# CERTIFIED AUDIT REPORT

DUKE UNIVERSITY
FEDERAL CREDIT UNION

## FINANCIAL STATEMENTS

**As of and for the years ended**
**December 31, 2022 and 2021**

Nearman
Maynard • Vallez
Certified Public Accountants

Confidential and Proprietary

## *TABLE OF CONTENTS*

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
Lynn M. Franzosa, CPA, MACC, NCCO

# *INDEPENDENT AUDITOR'S REPORT*

Supervisory Committee
Duke University Federal Credit Union
Durham, North Carolina

**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 statements of financial condition as of December 31, 2022 and 2021, 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, 2022 and 2021, 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 for within one year after the date that the financial statements are available to be issued.



Atlanta
205 Brandywine Blvd., Suite 100
Fayetteville, GA 30214

305-598-1730
www.nearman.com

Miami
10661 N Kendall Dr., Suite 201
Miami, FL 33176

Supervisory Committee
Duke University Federal Credit Union

*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 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
March 21, 2023

## *DUKE UNIVERSITY FEDERAL CREDIT UNION*

## *STATEMENTS OF FINANCIAL CONDITION*

### *ASSETS*

| | December 31, | |
|---|---|---|
| **Assets** | **2022** | **2021** |
| Cash and cash equivalents | $ 39,412,294 | $ 43,765,153 |
| Available-for-sale debt securities | 55,603,760 | 53,543,350 |
| Other investments | 6,757,047 | 7,031,727 |
| Federal Home Loan Bank (FHLB) stock | 100,500 | 90,300 |
| Loans receivable, net of allowance for loan losses | 93,975,288 | 89,496,822 |
| Accrued interest receivable | 370,521 | 272,636 |
| Premises and equipment, net | 96,016 | 151,575 |
| National Credit Union Share Insurance Fund deposit | 1,786,991 | 1,684,146 |
| Assets acquired in liquidation | 12,973 | 8,795 |
| Right of use assets | 2,420,340 | - |
| Other assets | 3,929,047 | 4,565,956 |
| **Total Assets** | $ 204,464,777 | $ 200,610,460 |

### *LIABILITIES AND MEMBERS' EQUITY*

| | December 31, | |
|---|---|---|
| | **2022** | **2021** |
| **Liabilities** | | |
| Share and savings accounts | $ 190,531,686 | $ 185,596,614 |
| Lease liabilities | 2,420,340 | - |
| Accrued expenses and other liabilities | 842,034 | 774,798 |
| Total liabilities | 193,794,060 | 186,371,412 |
| Commitments and contingent liabilities | | |
| **Members' Equity** | | |
| Undivided earnings | 16,066,957 | 14,695,698 |
| Accumulated other comprehensive loss | (5,396,240) | (456,650) |
| Total members' equity | 10,670,717 | 14,239,048 |
| **Total Liabilities and Members' Equity** | $ 204,464,777 | $ 200,610,460 |

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

## *DUKE UNIVERSITY FEDERAL CREDIT UNION*

## *STATEMENTS OF INCOME*

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Interest Income** | | |
| Interest on loans receivable | $ 4,119,224 | $ 4,047,763 |
| Interest on investments | 1,234,002 | 485,212 |
| Interest income | 5,353,226 | 4,532,975 |
| **Interest Expense** | | |
| Dividends on share and savings accounts | 42,663 | 45,167 |
| Interest expense | 42,663 | 45,167 |
| **Net Interest Income** | 5,310,563 | 4,487,808 |
| **Provision for Loan Losses** | 302,352 | 21,566 |
| **Net Interest Income After Provision for Loan Losses** | 5,008,211 | 4,466,242 |
| **Non-Interest Income** | | |
| Card income | 1,226,993 | 1,227,403 |
| Fees and service charges | 796,357 | 709,731 |
| Insurance commission income | 193,684 | 114,337 |
| Corporate capital distribution | 170,088 | 289,609 |
| Other non-interest income | 24,832 | 56,550 |
| Non-interest income | 2,411,954 | 2,397,630 |
| | 7,420,165 | 6,863,872 |
| **Non-Interest Expense** | | |
| Compensation and employee benefits | 2,786,100 | 2,635,020 |
| Operations | 1,496,819 | 1,533,662 |
| Professional and outside services | 678,050 | 720,682 |
| Occupancy | 608,405 | 608,692 |
| Loan servicing | 395,272 | 359,078 |
| Education and promotion | 84,260 | 71,340 |
| Loss on disposition of assets acquired in liquidation, net | - | 12,853 |
| Non-interest expense | 6,048,906 | 5,941,327 |
| **Net Income** | $ 1,371,259 | $ 922,545 |

