



CERTIFIED AUDIT REPORT



DUKE UNIVERSITY
FEDERAL CREDIT UNION

FINANCIAL STATEMENTS
As of and for the years ended
December 31, 2021 and 2020



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INDEPENDENT AUDITOR'S

REPORT

Supervisory Committee
Duke University Federal Credit Union
Durham, North Carolina

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Duke University Federal Credit Union, which comprise the statement of financial condition as of December 31, 2021, and 2020, and the related statements of income, changes in members' equity, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Duke University Federal Credit Union as of December 31, 2021, and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Duke University Federal Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Duke University Federal Credit Union's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk

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of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on these financial statements.

In performing an audit in accordance with GAAS we:

- ❖ Exercise professional judgement and maintain professional skepticism throughout the audit.
- ❖ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ❖ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Duke University Federal Credit Union's internal control. Accordingly, no such opinion is expressed.
- ❖ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by Management, as well as evaluate the overall presentation of the financial statements.
- ❖ Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Duke University Federal Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Nearman, Maynard, Vallez, CPAs, P.A.

Nearman, Maynard, Vallez, CPAs, P.A.
Miami, Florida
April 11, 2022

FINANCIAL

STATEMENTS

DUKE UNIVERSITY FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION

ASSETS

	December 31,	
	2021	2020
Cash and cash equivalents	\$ 43,765,153	\$ 43,423,295
Investments:		
Available-for-sale	53,543,350	19,995,750
Other	7,031,727	28,315,786
Federal Home Loan Bank (FHLB) stock	90,300	134,700
Loans receivable, net of allowance for loan losses	89,496,822	85,656,427
Accrued interest receivable	272,636	214,514
Premises and equipment, net	151,575	229,611
National Credit Union Share Insurance Fund deposit	1,684,146	1,471,751
Assets acquired in liquidation	8,795	39,000
Other assets	4,565,956	901,964
Total Assets	\$ 200,610,460	\$ 180,382,798

LIABILITIES AND MEMBERS' EQUITY

	December 31,	
	2021	2020
Liabilities		
Share and savings accounts	\$ 185,596,614	\$ 166,026,060
Accrued expenses and other liabilities	774,798	587,835
Total liabilities	186,371,412	166,613,895
Commitments and contingent liabilities		
Members' Equity		
Regular reserve	1,491,426	1,491,426
Undivided earnings	13,204,272	12,281,727
Accumulated other comprehensive loss	(456,650)	(4,250)
Total members' equity	14,239,048	13,768,903
Total Liabilities and Members' Equity	\$ 200,610,460	\$ 180,382,798

The accompanying notes are an integral part of these financial statements.

DUKE UNIVERSITY FEDERAL CREDIT UNION

STATEMENTS OF INCOME

	December 31,	
	2021	2020
Interest Income		
Interest on loans receivable	\$ 4,047,763	\$ 4,086,062
Interest on investments	485,212	533,834
Interest income	<u>4,532,975</u>	<u>4,619,896</u>
Interest Expense		
Dividends on share and savings accounts	45,167	76,214
Interest expense	<u>45,167</u>	<u>76,214</u>
Net Interest Income	4,487,808	4,543,682
Provision for Loan Losses	21,566	347,229
Net Interest Income After Provision for Loan Losses	<u>4,466,242</u>	<u>4,196,453</u>
Non-Interest Income		
Card income	1,227,403	1,073,828
Fees and service charges	709,731	714,228
Corporate capital distribution	289,609	-
Insurance commission income	114,337	148,310
Other non-interest income	56,550	79,476
Non-interest income	<u>2,397,630</u>	<u>2,015,842</u>
	<u>6,863,872</u>	<u>6,212,295</u>
Non-Interest Expense		
Compensation and employee benefits	2,635,020	2,530,059
Operations	1,533,662	1,455,362
Professional and outside services	720,682	744,306
Occupancy	608,692	621,415
Loan servicing	359,078	321,019
Education and promotion	71,340	95,912
Loss on disposition of assets acquired in liquidation, net	12,853	-
Non-interest expense	<u>5,941,327</u>	<u>5,768,073</u>
Net Income	<u>\$ 922,545</u>	<u>\$ 444,222</u>

The accompanying notes are an integral part of these financial statements.

