CERTIFIED AUDIT REPORT

DUKE UNIVERSITY
FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

As of and for the years ended
December 31, 2019 and 2018

INDEPENDENT AUDITOR'S COMMUNICATION

For the year ended December 31, 2019

Nearman
Maynard • Vallez
Certified Public Accountants

Confidential and Proprietary

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INDEPENDENT AUDITOR'S

REPORT

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Supervisory Committee
Duke University Federal Credit Union
Durham, NC

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements
We have audited the accompanying financial statements of Duke University Federal Credit Union, which comprise the statement of financial condition as of December 31, 2019 and 2018, 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.

Management's Responsibility 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the financial statements 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 the Credit Union's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
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, 2019 and 2018, 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.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida
March 23, 2020

FINANCIAL

STATEMENTS

DUKE UNIVERSITY FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION

ASSETS

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 35,574,283	$ 21,916,573
Investments:		
Available-for-sale	12,983,420	23,686,280
Other	19,594,469	13,100,280
Federal Home Loan Bank (FHLB) stock	129,400	121,900
Loans receivable, net of allowance for loan losses	77,658,337	81,618,774
Accrued interest receivable	263,625	296,629
Premises and equipment, net	350,987	427,545
National Credit Union Share Insurance Fund deposit	1,305,843	1,268,475
Assets acquired in liquidation	39,000	40,374
Other assets	1,578,226	1,175,738
Total Assets	$ 149,477,590	$ 143,652,568

LIABILITIES AND MEMBERS' EQUITY

	December 31, 2019	December 31, 2018
Liabilities		
Share and savings accounts	$ 135,449,010	$ 131,298,785
Accrued expenses and other liabilities	716,229	769,741
Total liabilities	136,165,239	132,068,526
Commitments and contingent liabilities		
Members' Equity		
Regular reserve	1,491,426	1,491,426
Undivided earnings	11,837,505	10,406,336
Accumulated other comprehensive loss	(16,580)	(313,720)
Total members' equity	13,312,351	11,584,042
Total Liabilities and Members' Equity	$ 149,477,590	$ 143,652,568

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

DUKE UNIVERSITY FEDERAL CREDIT UNION

STATEMENTS OF INCOME

	December 31, 2019	December 31, 2018
Interest Income		
Interest on loans receivable	$ 4,388,288	$ 4,032,406
Interest on investments	1,250,077	1,014,838
Interest income	5,638,365	5,047,244
Interest Expense		
Dividends on share and savings accounts	116,533	48,518
Interest expense	116,533	48,518
Net Interest Income	5,521,832	4,998,726
Provision for Loan Losses	632,762	543,258
Net Interest Income After Provision for Loan Losses	4,889,070	4,455,468
Non-Interest Income		
Card income	1,092,641	1,021,181
Fees and service charges	906,700	821,528
Insurance commission income	163,803	257,812
Micellaneous income	89,063	94,223
Non-interest income	2,252,207	2,194,744
	7,141,277	6,650,212
Non-Interest Expense		
Compensation and employee benefits	2,546,879	2,468,124
Operations	1,362,484	1,306,871
Professional and outside services	734,084	658,696
Occupancy	605,210	617,773
Loan servicing	348,146	337,747
Education and promotion	113,305	97,067
Non-interest expense	5,710,108	5,486,278
Net Income	$ 1,431,169	$ 1,163,934

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, 2019	December 31, 2018
Net Income	$ 1,431,169	$ 1,163,934
Other Comprehensive Income		
Net unrealized holding (losses)/gains on securities arising during the year	297,140	32,240
Comprehensive Income	$ 1,728,309	$ 1,196,174

MEMBERS' EQUITY

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	$ 1,491,426	$ 9,242,402	$ (345,960)	$ 10,387,868
Net income	-	1,163,934	-	1,163,934
Change in unrealized gain/(loss) on securities	-	-	32,240	32,240
Balance, December 31, 2018	1,491,426	10,406,336	(313,720)	11,584,042
Net income	-	1,431,169	-	1,431,169
Change in unrealized gain/(loss) on securities	-	-	297,140	297,140
Balance, December 31, 2019	$ 1,491,426	$11,837,505	$ (16,580)	$ 13,312,351

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

DUKE UNIVERSITY FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS

	December 31, 2019	December 31, 2018
Cash Flows From Operating Activities		
Net income	$ 1,431,169	$ 1,163,934
Adjustments to reconcile net income to net cash:		
Provision for loan losses	632,762	543,258
Depreciation and amortization of premises and equipment	139,019	150,680
Amortization of loan premiums/discounts	71,695	63,012
Amortization of deferred loan origination fees/costs	22,157	21,099
Changes in operating assets and liabilities:		
Accrued interest receivable	33,004	(40,781)
Other assets	(402,488)	(185,646)
Accrued expenses and other liabilities	(53,512)	32,654
Net cash provided by operating activities	1,873,806	1,748,210
Cash Flows From Investment Activities		
Purchases of:		
Available-for-sale securities	(2,000,000)	-
FHLB stock	(7,500)	(5,200)
Premises and equipment	(62,461)	(47,808)
Proceeds from:		
Maturities, paydowns and sales of available-for-sale securities	13,000,000	-
Sale of mortgage loans	3,153,850	3,509,785
Sale of assets acquired in liquidation, net	-	78,498
Net change in:		
Other investments	(6,494,189)	(1,304,060)
Loans receivable, net of charge-offs	(81,508)	(18,198,447)
Assets acquired in liquidation	1,374	4,847
NCUSIF deposit	(37,368)	(74,949)
Recoveries on loans charged off	161,481	139,214
Net cash provided by (used in) investing activities	7,633,679	(15,898,120)
Cash Flows From Financing Activities		
Net change in share and savings accounts	4,150,225	7,149,674
Net cash provided by financing activities	4,150,225	7,149,674
Net Change in Cash and Cash Equivalents	13,657,710	(7,000,236)
Cash and Cash Equivalents at Beginning of Year	21,916,573	28,916,809
Cash and Cash Equivalents at End of Year	$ 35,574,283	$ 21,916,573
Supplemental Cash Flow Disclosure		
Dividends and interest paid	$ 116,533	$ 48,518

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.

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, 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.

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 contractually due are brought current and future payments are reasonably assured.

Consumer loans are typically charged off no later than 180 days past due. Residential 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 or charged-off at an earlier date if the collection of principal and interest is considered doubtful.

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.

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.

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 $39,000 and $40,000 in foreclosed residential real estate property held for sale as of December 31, 2019 and 2018, respectively. The Credit Union has no loans collateralized by residential real estate in the process of foreclosure as of December 31, 2019 and 2018, respectively.