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

# DUKE UNIVERSITY FEDERAL CREDIT UNION
# STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN MEMBERS' EQUITY

## COMPREHENSIVE INCOME

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Net Income** | $ 1,371,259 | $ 922,545 |
| **Other Comprehensive Loss** | | |
| Net unrealized holding losses on securities arising during the year | (4,939,590) | (452,400) |
| Less reclassification adjustment for net losses/(gains) included in net income | - | - |
| | (4,939,590) | (452,400) |
| **Comprehensive (Loss) Income** | $ (3,568,331) | $ 470,145 |

## CHANGES IN MEMBERS' EQUITY

| | Undivided Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|
| **Balance, December 31, 2020** | $ 13,773,153 | $ (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** | 14,695,698 | (456,650) | 14,239,048 |
| Net income | 1,371,259 | - | 1,371,259 |
| Change in unrealized gain/(loss) on securities | - | (4,939,590) | (4,939,590) |
| **Balance, December 31, 2022** | $ 16,066,957 | $ (5,396,240) | $ 10,670,717 |

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

## *DUKE UNIVERSITY FEDERAL CREDIT UNION*

## *STATEMENTS OF CASH FLOWS*

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income | $ 1,371,259 | $ 922,545 |
| Adjustments to reconcile net income to net cash: | | |
| Provision for loan losses | 302,352 | 21,566 |
| Depreciation and amortization of premises and equipment | 117,655 | 127,667 |
| Loss on disposition of assets acquired in liquidation, net | - | 12,853 |
| Amortization of loan premiums/discounts | - | 8,738 |
| Amortization of deferred loan origination fees/costs | 1,563 | 2,567 |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable | (97,885) | (58,122) |
| Right of use assets | (2,420,340) | - |
| Other assets | 636,909 | (3,663,992) |
| Lease liabilities | 2,420,340 | - |
| Accrued expenses and other liabilities | 67,236 | 186,963 |
| Net cash provided by (used in) operating activities | 2,399,089 | (2,439,215) |
| **Cash Flows From Investing Activities** | | |
| Purchases of: | | |
| Available-for-sale debt securities | (7,000,000) | (51,000,000) |
| FHLB stock | (10,200) | - |
| Premises and equipment | (62,096) | (49,631) |
| Proceeds from: | | |
| Maturities, paydowns and sales of available-for-sale debt securities | - | 17,000,000 |
| Sale of FHLB stock | - | 44,400 |
| Sale of mortgage loans | 1,059,745 | 2,095,500 |
| Sale of assets acquired in liquidation, net | - | 26,147 |
| Net change in: | | |
| Other investments | 274,680 | 21,284,059 |
| Loans receivable, net of charge-offs | (5,985,637) | (6,143,425) |
| Assets acquired in liquidation | (4,178) | (8,795) |
| NCUSIF deposit | (102,845) | (212,395) |
| Recoveries on loans charged off | 143,511 | 174,659 |
| Net cash used in investing activities | (11,687,020) | (16,789,481) |

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

## *DUKE UNIVERSITY FEDERAL CREDIT UNION*

## *STATEMENTS OF CASH FLOWS*

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Cash Flows From Financing Activities** | | |
| Net change in share and savings accounts | 4,935,072 | 19,570,554 |
| Net cash provided by financing activities | 4,935,072 | 19,570,554 |
| Net Change in Cash and Cash Equivalents | (4,352,859) | 341,858 |
| Cash and Cash Equivalents at Beginning of Year | 43,765,153 | 43,423,295 |
| Cash and Cash Equivalents at End of Year | $ 39,412,294 | $ 43,765,153 |
| **Supplemental Cash Flow Disclosure** | | |
| Dividends and interest paid | $ 42,663 | $ 45,167 |
| Loans receivable transferred to assets acquired in liquidation | $ 12,973 | $ 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.