DUKE UNIVERSITY FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME AND MEMBERS' EQUITY

COMPREHENSIVE INCOME

	December 31,	
	2021	2020
Net Income	\$ 922,545	\$ 444,222
Other Comprehensive Income (Loss)		
Net unrealized holding (losses)/gains on securities arising during the year	(452,400)	12,330
Less reclassification adjustment for net (losses)/gains included in net income	-	-
	(452,400)	12,330
Comprehensive Income	\$ 470,145	\$ 456,552

MEMBERS' EQUITY

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2019	\$ 1,491,426	\$ 11,837,505	\$ (16,580)	\$ 13,312,351
Net income	-	444,222	-	444,222
Change in unrealized gain/(loss) on securities	-	-	12,330	12,330
Balance, December 31, 2020	1,491,426	12,281,727	(4,250)	13,768,903
Net income	-	922,545	-	922,545
Change in unrealized gain/(loss) on securities	-	-	(452,400)	(452,400)
Balance, December 31, 2021	\$ 1,491,426	\$ 13,204,272	\$ (456,650)	\$ 14,239,048

The accompanying notes are an integral part of these financial statements.

DUKE UNIVERSITY FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS

	December 31,	
	2021	2020
Cash Flows From Operating Activities		
Net income	\$ 922,545	\$ 444,222
Adjustments to reconcile net income to net cash:		
Provision for loan losses	21,566	347,229
Depreciation of premises and equipment	127,667	148,647
Loss on disposition of assets acquired in liquidation, net	12,853	-
Amortization of loan premiums/discounts	8,738	81,826
Amortization of deferred loan origination fees/costs	2,567	19,428
Changes in operating assets and liabilities:		
Accrued interest receivable	(58,122)	49,111
Other assets	(3,663,992)	676,262
Accrued expenses and other liabilities	186,963	(128,394)
Net cash (used in) provided by operating activities	(2,439,215)	1,638,331
Cash Flows From Investment Activities		
Purchases of:		
Available-for-sale securities	(51,000,000)	(20,000,000)
FHLB stock	-	(5,300)
Premises and equipment	(49,631)	(27,271)
Proceeds from:		
Maturities of available-for-sale securities	17,000,000	13,000,000
Sale of FHLB stock	44,400	-
Sale of mortgage loans	2,095,500	2,939,317
Sale of assets acquired in liquidation, net	26,147	-
Net change in:		
Other investments	21,284,059	(8,721,317)
Loans receivable, net of charge-offs	(6,143,425)	(11,592,228)
Assets acquired in liquidation	(8,795)	-
NCUSIF deposit	(212,395)	(165,908)
Recoveries on loans charged off	174,659	206,338
Net cash used in investing activities	(16,789,481)	(24,366,369)
Cash Flows From Financing Activities		
Net change in share and savings accounts	19,570,554	30,577,050
Net cash provided by financing activities	19,570,554	30,577,050
Net Change in Cash and Cash Equivalents	341,858	7,849,012
Cash and Cash Equivalents at Beginning of Year	43,423,295	35,574,283
Cash and Cash Equivalents at End of Year	\$ 43,765,153	\$ 43,423,295
Supplemental Cash Flow Disclosure		
Dividends and interest paid	\$ 45,167	\$ 76,214
Loans receivable transferred to assets acquired in liquidation	\$ 8,795	\$ -
Non-cash change in assets acquired in liquidation, net	\$ 9,000	\$ -

The accompanying notes are an integral part of these financial statements.

DUKE UNIVERSITY FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Organization

Duke University Federal Credit Union (the "Credit Union") is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purposes of promoting thrift among, and creating a source of credit for its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, Management has made estimates based on assumptions for fair value of assets and liabilities and the assessment of other than temporary impairment on investments. Actual results could differ from these estimates. Material estimates that are particularly subject to change in the near term include the determination of the allowance for loan losses (ALL), valuation of securities, and the fair value of financial instruments.

