

**BOURNS EMPLOYEES
FEDERAL CREDIT UNION
Riverside, California**

**FINANCIAL STATEMENTS
March 31, 2011 and 2010**

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Independent Auditor's Report

Members of the Supervisory Committee and
Board of Directors
Bourns Employees Federal Credit Union
Riverside, California

We have audited the accompanying statements of financial condition of Bourns Employees Federal Credit Union as of March 31, 2011 and 2010, and the related statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bourns Employees Federal Credit Union as of March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Clifton Gunderson LLP

Tucson, Arizona
July 22, 2011

BOURNS EMPLOYEES FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
March 31, 2011 and 2010

ASSETS		
	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 3,704,682	\$ 4,008,065
Investment securities:		
Available-for-sale	4,485,250	8,378,104
Held-to-maturity	478,000	-
Other investments	5,152,710	4,778,176
Federal Home Loan Bank stock	262,800	232,200
Loans to members, net of allowance for loan losses	27,341,542	30,371,642
Accrued interest receivable	106,749	146,429
Mortgage servicing rights	106,805	88,613
Foreclosed assets and collateral in process of liquidation	6,456	289,800
Furniture and equipment, net	23,572	29,315
NCUSIF deposit	353,401	400,686
ASI deposit	45,000	45,000
Other assets	<u>194,337</u>	<u>123,604</u>
 TOTAL ASSETS	 <u>\$ 42,261,304</u>	 <u>\$ 48,891,634</u>
 LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share and savings accounts	\$ 37,512,755	\$ 43,428,783
Accrued expenses and other liabilities	<u>243,670</u>	<u>207,294</u>
 Total liabilities	 <u>37,756,425</u>	 <u>43,636,077</u>
 MEMBERS' EQUITY - substantially restricted		
Regular reserve	952,125	952,125
Undivided earnings	3,566,938	4,448,010
Accumulated other comprehensive loss	<u>(14,184)</u>	<u>(144,578)</u>
 Total members' equity	 <u>4,504,879</u>	 <u>5,255,557</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 42,261,304</u>	 <u>\$ 48,891,634</u>

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION
STATEMENTS OF OPERATIONS
Years Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
INTEREST INCOME		
Interest on loans to members	\$ 1,613,074	\$ 1,822,090
Interest on investment securities and cash equivalents	<u>360,760</u>	<u>595,356</u>
Total interest income	<u>1,973,834</u>	<u>2,417,446</u>
INTEREST EXPENSE		
Dividends on members' share and savings accounts	<u>527,767</u>	<u>903,698</u>
Net interest income	1,446,067	1,513,748
PROVISION FOR LOAN LOSSES	<u>1,100,453</u>	<u>1,358,309</u>
Net interest income after provision for loan losses	<u>345,614</u>	<u>155,439</u>
NON-INTEREST INCOME		
Fees and charges	56,378	113,951
NCUSIF deposit and impairment refund	-	292,206
Other non-interest income	80,230	95,911
Gain on sales of available-for-sale securities	-	6,064
Gain on capitalization of mortgage servicing assets	<u>60,602</u>	<u>88,146</u>
Total non-interest income	<u>197,210</u>	<u>596,278</u>
NON-INTEREST EXPENSE		
Compensation and benefits	556,062	584,624
Occupancy	28,112	43,841
Operations	308,429	306,728
Professional and outside services	74,404	40,562
Advertising and promotions	19,804	13,606
Loan servicing	224,093	162,540
Other-than-temporary-impairment loss	23,442	74,666
NCUSIF premium	128,930	-
Other expense	<u>60,620</u>	<u>38,581</u>
Total non-interest expense	<u>1,423,896</u>	<u>1,265,148</u>
NET LOSS	<u>\$ (881,072)</u>	<u>\$ (513,431)</u>

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
Years Ended March 31, 2011 and 2010

	<u>Regular Reserve</u>	<u>Undivided Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
BALANCES, MARCH 31, 2009	\$ 952,125	\$ 4,961,441	\$ (557,217)	\$ 5,356,349
COMPREHENSIVE LOSS				
Net loss	-	(513,431)	-	(513,431)
Other comprehensive income:				
Change in unrealized gain (loss) on securities available-for-sale	<u>-</u>	<u>-</u>	<u>412,639</u>	<u>412,639</u>
Total comprehensive loss				<u>(100,792)</u>
BALANCES, MARCH 31, 2010	<u>952,125</u>	<u>4,448,010</u>	<u>(144,578)</u>	<u>5,255,557</u>
COMPREHENSIVE LOSS				
Net loss	-	(881,072)	-	(881,072)
Other comprehensive income:				
Change in unrealized gain (loss) on securities available-for-sale	<u>-</u>	<u>-</u>	<u>130,394</u>	<u>130,394</u>
Total comprehensive loss				<u>(750,678)</u>
BALANCES, MARCH 31, 2011	<u>\$ 952,125</u>	<u>\$ 3,566,938</u>	<u>\$ (14,184)</u>	<u>\$ 4,504,879</u>