***Debt Securities***

Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in "Other Comprehensive (Loss) Income." Realized gains and losses on securities available-for-sale are included in "Other Noninterest Income" or expense and, when applicable, are reported as a reclassification adjustment in "Accumulated other comprehensive income (loss)." Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity/call date.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security basis and has a process in place to identity securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined by whether it is more likely than not the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in "Non-interest income."

***Other Investments***

Other investments are carried, as a practical expedient, at cost, less impairment, plus or minus changes resulting from observable price changes.

***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 status. 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.

***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 are carried at cost, less accumulated depreciation. Furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed, and major improvements and renovations are capitalized. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are included in current operations.

***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 no foreclosed residential real estate property held for sale and no loans collateralized by residential real estate in the process of foreclosure as of December 31, 2022 and 2021, 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.

***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 21, 2023, the date on which the financial statements were available to be issued.

***Reclassifications***

Certain 2021 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. Credit Union Management is currently evaluating the impact of the standard on the financial statements.

**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. The Credit Union adopted this standard during the audit period. The Credit Union used the modified retrospective transition and certain practical expedients. As a result of this implementation the Credit Union recorded a right of use asset and liability of approximately $2,830,000. The transaction had no or an immaterial effect on retained earnings, as such no adjustment to opening retained earnings was recorded.

**ASU No. 2022-02 "Troubled Debt Restructurings and Vintage Disclosures"**

On March 31, 2022, the FASB issued Accounting Standards Update (ASU) 2022-02, Troubled Debt Restructurings and Vintage Disclosures. This ASU eliminates troubled debt restructurings (TDR) reporting guidance under ASC 310-40 for institutions who have adopted ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The update also amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination and adds new disclosure requirements for loan modifications made to a borrower experiencing financial difficulty.

ASU 2022-02 introduces new disclosure requirements for modifications of receivables to borrowers experiencing financial difficulty. The definition of "experiencing financial difficulty" was brought forward from the TDR guidance (ASC 310-40), so the same considerations can be applied to making that determination. Creditors should evaluate all modifications as either a new loan or the continuation of an existing loan under the general guidance on loan refinancing and restructuring in ASC 310-20-35-9 through 35-11. The new ASU specifically identifies four types of modifications to borrowers experiencing financial difficulty about which specific information must be disclosed:

- Principal forgiveness
- Interest rate reduction
- Other-than-insignificant payment delays
- Term extensions

Creditors should disclose the following by class of financing receivable: amortized cost, percentage by class, changes of contractual terms, and performance in the 12 months after modification.

Creditors should also disclose qualitative information about how the modifications and the debtors' subsequent performance factor into determining the allowance for credit losses.

For each reporting period, disclosure is required related to those modifications that defaulted and how those defaults are factored into determining the allowance.

The amendments in this Update are effective for fiscal years beginning after December 15, 2022, for those that have early adopted ASU 2016-13. For Credit Unions that have not yet adopted ASU 2016-13, the effective dates for the amendments are the same as the effective dates in ASU 2016-13. Credit Union Management is currently evaluating the impact of the standard on the financial statements.