Basis of Presentation

The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes U.S. GAAP, as detailed in the Accounting Standards Codification (ASC), that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union.

Cash and Cash Equivalents

For purposes of the statement of financial condition and the statement of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments

The Credit Union's investments are classified and accounted for as follows:

Available-for-Sale: Investments are classified available-for-sale when Management anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value. Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in members' equity and comprehensive income.

Other Investments: Investments in this category do not meet the definition of a debt or equity security under U.S. GAAP. Other investments may include certain cash equivalents that Management has elected to classify as investments.

DUKE UNIVERSITY FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

Realized gains and losses on disposition, if any, are computed using the specific identification method. The amortization of premiums and the accretion of discounts are recognized over the term of the related investment by a method that approximates the interest method.

Management periodically performs analyses to test for impairment of various assets. A significant impairment analysis relates to the other than temporary declines in the value of securities. Management conducts periodic reviews and evaluations of the securities portfolio to determine if the value of any security has declined below its carrying value and whether such a decline is other than temporary. If such decline is deemed other than temporary, Management would adjust the amount of the security by writing it down to fair market value through a charge to current period operations.

Federal Home Loan Bank (FHLB) Stock

The Credit Union, as a member of the FHLB of Atlanta, is required to maintain a minimum stock investment with the FHLB based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Receivable

The Credit Union grants mortgage, commercial, and consumer loans to members. The ability of the members to honor their contract is dependent upon the real estate market and general economic conditions. In addition, the Credit Union has purchased consumer loan participations. The originating lender performs all servicing functions on these loans.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal balance outstanding, net of an allowance for loan losses and net deferred loan origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due sixty days or more. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts are satisfied to where the loan is less than sixty days past due and future payments are reasonably assured.

Consumer loans are typically charged off no later than 180 days past due. Residential and commercial real estate loans are evaluated for charge-off on a case-by-case basis and are typically charged-off at the time of foreclosure. Past-due status is based on the contractual terms of the loans. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if the collection of principal and interest is considered doubtful.

DUKE UNIVERSITY FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

Deferred Loan Fees and Costs

A portion of loan origination fees and costs are deferred and amortized over the estimated life of the loan using a method that approximates the interest method. Deferred fees and costs are recognized as an adjustment to interest income on loans over the average life of the related loan.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the required allowance for loan losses balance using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged-off. Loan losses are charged against the allowance for loan losses when Management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Due to the nature of uncertainties related to any estimation process, Management's estimate of loan losses inherent in the loan portfolio may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated. In addition, the Credit Union's regulator, as an integral part of its examination process, periodically reviews the Credit Union's allowance for loan losses. The regulator may require the Credit Union to adjust the allowance for loan losses based on their judgments of information available to them at the time of their examination.

A loan is considered impaired when, based on current information and events, full payment under the loan terms is not expected. Impairment is generally evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, but may be evaluated on an individual loan basis if deemed necessary. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

Premises and Equipment

Furniture and equipment is carried at cost, less accumulated depreciation. Furniture, and equipment is depreciated using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

DUKE UNIVERSITY FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

Assets Acquired in Liquidation

Assets acquired in liquidation in lieu of loan foreclosure are initially recorded at the lower of the Credit Union's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by Management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

The Credit Union has approximately zero and \$39,000 in foreclosed residential real estate property held for sale as of December 31, 2021 and 2020, respectively. In addition, the Credit Union has no loans collateralized by residential real estate in the process of foreclosure as of December 31, 2021 and 2020, respectively.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insurable shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Share and Savings Accounts

Shares include savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Shares and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on share and savings accounts, except for interest on certificates of deposit which is set in advance, is based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates on share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve

The Credit Union is required by regulation to maintain a statutory reserve, "regular reserve." The regular reserve, which represents a regulatory restriction of undivided earnings, is not available for the payment of dividends to members.