NCUSIF Deposit and NCUSIF Insurance Premium

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 retained 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.

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 March 23, 2020, the date on which the financial statements were available to be issued.

Reclassifications

Certain 2018 financial statement amounts have been reclassified to conform with classifications adopted in the current year. This reclassification did not have any change on net income or members' equity.

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 union's 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, 2020. 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. Since all credit union's fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2021.

ASU No. 2016-01 "Financial Instruments – Overall – Recognition and Measurement of Financial Assets and Financial Liabilities."

The 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 available for implementation immediately 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, 2018. Since all credit union's fiscal year end is December 31st due to regulatory reporting, the first date to implement was January 1, 2019.

ASU 2017-08 "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-10): Premium Amortization on Purchased Callable Debt Securities"

In March 2017, the FASB issued ASU 2017-08 "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-10): Premium Amortization on Purchased Callable Debt Securities". The Board issued this Update to amend the amortization period for certain callable debt securities held at a premium. The Board is shortening the amortization period for the premium to the earliest call date.

The implementation date for "private" companies, which includes credit unions, is for fiscal years beginning after December 15, 2019. Early application of the standard is permitted. Since all credit union's fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2020. A credit union should apply this update on a modified retrospective basis through a cumulative adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle.

ASU 2014-09 "Revenue from Contracts with Customers"

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers". The Board issued this update to remove inconsistencies and weaknesses in revenue requirements; provide a framework for revenue recognition; and improve comparability of revenue recognition.

The new accounting standard does not have a material impact on the Credit Union's balance sheet or results of operations and will not have a material impact on the disclosures in the notes to the financial statements.

Effective January 1, 2019, the Credit Union adopted the new accounting standard for recognizing revenue from contracts with customers. The new standard does not impact the timing or measurement of the Credit Union's revenue recognition as it is consistent with the Credit Union's existing accounting for contracts within the scope of the new standard.

However, the Credit Union's presentation of non-interest income for the prior year will be re-classified for current non-interest presentation classifications.

NOTE 2: INVESTMENTS

Available-for-Sale

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

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 13,000,000	$ -	$ (16,580)	$ 12,983,420

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 24,000,000	$ -	$ (313,720)	$ 23,686,280

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at September 30, 2019 and 2018, are as follows:

	December 31, 2019			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities	$ 2,000,000	$ (1,880)	$ 10,985,300	$ (14,700)

	December 31, 2018			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities	$ -	$ -	$ 23,686,280	$ (313,720)

There are a total of eight and 15 securities with unrealized losses as of December 31, 2019 and 2018, 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, 2019	
	Amortized Cost	Fair Value
1 to 5 years	$ 13,000,000	$ 12,983,420

Other Investments

Other investments consist of the following:

	December 31, 2019	December 31, 2018
Certificates of deposit	$ 18,847,787	$ 12,351,471
Perpetual capital at Vizo Financial Corporate Credit Union	698,508	698,508
CUSOs	37,975	40,758
FHLB deposit account	10,199	9,543
Total	$ 19,594,469	$ 13,100,280

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, 2019	December 31, 2018
Residential first mortgage real estate	$ 23,023,429	$ 23,783,466
Residential second mortgage real estate	13,354,190	13,492,528
Consumer secured	27,669,668	30,357,261
Consumer unsecured	14,355,683	14,661,060
	78,402,970	82,294,315
Allowance for loan losses	(744,633)	(675,541)
Loans receivable, net	$ 77,658,337	$ 81,618,774

Included in the amounts above are approximately $2,000 and $1,000 of deferred loan origination fees/costs as of December 1, 2019 and 2018, respectively. Also, included in the amounts above are approximately $50,000 and $74,000 of premiums/discounts on loans acquired as of December 31, 2019 and 2018, respectively.

Allowance for Loan Losses Account

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

	For the year ending December 31, 2019		
	Residential Real Estate	**Consumer**	**Total**
Allowance for loan losses:			
Beginning balance	$ 100,496	$ 575,045	$ 675,541
Provision for loan losses	8,282	624,480	632,762
Recoveries on previous loan losses	7,139	154,342	161,481
Loans receivable charged off	(36,481)	(688,670)	(725,151)
Ending balance	$ 79,436	$ 665,197	$ 744,633
Loans receivables:			
Individually evaluated for impairment	$ 259,452	$ 338,546	$ 597,998
Collectively evaluated for impairment	36,118,167	41,686,805	77,804,972
Total loans receivables	$ 36,377,619	$ 42,025,351	$ 78,402,970
Allowance for loan losses:			
Individually evaluated for impairment	$ 27,596	$ 178,288	$ 205,884
Collectively evaluated for impairment	51,840	486,909	538,749
Total allowance for loan losses	$ 79,436	$ 665,197	$ 744,633

	For the year ending December 31, 2018		
	Residential Real Estate	**Consumer**	**Total**
Allowance for loan losses:			
Beginning balance	$ 78,198	$ 430,217	$ 508,415
Provision for loan losses	14,433	528,825	543,258
Recoveries on previous loan losses	9,697	129,517	139,214
Loans receivable charged off	(1,832)	(513,514)	(515,346)
Ending balance	$ 100,496	$ 575,045	$ 675,541
Loans receivables:			
Individually evaluated for impairment	$ 175,647	$ 324,811	$ 500,458
Collectively evaluated for impairment	37,100,347	44,693,510	81,793,857
Total loans receivables	$ 37,275,994	$ 45,018,321	$ 82,294,315
Allowance for loan losses:			
Individually evaluated for impairment	$ 45,043	$ 163,750	$ 208,793
Collectively evaluated for impairment	55,453	411,295	466,748
Total allowance for loan losses	$ 100,496	$ 575,045	$ 675,541

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 (60 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, 2019		
	Unpaid Principal Balance	**Related Allowance**	**Average Ending Principal Balance**
With a related allowance recorded:			
Residential first mortgage real estate	$ -	$ -	$ -
Residential second mortgage real estate	259,452	27,596	64,863
Consumer secured	291,772	137,259	10,061
Consumer unsecured	46,774	41,029	1,671
With no related allowance recorded:			
Residential first mortgage real estate	-	-	-
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Total:			
Residential real estate	$ 259,452	$ 27,596	$ 64,863
Consumer	$ 338,546	$ 178,288	$ 5,939

	As of December 31, 2018		
	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
With a related allowance recorded:			
Residential first mortgage real estate	$ -	$ -	$ -
Residential second mortgage real estate	81,860	45,043	20,465
Consumer secured	280,465	135,677	9,671
Consumer unsecured	44,346	28,073	1,584
With no related allowance recorded:			
Residential first mortgage real estate	93,787	-	97,787
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Total:			
Residential real estate	$ 175,647	$ 45,043	$ 35,129
Consumer	$ 324,811	$ 163,750	$ 5,698