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
Years Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (881,072)	\$ (513,431)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	15,096	18,824
Amortization of premiums and discounts, net	111,344	(35,586)
Capitalization of mortgage servicing rights	(32,046)	(90,194)
Amortization of mortgage servicing rights	13,854	1,581
Provision for loan losses	1,100,453	1,358,309
Gain on sale of available-for-sale investments	-	(6,064)
Other-than-temporary-impairment loss	23,442	74,666
Loss on sale of foreclosed assets	26,560	-
(Gain) loss on sale of loans	(42,520)	2,047
Effect of changes in operating assets and liabilities:		
Accrued interest receivable	39,680	5,947
Collateral in process of liquidation	1,344	(12,062)
Other assets	(70,733)	97,264
Accrued expenses and other liabilities	36,376	(72,440)
	<u>341,778</u>	<u>828,861</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale, repayments or maturity of available-for-sale securities	5,501,586	3,550,539
Purchases of available-for-sale securities	(1,613,124)	(4,793,512)
Purchases of held-to-maturity securities	(478,000)	-
Proceeds from repayments or maturity of other investments	2,113,000	3,062,377
Purchases of other investments	(2,487,534)	(1,482,000)
Increase in Federal Home Loan Bank stock	(30,600)	(22,200)
Proceeds from sale of foreclosed assets	325,000	-
Loans to members, net of principal collections	(2,757,605)	(5,580,408)
Proceeds from sale of loans	4,660,212	4,222,693
(Increase) decrease in NCUSIF deposit	47,285	(336,647)
Purchases of furniture and equipment	(9,353)	(3,036)
	<u>5,270,867</u>	<u>(1,382,194)</u>
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in members' share and savings accounts	<u>(5,916,028)</u>	<u>280,136</u>
Net cash provided by (used in) financing activities	<u>(5,916,028)</u>	<u>280,136</u>

BOURNS EMPLOYEES FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (303,383)	\$ (273,197)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,008,065</u>	<u>4,281,262</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,704,682</u>	<u>\$ 4,008,065</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest:		
Dividends on members' share and savings accounts	<u>\$ 527,767</u>	<u>\$ 903,698</u>
Transfer from loans to foreclosed assets	<u>\$ 69,560</u>	<u>\$ 282,000</u>

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bourns Employees Federal Credit Union (the Credit Union) is a federally chartered credit union organized under the Federal Credit Union Act and administratively responsible to the National Credit Union Administration. The primary purpose is to promote thrift among, and create 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. The Credit Union's primary source of revenue is providing loans to its members.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, 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 that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

The Credit Union provides a variety of financial services to its members, most of whom are employees of Bourns, Inc., and selected employee groups within the region. The Credit Union may be exposed to credit risk from a regional economic standpoint because of significant concentration of its borrowers work or reside in the state of California. During the years ended March 31, 2010 and 2011, and continuing into 2012, the financial deterioration resulting from the economic conditions in this region have resulted in significant loan losses and declines in fair value of investments for the Credit Union and those with whom it does business, including corporate credit unions. The Credit Union continually monitors operations, including the loan and investment portfolios, for potential impairment.

However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except real estate loans. 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.

Accounting Guidance

Accounting guidance related to U.S. generally accepted accounting principles (U.S. GAAP) is codified in FASB ASC 105, *Generally Accepted Accounting Principles*. ASC 105 establishes ASC as the source of authoritative U.S. GAAP recognized by FASB to be applied by nongovernmental entities. FASB issues Accounting Standards Updates, which serve to update FASB ASC, provide background information about the guidance, and provide the basis for conclusions on the changes to FASB ASC.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the financial statements, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments with original maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investment Securities

Debt and equity securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts. Securities not classified as held-to-maturity or trading, including debt and equity securities with readily determinable fair values, are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

The Credit Union evaluates debt and equity securities for other-than-temporary impairment (OTTI), at least quarterly. This guidance specifies that (a) if the Credit Union does not have the intent to sell a debt security prior to recovery and (b) it is more-likely-than-not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Credit Union does not intend to sell the security and it is more-likely-than-not the Credit Union will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income (loss). For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income (loss) for the noncredit portion of a previous OTTI should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Credit Union’s statements of operations reflects the full impairment (that is, the difference between the security’s amortized cost basis and fair value) on debt securities that the Credit Union intends to sell or would more-likely-than-not be required to sell before the expected recovery of the amortized cost basis. The credit component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected on cash flow projections.