## NOTE 2: INVESTMENTS

Investments consist of the following:

**Available-for-Sale Debt Securities**

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Federal agency securities | $ 61,000,000 | $ - | $ (5,396,240) | $ 55,603,760 |

| | 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 |

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

| | As of December 31, 2022 | | | |
|---|---|---|---|---|
| | Less than 12 months | | 12 months or greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Federal agency securities | $ 6,606,760 | $ (393,240) | $ 48,997,000 | $ (5,003,000) |

| | As of 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) |

There are a total of 21 and 12 securities with unrealized losses as of December 31, 2022 and 2021, 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 debt 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, 2022 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| 1 to 5 years | $ 61,000,000 | $ 55,603,760 |

**Other Investments**

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Certificates of deposit | $ 5,963,271 | $ 6,232,184 |
| Perpetual capital at Vizo Financial Corporate Credit Union | 698,508 | 698,508 |
| Other deposits at corporate credit unions | 54,667 | 59,963 |
| CUSO Investments | 40,601 | 41,072 |
| Total | $ 6,757,047 | $ 7,031,727 |

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, 2022 | December 31, 2021 |
|---|---|---|
| Residential first mortgage real estate | $ 46,629,806 | $ 47,261,580 |
| Residential second mortgage real estate | 11,370,840 | 8,834,355 |
| Consumer secured | 17,701,405 | 18,503,676 |
| Consumer unsecured | 14,329,406 | 12,669,140 |
| Commercial real estate | 4,699,408 | 2,900,545 |
| | 94,730,865 | 90,169,296 |
| Allowance for loan losses | (755,577) | (672,474) |
| Loans receivable, net | $ 93,975,288 | $ 89,496,822 |

Included in the loan amounts above:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Deferred loan origination fees/costs, net | $ (60,867) | $ (83,148) |

***Allowance for Loan Losses Account***

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

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Commercial | Residential Real Estate | Consumer | Total |
| ***Allowance for loan losses:*** | | | | |
| Beginning balance | $ 14,503 | $ 115,662 | $ 542,309 | $ 672,474 |
| Provision for loan losses | 23,497 | (78,534) | 357,389 | 302,352 |
| Recoveries on previous loan losses | - | 25,768 | 117,743 | 143,511 |
| Loans receivable charged off | - | - | (362,760) | (362,760) |
| Ending balance | $ 38,000 | $ 62,896 | $ 654,681 | $ 755,577 |
| ***Loans receivable:*** | | | | |
| Individually evaluated for impairment | $ - | $ 583,352 | $ 335,092 | $ 918,444 |
| Collectively evaluated for impairment | 4,699,408 | 57,417,294 | 31,695,719 | 93,812,421 |
| Total loans receivable | $ 4,699,408 | $ 58,000,646 | $ 32,030,811 | $ 94,730,865 |
| ***Allowance for loan losses:*** | | | | |
| Individually evaluated for impairment | $ - | $ 10,274 | $ 154,656 | $ 164,930 |
| Collectively evaluated for impairment | 38,000 | 52,622 | 500,025 | 590,647 |
| Total allowance for loan losses | $ 38,000 | $ 62,896 | $ 654,681 | $ 755,577 |

| | 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 | $ 14,503 | $ 115,662 | $ 542,309 | $ 672,474 |
| ***Loans receivable:*** | | | | |
| 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 receivable | $ 2,900,545 | $ 56,095,935 | $ 31,172,816 | $ 90,169,296 |
| ***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 | $ 14,503 | $ 115,662 | $ 542,309 | $ 672,474 |

***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 90 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.

| | December 31, 2022 | | |
|---|---|---|---|
| | Unpaid Principal Balance | Related Allowance | Average Ending Principal Balance |
| ***With a related allowance recorded:*** | | | |
| Residential first mortgage real estate | $ 331,606 | $ 9,948 | $ 82,902 |
| Residential second mortgage real estate | 10,863 | 326 | 10,863 |
| Consumer secured | 272,187 | 114,435 | 10,469 |
| Consumer unsecured | 62,905 | 40,221 | 1,797 |
| Commercial real estate | - | - | - |
| ***With no related allowance recorded:*** | | | |
| Residential first mortgage real estate | 240,883 | - | 60,221 |
| Residential second mortgage real estate | - | - | - |
| Consumer secured | - | - | - |
| Consumer unsecured | - | - | - |
| Commercial real estate | - | - | - |
| Total: | | | |
| Residential real estate | $ 583,352 | $ 10,274 | $ 64,817 |
| Consumer | $ 335,092 | $ 154,656 | $ 5,493 |
| Commercial | $ - | $ - | $ - |