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, 2019			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 22,848,629	$ -	$ 174,800	$ 23,023,429
Residential second mortgage real estate	13,222,911	114,464	16,815	13,354,190
Consumer secured	27,441,033	48,312	180,323	27,669,668
Consumer unsecured	14,312,269	31,864	11,550	14,355,683
Total	$ 77,824,842	$ 194,640	$ 383,488	$ 78,402,970

	As of December 31, 2018			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 23,497,511	$ -	$ 285,955	$ 23,783,466
Residential second mortgage real estate	13,376,693	-	115,835	13,492,528
Consumer secured	30,023,574	158,638	175,049	30,357,261
Consumer unsecured	14,618,178	23,306	19,576	14,661,060
Total	$ 81,515,956	$ 181,944	$ 596,415	$ 82,294,315

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 $580,000 and $778,000 as of December 31, 2019 and 2018, respectively. There were no loans sixty days or more past due and still accruing interest as of December 31, 2019 or 2018.

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, 2019		
	Performing	**Nonperforming**	**Total**
Residential first mortgage real estate	$ 22,848,629	$ 174,800	$ 23,023,429
Residential second mortgage real estate	13,222,911	131,279	13,354,190
Consumer secured	27,441,033	228,635	27,669,668
Consumer unsecured	14,312,269	43,414	14,355,683
Total	$ 77,824,842	$ 578,128	$ 78,402,970

	As of December 31, 2018		
	Performing	**Nonperforming**	**Total**
Residential first mortgage real estate	$ 23,497,511	$ 285,955	$ 23,783,466
Residential second mortgage real estate	13,376,693	115,835	13,492,528
Consumer secured	30,023,574	333,687	30,357,261
Consumer unsecured	14,618,178	42,882	14,661,060
Total	$ 81,515,956	$ 778,359	$ 82,294,315

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.

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

For the year ending December 31, 2019

	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	**Post-Modification Balance**	**Number of Loans**	**Balance**
Residential real estate	1	$ 86,876	1	$ 86,876
Consumer	5	43,847	-	-
	6	$ 130,723	1	$ 86,876

For the year ending December 31, 2018

	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	**Post-Modification Balance**	**Number of Loans**	**Balance**
Residential real estate	1	$ 32,020	1	$ 32,020
Consumer	4	33,525	-	-
	5	$ 65,545	1	$ 32,020

NOTE 4: PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31, 2019	December 31, 2018
Furniture and equipment	$ 2,494,860	$ 2,482,764
	2,494,860	2,482,764
Less accumulated depreciation and amortization	(2,143,873)	(2,055,219)
Premises and equipment, net	$ 350,987	$ 427,545

NOTE 5: SHARE AND SAVINGS ACCOUNTS

Share and savings accounts consist of the following:

	December 31, 2019	December 31, 2018
Share draft accounts	$ 34,910,820	$ 33,265,013
Money market accounts	18,881,726	18,981,046
Share accounts	74,562,089	70,526,022
Certificate accounts	7,094,375	8,526,704
Total	$ 135,449,010	$ 131,298,785

The aggregate amount of certificate accounts in denominations of $250,000 or more were approximately $549,000 and $548,000 as of December 31, 2019 and 2018, respectively.

The aggregate amount of share and saving accounts maintaining a negative balance that were reclassed to loans receivable were approximately $51,000 and $46,000 as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, scheduled maturities of certificate accounts are as follows:

Year Ending December 31,	Amount
2020	$ 4,495,493
2021	1,514,247
2022	1,084,635
Total	$ 7,094,375

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, 2019 and 2018 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, 2019 and 2018, 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, 2019:

Year Ending December 31,	Amount
2020	$ 432,000
2021	441,000
2022	450,000
2023	190,000
Total	$ 1,513,000

Total rental expenses approximated $451,000 and $449,000 for the years ended December 31, 2019 and 2018, respectively.

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, 2019	December 31, 2018
Share draft line of credit	$ 6,902,448	$ 6,854,425
Credit card	5,633,586	5,537,698
Home equity	4,532,663	4,924,151
Overdraft protection	3,314,202	3,203,375
Commercial	587,415	427,948
Total	$ 20,970,314	$ 20,947,597

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.

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.

NOTE 8: RENTS UNDER OPERATING LEASES

The Credit Union leases office space to unrelated parties. These leases are classified as operating leases. Certain of these leases contain options to renew. The rental revenue recognized by the Credit Union was approximately $18,000 for the years ended December 31, 2019 and 2018. The rental revenue includes reimbursement for various operating costs including common area maintenance, property taxes, and parking income.

A summary of the minimum future rents under the operating leases that have remaining noncancelable lease terms in excess of one year are as follows:

Year Ending December 31,	Minimum Future Rents
2020	$ 18,000
2021	19,000
2022	19,000
Total	$ 56,000

NOTE 9: BORROWED FUNDS

Corporate Line-of-Credit

As of December 31, 2019 and 2018, 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, 2019 and 2018, respectively. There were no outstanding borrowings as of these dates.

Federal Reserve Bank Line-of-Credit

As of December 31, 2019 and 2018, 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, 2019 and 2018.

Federal Home Loan Bank

As of December 31, 2019 and 2018, 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, 2019 and 2018.

NOTE 10: 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, 2019	**December 31, 2018**
Risk Based Net Worth Ratio	4.50%	4.75%
Credit Union considered complex?	No	No

	General Capital Requirements					
	December 31, 2019			December 31, 2018		
		Amount	Requirement /Ratio		Amount	Requirement /Ratio
Amount needed to be classified as "well capitalized"	$	10,463,431	7.00%	$	10,055,680	7.00%
Regulatory net worth	$	13,328,931	9.07%	$	11,897,762	8.28%

NOTE 11: 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, 2019 and 2018, were approximately $167,000 and $165,000, respectively. Shares from related parties as of December 31, 2019 and 2018, amounted to approximately $609,000 and $557,000, respectively.

NOTE 12: 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, 2019							
		Total		Level 1		Level 2		Level 3
Available-for-sale investments	$	12,983,420	$	-	$	12,983,420	$	-

	December 31, 2018							
		Total		Level 1		Level 2		Level 3
Available-for-sale investments	$	23,686,280	$	-	$	23,686,280	$	-

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, 2019							
		Total		Level 1		Level 2		Level 3
Assets acquired in liquidation	$	39,000	$	-	$	39,000	$	-

	December 31, 2018							
		Total		Level 1		Level 2		Level 3
Assets acquired in liquidation	$	40,374	$	-	$	40,374	$	-

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.