Purchase premiums and discounts are recognized in interest income using the straight-line method, which approximates the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Credit Union does not maintain a trading portfolio. Other investments are classified separately and are stated at cost and are subject to OTTI evaluation.

Federal Home Loan Bank Stock

The Credit Union, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding mortgage loans from the FHLB. There is no ready market value for the FHLB stock; therefore, it has no quoted market value and is reported on the statements of financial condition at cost. The Credit Union considered the long-term nature of this investment and the intent and ability to hold this investment for a period of time sufficient to recover the recorded investment and determined it was not impaired at March 31, 2011 and 2010, respectively.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Held-For-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Loans to Members

The Credit Union grants mortgage and consumer loans to members. A substantial portion of the loan portfolio is represented by real estate loans to members. A substantial portion of its members' ability to honor their loan agreements is dependent upon the economic stability of the various groups comprising the Credit Union's field of membership.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 60 days delinquent. Consumer loans are typically charged-off no later than 180 days past due. Loans may be charged-off at an earlier date if collection of principal or interest is considered doubtful. Past due loan status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis 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.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. Specific allowances for loan losses are established for large non-homogeneous impaired loans on an individual basis. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for residential real estate loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Servicing

During 2010 the Credit Union began accounting for servicing assets and adopted the servicing assets accounting provisions. Servicing assets are recognized separately when mortgage servicing rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, mortgage servicing rights are amortized into non-interest income in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based upon the fair value at each reporting date.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing (Continued)

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as the market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method is evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with noninterest income on the statements of operations.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets and Collateral in Process of Liquidation

Assets acquired through, or in lieu of, loan repossession or foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right to pledge or exchange the transferred assets, (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Furniture 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.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Long-Lived Assets

The Credit Union accounts for the valuation of long-lived assets which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured 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.

NCUSIF Insurance Premiums

A credit union is required to pay an annual insurance premium based on a percent of its total insured shares, unless the payment is waived by the NCUA Board.

ASI Deposit

The deposit maintained in the American Share Insurance Fund (ASI) is to provide members' shares an additional \$250,000 in insurance per account. 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 ASI Board.

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required, by regulation, to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income Taxes

The Credit Union is exempt, by statute, from federal and state income taxes.

Advertising Costs

Advertising costs are charged to operations when incurred.

Pension Plan – 401(k)

The employees are eligible to participate in a qualified 401(k) plan through Bourns Inc. covering substantially all of its employees.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). 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. For 2011 and 2010, other comprehensive income (loss) includes no reclassification adjustments.

Fair Value Measurements

Fair value measurement standards provide a comprehensive framework for measuring fair value and expands disclosures for assets and liabilities reported at fair value. Specifically, it sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs.

Subsequent Events

Management evaluated subsequent events through July 22, 2011, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2010 financial statement presentation to correspond to the current year's format. Total member' equity and net loss are unchanged due to these reclassifications.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available-for-sale are as follows:

<u>Securities-Available-for-Sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
March 31, 2011:				
Taxable municipal bonds	\$ 584,432	\$ -	\$ (17,702)	\$ 566,730
Federal agency mortgage- backed securities	1,386,173	90,857	-	1,477,030
Collateralized mortgage obligation securities	<u>2,528,829</u>	<u>9,924</u>	<u>(97,263)</u>	<u>2,441,490</u>
Total	<u>\$ 4,499,434</u>	<u>\$ 100,781</u>	<u>\$ (114,965)</u>	<u>\$ 4,485,250</u>
March 31, 2010:				
U.S. government and federal agency securities	\$ 1,924,818	\$ 2,711	\$ (11,588)	\$ 1,915,941
Federal agency mortgage- backed securities	2,102,217	120,761	-	2,222,978
Collateralized mortgage obligation securities	<u>4,495,647</u>	<u>3,397</u>	<u>(259,859)</u>	<u>4,239,185</u>
Total	<u>\$ 8,522,682</u>	<u>\$ 126,869</u>	<u>\$ (271,447)</u>	<u>\$ 8,378,104</u>

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

The amortized cost and fair value of investment securities held-to-maturity at March 31, 2011 are as follows:

<u>Securities-Held-to-Maturity</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
March 31, 2011:				
Certificates of deposit	\$ 478,000	\$ 19,492	\$ (1,256)	\$ 496,236

There were no investment securities classified as held-to-maturity as of March 31, 2010.