Federal and State Tax Exemption

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. Management has determined there are no material uncertain tax positions.

DUKE UNIVERSITY FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

Advertising Costs

Advertising costs are expensed as incurred.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 Inputs

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Level 2 Inputs

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 Inputs

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Subsequent Events

In preparing these financial statements, the Credit Union evaluated events and transactions for potential recognition or disclosure through April 11, 2022, the date on which the financial statements were available to be issued.

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

New Accounting Pronouncements

Accounting Standards Update (ASU) 2016-13, “Financial Instruments-Credit Losses,” (Topic 326)

This 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) debt 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, 2022. Early application of the standard is permitted for fiscal years beginning after December 15, 2018. Since all credit unions’ fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2023.

ASU No. 2016-02 “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 pattern (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, 2021. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Since all credit unions’ fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2022.

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: INVESTMENTS

Available-for-Sale

Investments classified as available-for-sale securities consist of the following:

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	\$ 54,000,000	\$ 1,600	\$ (458,250)	\$ 53,543,350

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	\$ 20,000,000	\$ 2,000	\$ (6,250)	\$ 19,995,750

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020, are as follows:

	December 31, 2021			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities	\$ 38,615,850	\$ (384,150)	\$ 9,925,900	\$ (74,100)

	December 31, 2020			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities	\$ 9,993,750	\$ (6,250)	\$ -	\$ -

There are a total of 12 and two securities with unrealized losses as of December 31, 2021 and 2020, respectively. The unrealized losses associated with these securities are considered temporary as the Credit Union has the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2021	
	Amortized Cost	Fair Value
1 to 5 years	\$ 49,000,000	\$ 48,571,200
5 to 10 years	5,000,000	4,972,150
Total	\$ 54,000,000	\$ 53,543,350

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

Other Investments

Other investments consist of the following:

	December 31,	
	2021	2020
Certificates of deposit	\$ 6,232,184	\$ 27,567,837
Perpetual capital at Vizo Financial Corporate Credit Union	698,508	698,508
CUSOs	41,072	37,975
Other deposit accounts	59,963	11,466
Total	<u>\$ 7,031,727</u>	<u>\$ 28,315,786</u>

Perpetual contributed capital is not subject to share insurance covered by the National Credit Union Share Insurance Fund or any other deposit insurer. The perpetual contributed capital is redeemable only at the option of corporate credit union provided regulatory approval is obtained. Perpetual contributed capital cannot be pledged against borrowings, has no scheduled maturity, and offers non-cumulative dividends.

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans Receivable

Loans receivable consist of the following:

	December 31,	
	2021	2020
Residential first mortgage real estate	\$ 47,261,580	\$ 40,746,737
Residential second mortgage real estate	8,834,355	11,144,272
Consumer secured	18,503,676	22,131,484
Consumer unsecured	12,669,140	12,455,101
Commercial real estate	2,900,545	-
	<u>90,169,296</u>	<u>86,477,594</u>
Allowance for loan losses	(672,474)	(821,167)
Loans receivable, net	<u>\$ 89,496,822</u>	<u>\$ 85,656,427</u>

Included in the amounts above are approximately \$83,000 and \$28,000 of deferred loan origination fees/costs as of December 31, 2021 and 2020, respectively. Also, included in the amounts above are approximately zero and \$9,000 of premiums on loans acquired as of December 31, 2021 and 2020, respectively.