| | December 31, 2021 | | |
|---|---|---|---|
| | Unpaid Principal Balance | Related Allowance | Average Ending Principal Balance |
| ***With a related allowance recorded:*** | | | |
| 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 | - | - | - |
| ***With no related allowance recorded:*** | | | |
| 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 |
| Commercial | $ - | $ - | $ - |

***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, 2022 | | |
|---|---|---|---|
| | Current | 60 Days or > Past Due | Total |
| Residential first mortgage real estate | $ 46,474,021 | $ 155,785 | $ 46,629,806 |
| Residential second mortgage real estate | 11,355,543 | 15,297 | 11,370,840 |
| Consumer secured | 17,497,630 | 203,775 | 17,701,405 |
| Consumer unsecured | 14,191,867 | 137,539 | 14,329,406 |
| Commercial real estate | 4,699,408 | - | 4,699,408 |
| Total | $ 94,218,469 | $ 512,396 | $ 94,730,865 |

| | December 31, 2021 | | |
|---|---|---|---|
| | Current | 60 Days or > 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 |

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. There were no loans sixty days or more past due and still accruing interest as of December 31, 2022 and 2021.

| | December 31, | |
|---|---|---|
| | 2022 | 2021 |
| Loans on which the accrual of interest has been discontinued | $ 512,396 | $ 392,016 |

***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:

| | As of December 31, 2022 | | |
|---|---|---|---|
| | **Performing** | **Nonperforming** | **Total** |
| Residential first mortgage real estate | $ 46,474,021 | $ 155,785 | $ 46,629,806 |
| Residential second mortgage real estate | 11,355,543 | 15,297 | 11,370,840 |
| Consumer secured | 17,497,630 | 203,775 | 17,701,405 |
| Consumer unsecured | 14,191,867 | 137,539 | 14,329,406 |
| Commercial real estate | 4,699,408 | - | 4,699,408 |
| Total | $ 94,218,469 | $ 512,396 | $ 94,730,865 |

| | 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 | $ 89,777,280 | $ 392,016 | $ 90,169,296 |

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 year ending:

| | For the year ending December 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Troubled Debt Restructurings | | | Troubled Debt Restructurings That Subsequently Defaulted | | |
| | Number of Loans | | Post-Modification Balance | Number of Loans | | Balance |
| Residential real estate | - | $ | - | - | $ | - |
| Consumer | 2 | | 11,755 | - | | - |
| Commercial | - | | - | - | | - |
| | 2 | $ | 11,755 | - | $ | - |

| | 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 | - | $ | - |
| Consumer | - | | - | - | | - |
| Commercial | - | | - | - | | - |
| | 2 | $ | 132,587 | - | $ | - |

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, | | | |
|---|---|---|---|---|
| | | 2022 | | 2021 |
| Furniture and equipment | $ | 2,250,359 | $ | 2,452,987 |
| | | 2,250,359 | | 2,452,987 |
| Less accumulated depreciation | | (2,154,343) | | (2,301,412) |
| Premises and equipment, net | $ | 96,016 | $ | 151,575 |

## NOTE 5: LEASES

The Credit Union has an operating lease for its main branch. The lease has an original lease term of 15 years with 5 year renewal and two subsequent renewals for 5 years each.

| | For the Year Ending December 31, 2022 |
|---|---|
| Operating lease cost | $ 446,832 |

Supplemental cash flow information related to leases was as follows:

| | December 31, 2022 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from operating leases | $ 452,095 |
| Right-of-use assets obtained in exchange for lease obligations | |
| Operating leases | $ 2,829,936 |