Gross gains of \$-0- and \$6,064 from sales of securities available-for-sale were realized in 2011 and 2010, respectively.

The amortized cost and fair values of investment securities available-for-sale at March 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Available-for-Sale</u>		<u>Held-to-Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year through five years	\$ -	\$ -	\$ 382,000	\$ 401,492
Due in five years through ten years	<u>584,432</u>	<u>566,730</u>	<u>96,000</u>	<u>94,744</u>
	584,432	566,730	478,000	496,236
Federal agency mortgage-backed securities	1,386,173	1,477,030	-	-
Collateralized mortgage obligation securities	<u>2,528,829</u>	<u>2,441,490</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,499,434</u>	<u>\$ 4,485,250</u>	<u>\$ 478,000</u>	<u>\$ 496,236</u>

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

Temporarily Impaired Investment Securities

Information pertaining to securities with gross unrealized losses at March 31, 2011 and 2010, respectively, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, are as follows:

	<u>Less than 12 Months</u>		<u>Greater than 12 Months</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<i>March 31, 2011</i>				
<i>Securities available- for sale:</i>				
Taxable municipal bonds	\$ (17,702)	\$ 566,730	\$ -	\$ -
Collateralized mortgage obligation securities	-	-	(97,263)	621,805
Total	<u>\$ (17,702)</u>	<u>\$ 566,730</u>	<u>\$ (97,263)</u>	<u>\$ 621,805</u>
<i>Securities held-to- maturity:</i>				
Certificates of deposits	<u>\$ (1,256)</u>	<u>\$ 94,744</u>	<u>\$ -</u>	<u>\$ -</u>
<i>March 31, 2010</i>				
<i>Securities available- for sale:</i>				
U.S. government and federal agency securities	\$ (5,797)	\$ 987,202	\$ (5,791)	\$ 494,209
Mortgage-backed securities government agency	(18,229)	3,022,564	-	-
Mortgage-backed securities private label	-	-	(241,630)	777,632
Total	<u>\$ (24,026)</u>	<u>\$ 4,009,766</u>	<u>\$ (247,421)</u>	<u>\$ 1,271,841</u>

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

Taxable municipal bonds. At March 31, 2011, the one debt security with an unrealized loss has depreciated 3.02% percent from the Credit Union's amortized cost basis. The unrealized loss on the Credit Union's investments in the taxable municipal bond was caused by interest rate increases. The contractual terms of this investment does not permit the issuer to settle the security at a price less than the amortized cost basis of the investment. Because the Credit Union does not intend to sell the investment and it is not more than likely that not that the Credit Union will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the Credit Union does not consider this investment to be other-than-temporarily impaired at March 31, 2011.

Collateralized mortgage obligation securities. At March 31, 2011 the five debt securities with unrealized losses have depreciated 3.8% from the Credit Union's amortized cost basis. The unrealized losses on these collateralized mortgage obligation securities (CMO) are in investments in private label residential CMO. The unrealized losses are primarily driven by higher projected collateral losses; wider credit spreads and changes in interest rates. The Credit Union assesses for credit impairment using a cash flow model. Based on the assessment of the expected credit losses of the security given the performance of the underlying collateral compared to the credit enhancement, the Credit Union expects to recover the entire amortized cost basis of these securities.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Other-Than-Temporary Impairment

The Credit Union routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an OTTI has occurred. Economic models are used to determine whether an OTTI has occurred on these securities. While all securities are considered, the securities primarily impacted by OTTI testing are non-agency MBS and CMO. For each non-agency MBS and CMO in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an OTTI has occurred. Various inputs to the economic model are used to determine if an unrealized loss is other-than-temporary. The most significant inputs are the following:

- Default rate
- Severity

Other inputs may include the actual collateral attributes, which include geographic concentrations, credit ratings, and other performance indicators of the underlying asset.

