monitoring of investment income for reasonableness

Key Loan Controls



- Segregation between origination, underwriting, and funding
- Independent verification of borrower information
- Approval authority limits and exception tracking
- Post-closing quality reviews
- Monitoring of delinquency, modifications, and charge-offs
- Post-mortem review of charged-off loans





Red Flags Requiring CEO Attention

- Reconciliation items aging beyond policy limits (generally 30 – 60 days)
- Employees bypassing controls or resisting oversight
- Frequent manual journal entries or overrides
- Unusual loan growth, exception volume, or investment activity
- Repeated audit findings or unresolved exceptions

Key Takeaways

**Strong Segregation
of duties**

**Strong
Segregation
Of duties**

Independent verification

**Independent
verification**

Defenses

**Active
board/committee/
management**

**Active
board,
committee,
management**

**Timely
reconciliations**

Timely reconciliations

Most effective defenses against fraud in cash, investment, and lending operations