Supplemental balance sheet information related to lease was as follows:

| | December 31, 2022 |
|---|---|
| Operating leases: | |
| Operating lease right-of-use assets | $ 2,420,340 |
| Operating lease liabilities | $ 2,420,340 |
| Weighted average remaining lease term | 60 months |
| Weighted average discount rate | 2.00% |

Maturities of lease liabilities were as follows:

| Year Ending December 31, 2022 | Amount |
|---|---|
| 2023 | $ 461,216 |
| 2024 | 470,510 |
| 2025 | 479,978 |
| 2026 | 489,620 |
| 2027 | 499,435 |
| 2028 and after | 209,814 |
| Total lease payments | 2,610,573 |
| Imputed Interest | (190,233) |
| Total lease liability | $ 2,420,340 |

## *NOTE 6: SHARE AND SAVINGS ACCOUNTS*

Share and savings accounts consist of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Share draft accounts | $ 53,471,574 | $ 50,760,095 |
| Money market accounts | 24,186,380 | 24,000,566 |
| Share accounts | 106,242,028 | 104,176,334 |
| Certificate accounts | 6,631,704 | 6,659,619 |
| Total | $ 190,531,686 | $ 185,596,614 |

The scheduled maturities of certificate accounts are as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2023 | $ 4,873,720 |
| 2024 | 1,663,996 |
| 2025 | 93,988 |
| Total | $ 6,631,704 |

The aggregate amounts are as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Certificate accounts in denominations of $250,000 or more | $ 282,930 | $ 552,426 |
| Negative share and saving accounts that were reclassed to loans receivable | $ 27,248 | $ 26,727 |

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 7: 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, 2022 and 2021 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, 2022 and 2021, 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 8: COMMITMENTS AND CONTINGENT LIABILITIES_

**_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, | |
|---|---|---|
| | **2022** | **2021** |
| Share draft line of credit | $ 6,469,445 | $ 6,878,215 |
| Credit card | 6,423,593 | 6,431,319 |
| Home equity | 5,633,490 | 5,416,026 |
| Overdraft protection | 3,380,692 | 3,428,121 |
| Other | 2,046,086 | 1,446,961 |
| Business | 307,918 | - |
| Total | $ 24,261,224 | $ 23,600,642 |

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 9: BORROWED FUNDS*

***Corporate Line-of-Credit***

The Credit Union has an unused line-of-credit with Vizo Financial Corporate 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, 2022 and 2021. There were no outstanding borrowings as of these dates.

***Federal Reserve Bank Line-of-credit***

As of December 31, 2022 and 2021, 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, 2022 and 2021.

***Federal Home Loan Bank***

As of December 31, 2022 and 2021, 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, 2022 and 2021.

## *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.

As of December 31, 2022, the most recent call reporting period, the NCUA categorized the Credit Union as well capitalized under the regulatory framework. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

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

| | General Capital Requirements | | | |
|---|---|---|---|---|
| | December 31, 2022 | | December 31, 2021 | |
| | Amount | Ratio | Amount | Ratio |
| Regulatory net worth | $ 16,066,957 | 8.00% | $ 14,695,698 | 7.46% |
| Amount needed to be classified as: | | | | |
| Well Capitalized | $ 14,312,534 | 7.00% | $ 14,042,732 | 7.00% |
| Adequately Capitalized | $ 12,267,887 | 6.00% | $ 12,036,628 | 6.00% |

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.

## *NOTE 11: RELATED PARTY TRANSACTIONS*

The balance of certain related party transactions with directors, committee members and executives are approximately as follows:

| | December 31, | |
|---|---|---|
| | 2022 | 2021 |
| Loans | $ 139,880 | $ 107,104 |
| Shares | $ 724,482 | $ 694,421 |

## 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, 2022 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Available-for-sale investments | $ 55,603,760 | $ - | $ 55,603,760 | $ - |

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

**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.

## 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 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***

Fees and 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.

***Insurance Commission Income***

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

***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.

***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.

☆☆☆☆☆