DUKE UNIVERSITY FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

Allowance for Loan Losses Account

The following summarizes the activity in the allowance for loan losses account:

	For the year ending December 31, 2021			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	\$ -	\$ 110,288	\$ 710,879	\$ 821,167
Provision for loan losses	14,503	(3,962)	11,025	21,566
Recoveries on previous loan losses	-	9,336	165,323	174,659
Loans receivable charged off	-	-	(344,918)	(344,918)
Ending balance	<u>\$ 14,503</u>	<u>\$ 115,662</u>	<u>\$ 542,309</u>	<u>\$ 672,474</u>
Loans receivables:				
Individually evaluated for impairment	\$ -	\$ 744,170	\$ 320,432	\$ 1,064,602
Collectively evaluated for impairment	2,900,545	55,351,765	30,852,384	89,104,694
Total loans receivables	<u>\$ 2,900,545</u>	<u>\$ 56,095,935</u>	<u>\$ 31,172,816</u>	<u>\$ 90,169,296</u>
Allowance for loan losses:				
Individually evaluated for impairment	\$ -	\$ 32,355	\$ 69,253	\$ 101,608
Collectively evaluated for impairment	14,503	83,307	473,056	570,866
Total allowance for loan losses	<u>\$ 14,503</u>	<u>\$ 115,662</u>	<u>\$ 542,309</u>	<u>\$ 672,474</u>

	For the year ending December 31, 2020		
	Real Estate	Consumer	Total
Allowance for loan losses:			
Beginning balance	\$ 79,436	\$ 665,197	\$ 744,633
Provision for loan losses	37,056	310,173	347,229
Recoveries on previous loan losses	10,611	195,727	206,338
Loans receivable charged off	(16,815)	(460,218)	(477,033)
Ending balance	<u>\$ 110,288</u>	<u>\$ 710,879</u>	<u>\$ 821,167</u>
Loans receivables:			
Individually evaluated for impairment	\$ 304,421	\$ 235,052	\$ 539,473
Collectively evaluated for impairment	51,586,588	34,351,533	85,938,121
Total loans receivables	<u>\$ 51,891,009</u>	<u>\$ 34,586,585</u>	<u>\$ 86,477,594</u>
Allowance for loan losses:			
Individually evaluated for impairment	\$ 50,551	\$ 127,206	\$ 177,757
Collectively evaluated for impairment	59,737	583,673	643,410
Total allowance for loan losses	<u>\$ 110,288</u>	<u>\$ 710,879</u>	<u>\$ 821,167</u>

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

Impaired Loans

The Credit Union considers loans impaired when, based on current information, it is probable that the Credit Union will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Credit Union's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual status when the loan becomes 60 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

The following table includes the unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Also presented is the average ending principal balance of the impaired loans and the related allowance recognized during the time the loans were impaired.

	As of December 31, 2021		
	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
<i>With a related allowance recorded:</i>			
Residential first mortgage real estate	\$ 571,350	\$ 31,997	\$ 95,225
Residential second mortgage real estate	11,921	358	11,921
Consumer secured	230,766	54,455	8,547
Consumer unsecured	89,666	14,798	2,299
Commercial real estate	-	-	-
<i>With no related allowance recorded:</i>			
Residential first mortgage real estate	160,899	-	80,450
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Commercial real estate	-	-	-
Total:			
Residential real estate	\$ 744,170	\$ 32,355	\$ 82,686
Consumer	\$ 320,432	\$ 69,253	\$ 4,855

DUKE UNIVERSITY FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2020

	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
<i>With a related allowance recorded:</i>			
Residential first mortgage real estate	\$ -	\$ -	\$ -
Residential second mortgage real estate	304,421	50,551	76,105
Consumer secured	166,250	68,991	11,083
Consumer unsecured	68,802	58,215	2,991
Total:			
Residential real estate	\$ 304,421	\$ 50,551	\$ 76,105
Consumer	\$ 235,052	\$ 127,206	\$ 6,186

There were no impaired loans without a related allowance as of December 31, 2020.