NOTE 13: 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 Consolidated 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.

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.

Other Miscellaneous Income

Other miscellaneous 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.

Insurance Commission Income

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

NOTE 14: SUBSEQUENT EVENTS

Subsequent to the balance sheet date, a pandemic has been declared by the World Health Organization (WHO) related to the COVID-19 virus. The Credit Union is closely monitoring the impact of the COVID-19 health emergency that is impacting our nation. As the situation evolves, there is a likely disruption to the overall economy which may negatively affect the Credit Union in 2020. As of the date of this report, there is no current financial impact to the Credit Union. However, our priority is the health and safety of our employees, members, business partners, customers and the communities in which we operate.

☆☆☆☆☆

INDEPENDENT AUDITOR'S COMMUNICATION

Nearman
Maynard • Vallez
Certified Public Accountants

Cecil D. Maynard, CPA, MPA, CFE, FCPA, CFF
Christopher J. Vallez, CPA, MBA
Jennifer N. Hoskins, CPA, MPA, CAMS
Ellen E. Vargo, CPA, CFE, FCPA

Supervisory Committee
Duke University Federal Credit Union
Durham, NC

COMMUNICATING MATTERS RELATED TO A CREDIT UNION'S INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Duke University Federal Credit Union (the "Credit Union") as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Credit Union's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Duke University Federal Credit Union's internal control. Accordingly, we do not express an opinion on the effectiveness of Duke University Federal Credit Union's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow Management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Credit Union's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be a material weakness. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of Management, the Board of Directors, Supervisory Committee and the Regulators, and is not intended to be, and should not be, used by anyone other than these specific parties.

The accounting principles and auditing standards referred to throughout this report and used to conduct our audit are those principles and standards generally accepted in the United States of America and promulgated by the American Institute of Certified Public Accountants.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida
March 23, 2020

-For Internal Use Only-

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Supervisory Committee
Duke University Federal Credit Union
Durham, NC

MATTERS REQUIRED TO BE COMMUNICATED TO THE SUPERVISORY COMMITTEE

As part of our responsibility under accounting pronouncements, certain matters are required to be communicated by the CPA Firm to those charged with governance. We are responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. In addition, we are responsible for determining the overall audit strategy and the audit plan including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence. The following summarizes those matters required to be communicated to the Supervisory Committee.

Our Responsibility under U. S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements prepared by Management are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit we considered the internal controls of the Credit Union. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

Independence

Generally accepted auditing standards require independence for all audits. Relevant matters to consider in reaching a conclusion about independence include circumstances or relationships that create threats to auditor independence and the related safeguards that have been applied to eliminate those threats or reduce them to an acceptable level.

It is the policy of our firm that all Associates be familiar with and adhere to the independence, integrity, and objectivity policies of the firm. In this regard, any transaction, financial interest, event, circumstance, or action that would impair the firm's independence is prohibited. We are familiar with the AICPA's Code of Professional Conduct and subsequent auditing standards, and their interpretations and rulings which require that we are independent in fact and in appearance. All of our Associates are required to sign an Independence Representation Form when hired and annually thereafter. In addition, we inform all Associates on an ongoing basis whenever a new client engages our services in order that our Associates can review their independence with the new client at that time. Any conflicts must be reported to the Quality Control Director. For the period covered by the attached audited financial statements, all of our Associates involved in this engagement are independent of your Credit Union.

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Miami, FL 33176

In accordance with our professional standards for this engagement, it is required that ***all*** Associates of Nearman, Maynard, Vallez, CPAs who were involved in this engagement, are ***independent*** and no conflict of interest exists between our Associates and the Credit Union, its staff, and any of its representatives, and we have not assumed any management responsibilities. All Associates of Nearman, Maynard, Vallez, CPAs were independent in fact and appearance with this engagement and no conflict of interest exists.

It is the responsibility of Management to make all management decisions and perform all management functions with the information provided to them as a result of this engagement and designate a competent individual to oversee the services preferably within senior management, who possesses suitable skill, knowledge, and/or experience to oversee any financial statement preparation services, bookkeeping services, tax services, or other services Nearman, Maynard, Vallez, CPAs provides. Management should assess and be satisfied that such an individual understands the services to be performed, the scope, risk, and frequencies of activities which is sufficient to oversee them. These management decisions and functions include, but are not limited to, accepting responsibility for the implementation of and/or the decision to implement the results of the services performed and to evaluate the adequacy of procedures performed and the findings resulting from the performance of those procedures. They also conduct ongoing monitoring activities. It is also part of Management's responsibility for designing, implementing, and maintaining the process of internal controls and to monitor those internal controls to assess the quality of their performance over time. Monitoring activities are procedures performed to assess whether components of internal control are present and functioning. Monitoring can be accomplished through ongoing evaluations, or separate evaluations, or some combination of the two. Ongoing evaluations are generally defined, routine operations built into the Credit Union's business processes and performed on a real-time basis. Ongoing evaluations, including managerial activities and everyday supervision of employees, monitor the presence and functioning of the components of internal control in the ordinary course of managing the business.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised Management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Credit Union are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the audit year. We noted no transactions entered into by the Credit Union during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by Management and are based on Management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We have evaluated and considered Management's judgments and accounting estimates as part of our audit procedures.

Significant Audit Adjustments

For purposes of this letter, the professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Credit Union that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Credit Union's financial reporting process.

Uncorrected Misstatements
Our audit procedures are designed to accumulate all known and likely misstatements identified during the audit. There is a possibility that immaterial misstatements, considered to us to be trivial, may have been identified during the audit. Any such immaterial misstatements would have been discussed with Management at the conclusion of the audit.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with Management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants
In some cases, Management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Credit Union's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with Management each year prior to retention as the Credit Union's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit
Serious difficulties encountered in dealing with Management that relate to the performance of the audit are required to be brought to the attention of the Supervisory Committee. We encountered no difficulties in dealing with Management in performing our audit.

We appreciate this opportunity to be of service to Duke University Federal Credit Union and wish to express our appreciation for the cooperation and assistance we received from Management and the entire Credit Union staff during our audit. If we can be of any further assistance, please contact us.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida
March 23, 2020

GRAPHICAL ANALYSIS

Nearman
Maynard • Vallez
Certified Public Accountants

Cecil D. Maynard, CPA, MPA, CFE, FCPA, CFF
Christopher J. Vallez, CPA, MBA
Jennifer N. Hoskins, CPA, MPA, CAMS
Ellen E. Vargo, CPA, CFE, FCPA

Supervisory Committee
Duke University Federal Credit Union
Durham, NC

INDEPENDENT AUDITOR'S REPORT ON THE GRAPHICAL ANALYSIS

We have audited the financial statements of Duke University Federal Credit Union as of and for the year ended December 31, 2019 and our report thereon dated March 23, 2020, which expressed an unmodified opinion on those financial statements, appears on page A-1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The graphical analysis, which is the responsibility of Management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida
March 23, 2020

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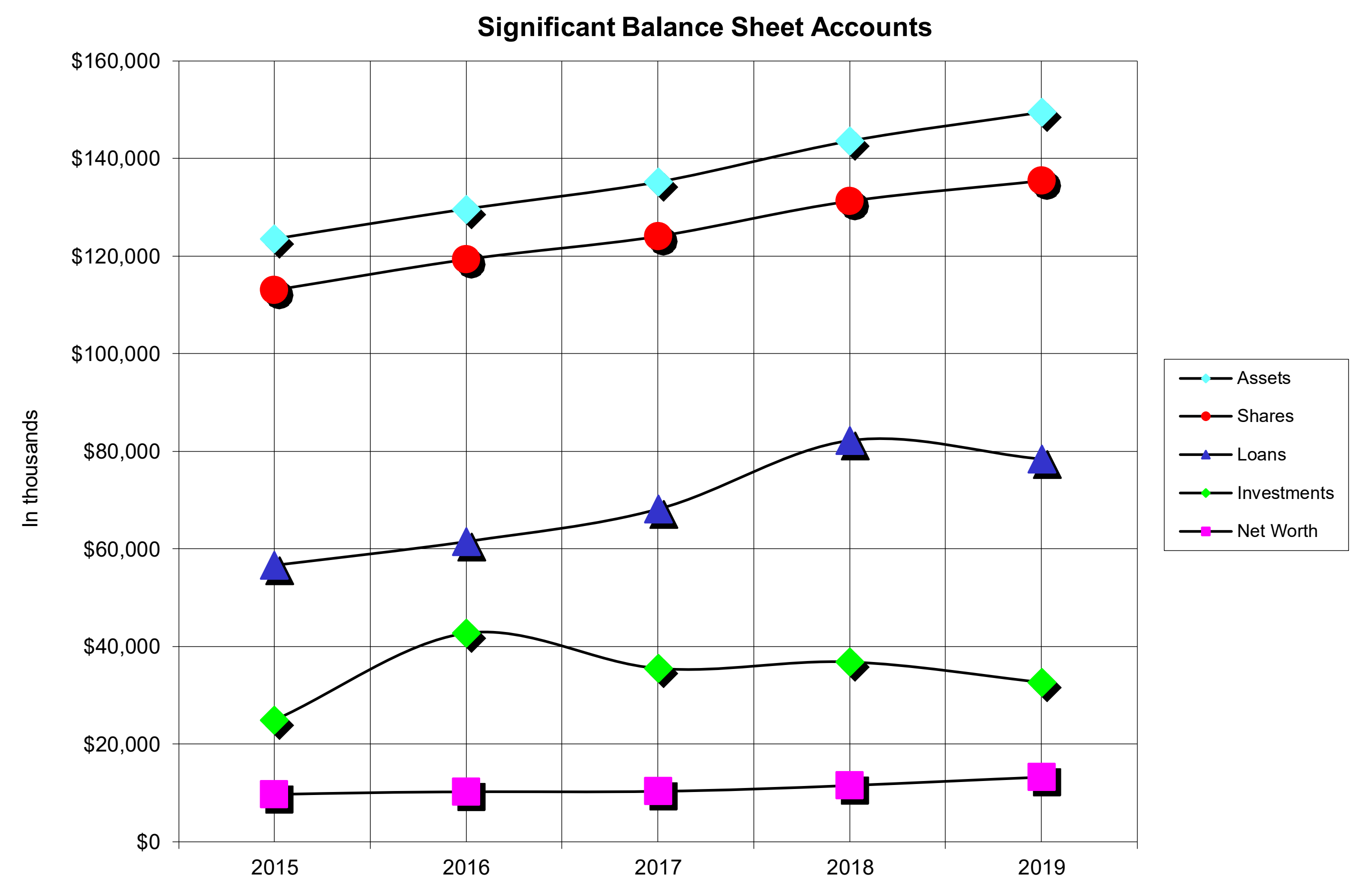
Duke University Federal Credit Union
December 31, 2019
Financial Analysis

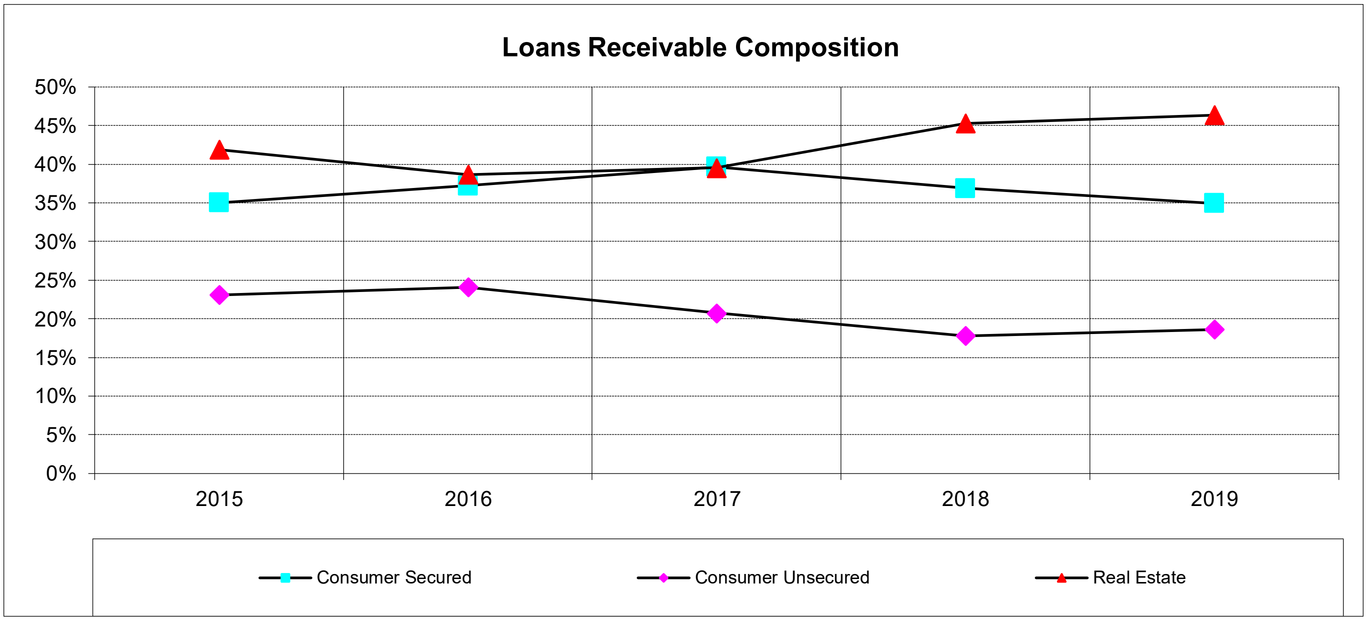
Peer Group = | Asset Range 100m - 500m | and | Region Southern |