Past Due Loans by Class

The following tables present the aging of the recorded investment in past due loans by class of loans:

As of December 31, 2021

	60 Days or >		
	Current	Past Due	Total
Residential first mortgage real estate	\$ 47,100,681	\$ 160,899	\$ 47,261,580
Residential second mortgage real estate	8,726,097	108,258	8,834,355
Consumer secured	18,410,379	93,297	18,503,676
Consumer unsecured	12,639,578	29,562	12,669,140
Commercial real estate	2,900,545	-	2,900,545
Total	\$ 89,777,280	\$ 392,016	\$ 90,169,296

As of December 31, 2020

	60 Days or >		
	Current	Past Due	Total
Residential first mortgage real estate	\$ 40,536,907	\$ 209,830	\$ 40,746,737
Residential second mortgage real estate	10,942,067	202,205	11,144,272
Consumer secured	21,967,759	163,725	22,131,484
Consumer unsecured	12,421,866	33,235	12,455,101
Total	\$ 85,868,599	\$ 608,995	\$ 86,477,594

The accrual of interest income on loans, is discontinued at the time the loan is sixty days past due or when the collection of interest or principal becomes uncertain, unless the credit is well-secured and in the process of collection. Loans on which the accrual of interest has been discontinued approximated \$392,000 and \$609,000 as of December 31, 2021 and 2020, respectively. There were no loans sixty days or more past due and still accruing interest as of December 31, 2021 or 2020.

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

Credit Quality

Loans are assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment is completed at the end of each audit period.

The following is a summary of loans based on credit quality:

	As of December 31, 2021		
	Performing	Nonperforming	Total
Residential first mortgage real estate	\$ 47,100,681	\$ 160,899	\$ 47,261,580
Residential second mortgage real estate	8,726,097	108,258	8,834,355
Consumer secured	18,410,379	93,297	18,503,676
Consumer unsecured	12,639,578	29,562	12,669,140
Commercial real estate	2,900,545	-	2,900,545
Total	<u>\$ 89,777,280</u>	<u>\$ 392,016</u>	<u>\$ 90,169,296</u>

	As of December 31, 2020		
	Performing	Nonperforming	Total
Residential first mortgage real estate	\$ 40,536,907	\$ 209,830	\$ 40,746,737
Residential second mortgage real estate	10,942,067	202,205	11,144,272
Consumer secured	21,967,759	163,725	22,131,484
Consumer unsecured	12,421,866	33,235	12,455,101
Total	<u>\$ 85,868,599</u>	<u>\$ 608,995</u>	<u>\$ 86,477,594</u>

Internally assigned loan grades are defined as follows:

Performing - A performing loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Nonperforming - A loan classified as nonperforming is considered potentially uncollectible with a likelihood of charge-off. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it means that charge-off is likely in the near future.

Troubled Debt Restructurings (TDR)

In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a TDR. The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include interest rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms deemed to be a concession, the Credit Union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

The following is a summary of information pertaining to troubled debt restructurings that occurred during the audit periods:

	For the year ending December 31, 2021			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post- Modification Balance	Number of Loans	Balance
Residential real estate	2	\$ 132,587	-	\$ -

	For the year ending December 31, 2020			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post- Modification Balance	Number of Loans	Balance
Residential real estate	4	\$ 43,712	-	\$ -

The pre-modification and post-modification balances for troubled debt restructurings are generally the same.

NOTE 4: PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31,	
	2021	2020
Furniture and equipment	\$ 2,452,987	\$ 2,404,578
	2,452,987	2,404,578
Less accumulated depreciation	(2,301,412)	(2,174,967)
Premises and equipment, net	\$ 151,575	\$ 229,611

NOTE 5: SHARE AND SAVINGS ACCOUNTS

Share and savings accounts consist of the following:

	December 31,	
	2021	2020
Share draft accounts	\$ 50,760,095	\$ 46,168,394
Money market accounts	24,000,566	21,577,471
Share accounts	104,176,334	91,361,756
Certificate accounts	6,659,619	6,918,439
Total	\$ 185,596,614	\$ 166,026,060

The aggregate amount of certificate accounts in denominations of \$250,000 or more were approximately \$552,000 and \$551,000 as of December 31, 2021 and 2020, respectively.