Changes		December 31, 2018 Dollar Change	December 31, 2018 Percentage Change		December 31, 2019 Dollar Change	December 31, 2019 Percentage Change	Peer Group Average
Assets	$	8,378,502	6.2%	$	5,825,022	4.1%	5.3%
Loans Receivable	$	14,089,205	20.7%	$	(3,891,345)	(4.7%)	4.7%
Investments	$	1,341,500	3.8%	$	(4,201,171)	(11.4%)	17.4%
Shares	$	7,149,674	5.8%	$	4,150,225	3.2%	1.8%
Net Worth	$	1,163,934	10.8%	$	1,431,169	12.0%	7.4%

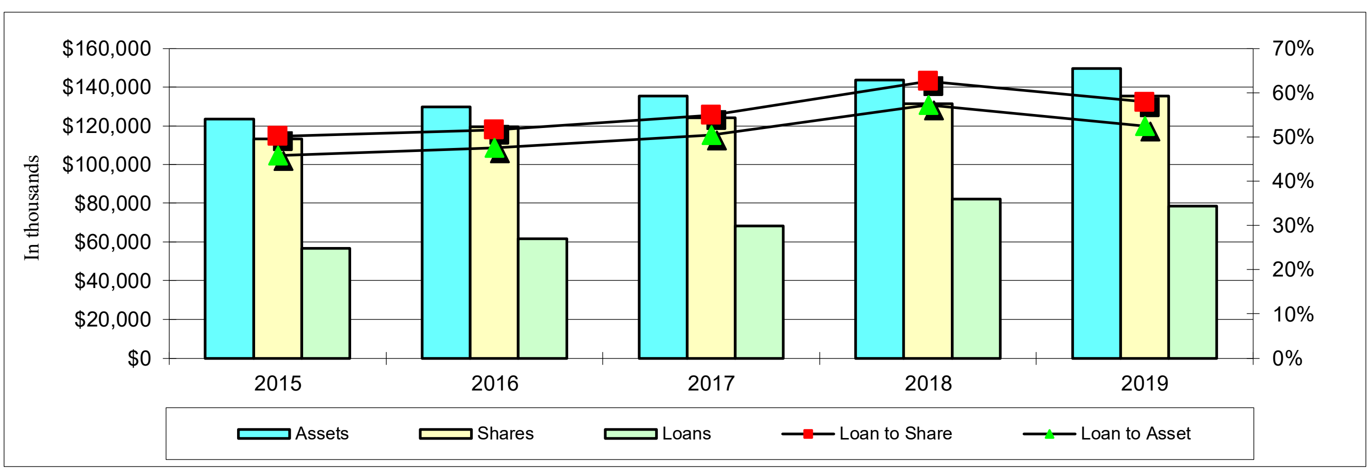


Unaudited, this information is for discussion purposes only.

Loans Receivable Mix	December 31, 2018 Balance	Percentage of Total	December 31, 2019 Balance	Percentage of Total	Peer Group Average
Consumer Secured	$ 30,357,261	37%	$ 27,406,418	35%	45%
Consumer Unsecured	14,661,060	18%	14,618,933	19%	9%
Real Estate	37,275,994	45%	36,377,619	46%	39%
Commercial	-	0%	-	0%	7%
Total	$ 82,294,315	100%	$ 78,402,970	100%	100%

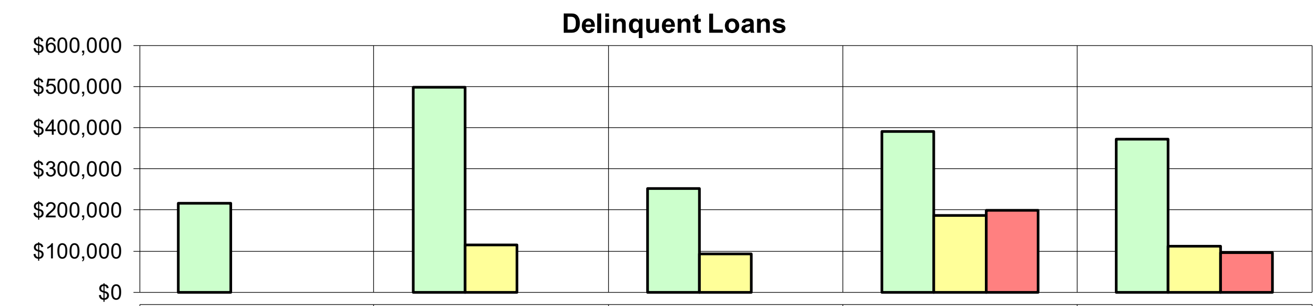


Other Loan Ratios	December 31, 2018	2019	Peer Group Average
Loan to Share	62.7%	57.9%	77.2%
Loan to Asset	57.3%	52.5%	66.7%



Unaudited, this information is for discussion purposes only.

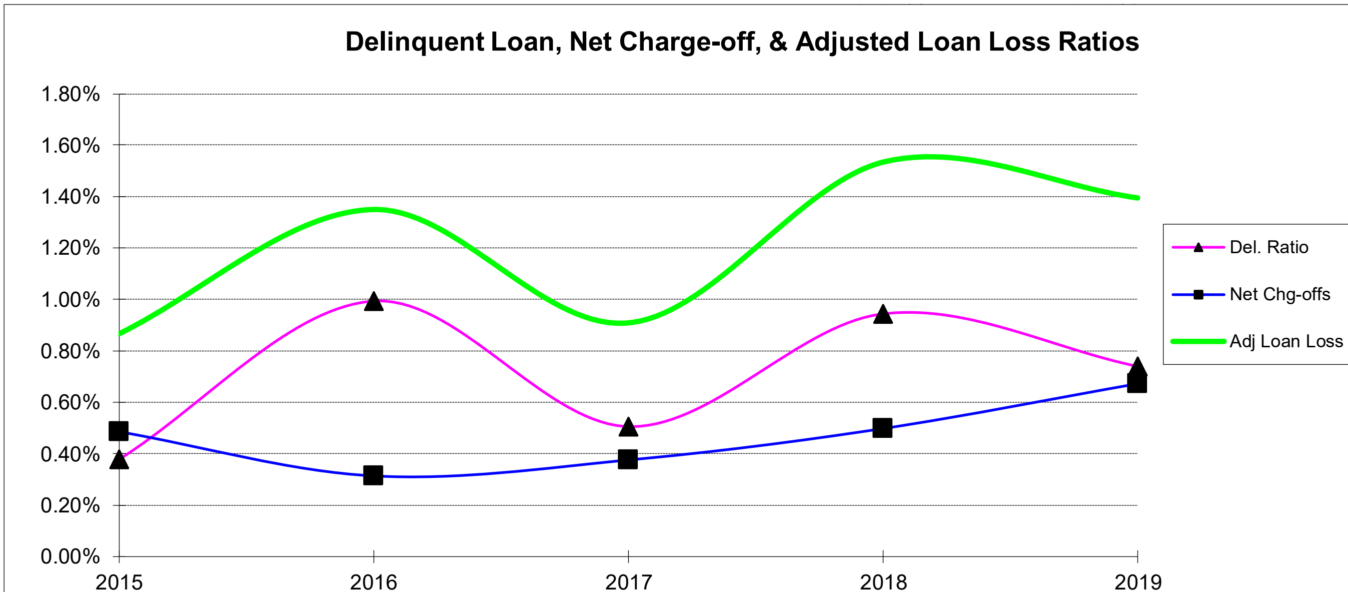
Delinquent Loans	December 31, 2018	December 31, 2019	Dollar Change
Delinquent 60 -179 days	$ 391,278	$ 372,899	$ (18,379)
Delinquent 180 - 359 days	187,293	111,791	(75,502)
Delinquent 360 days >	199,788	95,438	(104,350)
Total	$ 778,359	$ 580,128	$ (198,231)



	2015	2016	2017	2018	2019
60 - 179	215,846	497,775	252,342	391,278	372,899
180 - 359	-	114,677	93,787	187,293	111,791
360 +	-	-	-	199,788	95,438

Loan Performance Ratios	December 31, 2018	December 31, 2019	Peer Group 2018	Peer Group 2019
* Delinquent Loans > 60 days / Total Loans	0.95%	0.74%	0.81%	0.74%
* Net Charge-offs / Average Loans	0.50%	0.67%	0.52%	0.45%
**Adjusted Loan Loss Ratio	1.53%	1.39%	1.27%	1.13%

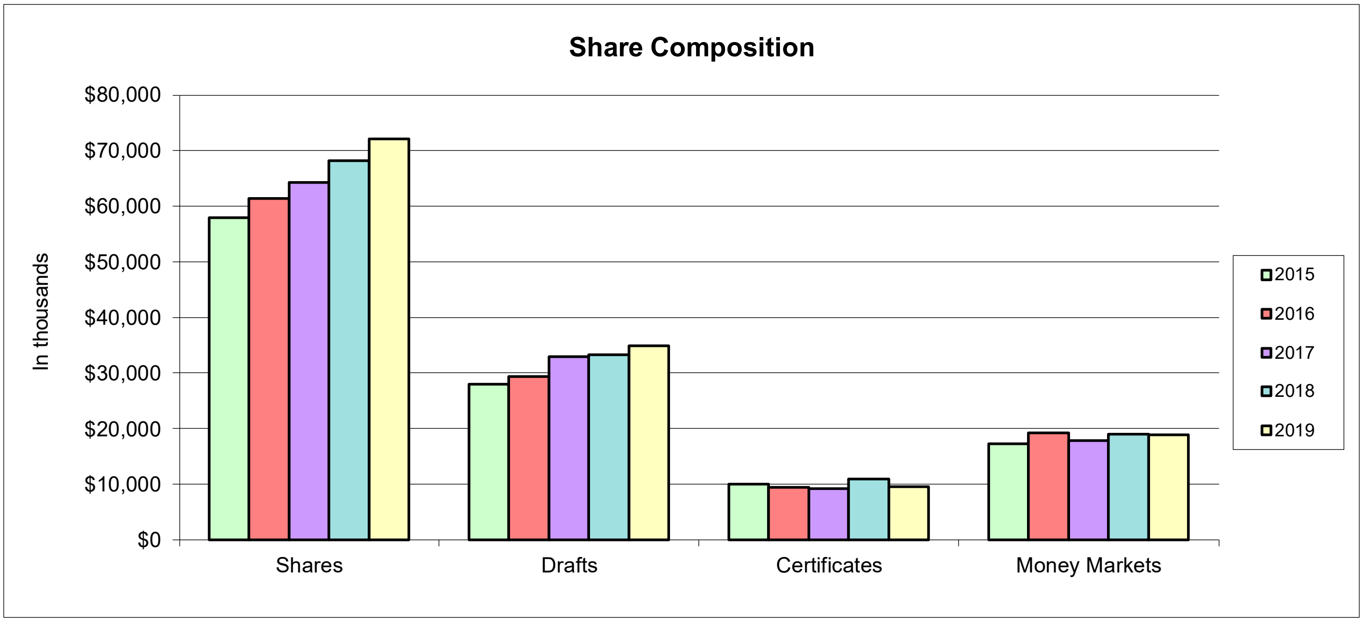
** ((Del. Loans > 60 days + Net Chg-offs) / Avg. Loans)



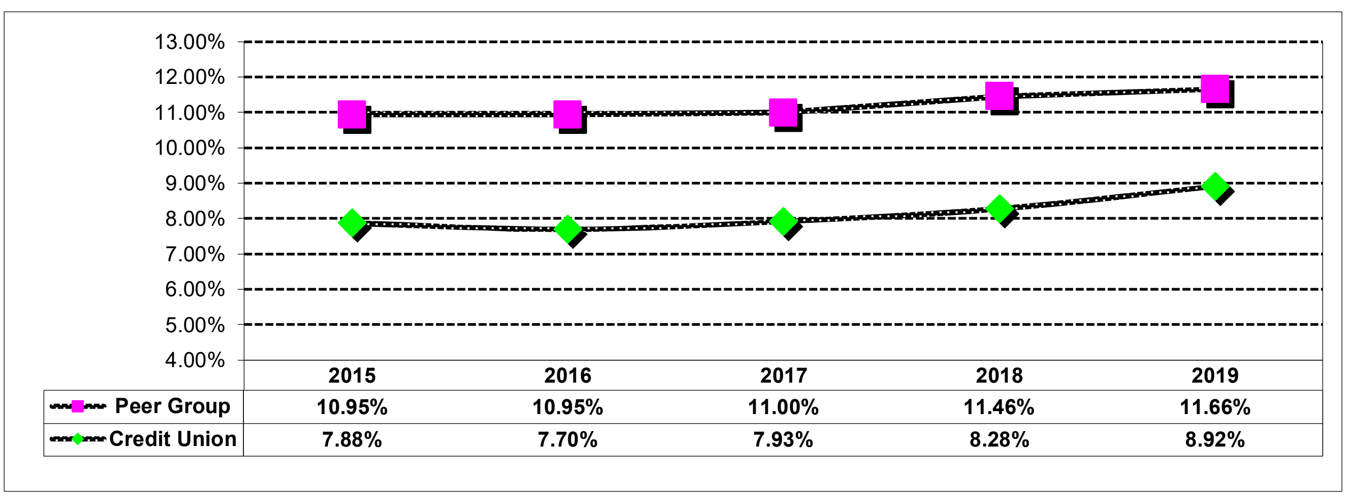
Unaudited, this information is for discussion purposes only.