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

The aggregate amount of share and saving accounts maintaining a negative balance that were reclassified to loans receivable were approximately \$27,000 and \$17,000 as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, scheduled maturities of certificate accounts are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 5,280,981
2023	1,227,537
2024	151,101
Total	<u>\$ 6,659,619</u>

The National Credit Union Share Insurance Fund insures members' shares up to \$250,000. This includes all account types, such as savings, checking, money market, and certificates of deposit. Individual Retirement Account coverage is an additional \$250,000.

NOTE 6: EMPLOYEE BENEFITS

Pension Plans

Certain salaried employees of the Credit Union were participants in Duke University's contributory defined contribution pension plan. In addition, other full-time employees participate in Duke University's noncontributory defined benefit pension plan. It is not possible to determine the net pension expense for the Credit Union for the year ending December 31, 2021 and 2020 or to present separately the actuarial present value of benefit obligations or the net assets available for benefits of the Credit Union because no determination has been made of the allocation of such amounts between Duke University and the Credit Union.

The Credit Union also participates in Duke University's unfunded defined benefit postretirement medical plan. The plan covers all full time status employees who elect coverage and satisfy the plan's requirements when they retire. It is not possible to determine the net periodic postretirement benefit cost attributed to the Credit Union for the year ending December 31, 2021 and 2020, nor is it possible to present separately the actuarial accumulated postretirement benefit obligation for the Credit Union because no determination has been made of the allocation of such amounts between Duke University and the Credit Union.

NOTE 7: COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union has entered into various leasing agreements. The minimum remaining non-cancelable lease obligations are approximately the following as of December 31, 2021:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 450,000
2023	190,000
Total	<u>\$ 640,000</u>

Total rental expenses approximated \$465,000 and \$457,000 for the years ended December 31, 2021 and 2020, respectively.

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

Legal Contingencies

The Credit Union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate of which, in Management's opinion, would not be material to the Credit Union's financial condition.

Off-Balance-Sheet Risk

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for loans recorded in the financial statements.

Unfunded loan commitments under lines-of-credit are summarized as follows:

	December 31,	
	2021	2020
Share draft line of credit	\$ 6,878,215	\$ 6,823,048
Credit card	6,431,319	6,193,069
Home equity	5,416,026	4,928,376
Overdraft protection	3,428,121	3,443,891
Other	1,446,961	650,107
Total	<u>\$ 23,600,642</u>	<u>\$ 22,038,491</u>

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on Management's credit evaluation of the member.

Unfunded commitments under lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized with the exception of home-equity loans and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

DUKE UNIVERSITY FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with its members who are employees or former employees and students of Duke University. The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Durham, NC area. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

In addition to the above noted credit risk, the Credit Union may be exposed to credit risk as a result of the COVID-19 virus. Credit Union members may still be affected due to the increase in unemployment and/or business slow down. As a result, increases in loan delinquency and loan losses may be affected. The Credit Union is monitoring member loans affected as a result of the pandemic, and has set aside a reserve. The Credit Union has not experienced an increase in delinquency or loan losses due to the Pandemic as of the financial statement date, and will continue to monitor the membership and the loan portfolio and will either reduce or fund the allowance for loan and lease losses account for COVID through the provision for loan loss expense as additional information is obtained.

NOTE 8: BORROWED FUNDS

Corporate Line-of-Credit

As of December 31, 2021 and 2020, the Credit Union had an unused line-of-credit with Vizo Corporate Federal Credit Union. The terms of the agreement require the pledging of all present and future loans and equipment as security for obligations under this line-of-credit agreement. The interest rate terms under this line-of-credit agreement are variable. The total line-of-credit was \$7,500,000 as of December 31, 2021 and 2020. There were no outstanding borrowings as of these dates.

Federal Reserve Bank Line-of-Credit

As of December 31, 2021 and 2020, the Credit Union had the ability to borrow from the Federal Reserve for emergency liquidity needs. The Credit Union would need to pledge investments in order to borrow. There were no investments pledged nor any outstanding borrowing with the Federal Reserve as of December 31, 2021 and 2020.