*** - Key Financial Performance Ratio**

Share Mix		December 31, 2018			December 31, 2019		
		Balance	**Percentage of Total**		**Balance**	**Percentage of Total**	**Peer Group Average**
Shares	$	68,119,724	52%	$	72,115,412	53%	41%
Drafts		33,265,013	26%		34,911,020	26%	19%
Certificates		10,933,002	8%		9,540,852	7%	25%
Money Markets		18,981,046	14%		18,881,726	14%	15%
Total	$	131,298,785	100%	$	135,449,010	100%	100%



Net Worth Ratio	December 31, 2018	2019	Basis Point Change	Peer Group Average
* Net Worth / Total Assets	8.28%	8.92%	64	11.66%



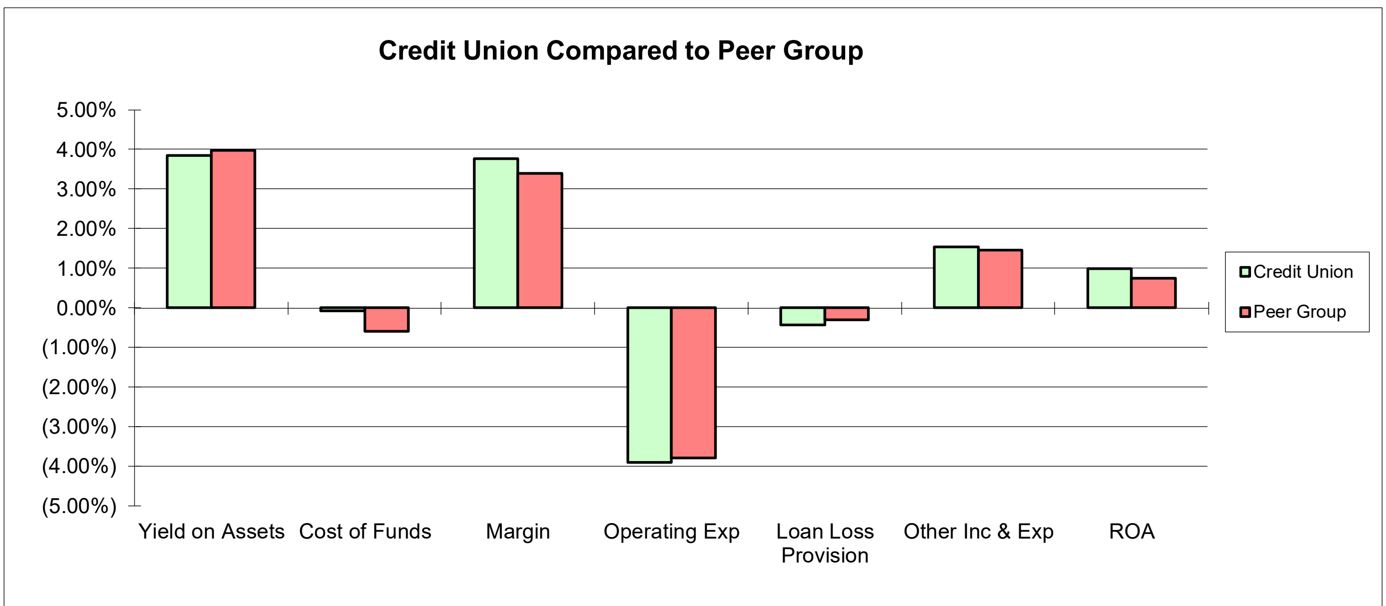
Unaudited, this information is for discussion purposes only.

*** - Key Financial Performance Ratio**

Credit Union	<A>			<B>	<A> - <B>
	For the Period Ended December 31,		Basis Point	Peer Group	Basis Point Comparison
Profitability Ratios	**2018**	**2019**	**Change**	**Average**	**to Peer Group**
Yield on Assets / Average Assets	3.62%	3.85%	23	3.98%	(13)
Cost of Funds / Average Assets	(0.03%)	(0.08%)	(5)	(0.59%)	51
Net Interest Margin	3.59%	3.77%	18	3.39%	38
Operating Expenses / Average Assets	(3.93%)	(3.90%)	3	(3.79%)	(11)
Provision for Loan Loss / Average Assets	(0.39%)	(0.43%)	(4)	(0.30%)	(13)
Other Income & Expense / Average Assets	1.57%	1.54%	(3)	1.45%	9
* Return on Average Assets (ROA)	0.84%	0.98%	14	0.75%	23
Combined Operating Expense Ratio & Other Income/Expense Ratio	(2.36%)	(2.36%)	0	(2.34%)	(2)

Peer Group	For the Period Ended December 31,		Basis Point
Profitability Ratios	**2018**	**2019**	**Change**
Yield on Assets / Average Assets	3.78%	3.98%	20
Cost of Funds / Average Assets	(0.46%)	(0.59%)	(13)
Net Interest Margin	3.32%	3.39%	7
Operating Expenses / Average Assets	(3.76%)	(3.79%)	(3)
Provision for Loan Loss / Average Assets	(0.37%)	(0.30%)	7
Other Income & Expense / Average Assets	1.50%	1.45%	(5)
* Return on Average Assets (ROA)	0.69%	0.75%	6
Combined Operating Expense Ratio & Other Income/Expense Ratio	(2.26%)	(2.34%)	(8)

Key Ratio Summary	
Del. Loans	0.74%
Net Chg-offs	0.67%
Net Worth	8.92%
ROA	0.98%



Unaudited, this information is for discussion purposes only.

*** - Key Financial Performance Ratio**