Federal Home Loan Bank

As of December 31, 2021 and 2020, the Credit Union established the ability to borrow from the FHLB of Atlanta for liquidity needs. The Credit Union would need to pledge real estate loans and/or investments in order to borrow. There were no items pledged nor any outstanding borrowing with the FHLB of Atlanta as of December 31, 2021 and 2020.

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under accounting standards generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Furthermore, credit unions over \$50,000,000 in assets are also required to determine if they meet the definition of a "complex" credit union as defined by regulation. The minimum risk-based net worth ratio to be considered complex under the regulatory framework is 6.00%. If the Credit Union falls under the "complex" category, an additional Risk-Based Net Worth (RBNW) requirement may be imposed that could result in capital requirements in excess of minimum levels established for non-complex credit unions.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

	Risk Based Net Worth Ratio			
	December 31, 2021		December 31, 2020	
Risk Based Net Worth Ratio	5.99%		4.79%	
Credit Union considered complex?	No		No	
	General Capital Requirements			
	December 31, 2021		December 31, 2020	
	Requirement		Requirement	
	Amount	/Ratio	Amount	/Ratio
Amount needed to be classified as "well capitalized"	\$ 14,042,732	7.00%	\$ 12,626,796	7.00%
Regulatory net worth	\$ 14,695,698	7.46%	\$ 13,773,153	7.92%

The Credit Union uses a permitted optional method to calculate regulatory net worth. The Credit Union uses the optional method of using the average of daily assets over the preceding calendar quarter to calculate total assets at quarter end of regulatory net worth calculations.

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10: RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties as of December 31, 2021 and 2020, were approximately \$107,000 and \$141,000, respectively. Shares from related parties as of December 31, 2021 and 2020, amounted to approximately \$694,000 and \$690,000, respectively.

NOTE 11: FAIR VALUE MEASUREMENTS

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value, refer to Note 1 - Significant Accounting Policies. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	\$ 53,543,350	\$ -	\$ 53,543,350	\$ -

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	\$ 19,995,750	\$ -	\$ 19,995,750	\$ -

Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment. The following tables present the balances of the assets and liabilities measured at fair value on a nonrecurring basis:

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Assets acquired in liquidation	\$ 8,795	\$ -	\$ 8,795	\$ -

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets acquired in liquidation	\$ 39,000	\$ -	\$ 39,000	\$ -

Available-for-Sale Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Assets Acquired in Liquidation: Fair value is measured based on the appraised value of the collateral. Collateral may be real estate, vehicles and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Credit Union. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the member and member's business.

DUKE UNIVERSITY FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: REVENUE RECOGNITION

Revenue is recorded when earned, which is generally over the period services are provided and no contingencies exist. The following summarizes the Credit Union's revenue recognition policies as they relate to certain noninterest income line items in the Statement of Income.

Card Income

Card income includes fees such as interchange, cash advance, annual, late, over-limit and other miscellaneous fees. Uncollected fees are included in customer card receivables balances with an amount recorded in the allowance for loan and lease losses for estimated uncollectible card receivables. Uncollected fees are generally written off when a card receivable reaches 180 days past due.

Fees and Service Charges

Service charges include fees for insufficient funds, overdrafts and other banking services. Uncollected fees are included in outstanding loan balances with an amount recorded for estimated uncollectible service fees receivable. Uncollected fees are generally written off when a fee receivable reaches 60 days past due. Investment and brokerage services revenue consists primarily of asset management fees and brokerage income.

Capital Share Claim Reimbursement

The Credit Union received a reimbursement from NCUA in response to a prior depletion of capital shares of liquidated corporate credit unions. NCUA, as the liquidating agent, determined sufficient funds were available to make distributions to Credit Unions.

Insurance Commission Income

Insurance Commission Income includes commissions the Credit Union earns on insurance products sold to Credit Union members by third parties.

Other Non-Interest Income

Other non-interest income includes income from various sources. The amounts from these various sources are not significant revenue source and excluded from the scope of FASB's revenue guidance.