To determine if the unrealized loss for non-agency MBS and CMO is other-than-temporary, the Credit Union projects total estimated defaults of the underlying assets (mortgages) and multiply that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the impact on cash flows. If the Credit Union determines that a given MBS and CMO position will be subject to a write-down or loss, the Credit Union records the expected credit loss as a charge to earnings while the non-credit portion is recorded to other comprehensive income (loss).

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

The following table shows the projected weighted average default rates and loss severities for the recent-vintage (2011 and 2010) non-agency MBS and CMO portfolios at March 31, 2011 and 2010, respectively.

Projected Weighted-Average Default Rates and Severities for MBS and CMO Securities

	<u>March 31, 2011</u>	
	<u>Default Rate</u>	<u>Severity</u>
Alt-A	30%	50%
Subprime	50%	75%
Prime	10%	25%

The following roll forward reflects the amount related to all credit losses recognized in earning:

<u>Debt Securities Credit Loss Roll Forward</u>	<u>March 31, 2011</u>
Beginning balance as of March 31, 2010	\$ 74,666
Add: Amount related to credit loss for which an OTTI was not previously recognized	-
Add: Increases to the amount related to the credit loss for which an OTTI was previously recognized	23,442
Less: Realized losses for securities sold	-
Less: Securities for which the amount previously recognized in OCI was recognized in earnings because the Credit Union intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis	-
Less: Increases in cash flows expected to be collected that are recognized over the remaining life of the security	-
Ending balance as of March 31, 2011	<u>\$ 98,108</u>

The beginning balance represents the amount related to the credit losses on debt securities held by the Credit Union at the beginning of the period for which a portion of an OTTI was recognized in other comprehensive loss.

Investment Risk

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the statements of financial condition.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

Other Investments

Other investment securities at March 31 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Certificates of deposit	\$ 5,003,000	\$ 4,631,000
MBL, LLC stock	120,000	120,000
CU CO-OP ATM stock	<u>29,710</u>	<u>27,176</u>
Total	<u>\$ 5,152,710</u>	<u>\$ 4,778,176</u>
FHLB stock	<u>\$ 262,800</u>	<u>\$ 232,200</u>

At March 31, 2011, the Credit Union has approximately \$3,553,000 held in accounts at Western Bridge Corporate Federal Credit Union (Western Bridge). Effective January 28, 2009; all shares, except capital shares, are fully guaranteed by NCUA through a Share Guarantee Program that renews quarterly for a two-year period with a final expiration date of December 31, 2012.

NOTE 3 – LOANS TO MEMBERS

The composition of loans to members at March 31 is as follows:

	<u>2011</u>	<u>2010</u>
Automobile	\$ 2,326,194	\$ 2,916,076
Unsecured	840,560	949,965
Credit card	2,620,892	2,872,221
Real estate	22,566,614	23,897,563
Other secured	<u>792,596</u>	<u>915,705</u>
	29,146,856	31,551,530
Allowance for loan losses	<u>(1,805,314)</u>	<u>(1,179,888)</u>
Total	<u>\$ 27,341,542</u>	<u>\$ 30,371,642</u>

The Credit Union offers non-traditional mortgage loans to its members. These loans include hybrid and variable interest only mortgages. Hybrid loans consist of loans that are fixed for an initial period of three, five or seven years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower. The interest only loans allow the borrower to pay only interest for a specified number of years. These types of loans may result in a lack of principal amortization or even negative amortization, if the minimum payment is less than the interest accruing on the loan.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

Non-traditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Non-traditional mortgage loans, which are included in the real estate loan caption above, totaled approximately \$1,168,000 and \$1,202,000 at March 31, 2011 and 2010, respectively.

A summary of the changes in the allowance for loan losses at March 31 is as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 1,179,888	\$ 234,517
Provision charged to operations	1,100,453	1,358,309
Loans charged-off	(502,602)	(422,552)
Recoveries	<u>27,575</u>	<u>9,614</u>
Balance, end of year	<u>\$ 1,805,314</u>	<u>\$ 1,179,888</u>

A summary of impaired and non-accrual loans at March 31 is as follows:

	<u>2011</u>	<u>2010</u>
Impaired loans without an allowance	\$ 2,398,525	\$ 20,310
Impaired loans with an allowance	<u>1,000,189</u>	<u>1,007,574</u>
Total impaired loans	<u>\$ 3,398,714</u>	<u>\$ 1,027,884</u>
Allowance for impaired loans	<u>\$ 83,301</u>	<u>\$ 341,496</u>
Non-accrual loans	<u>\$ 463,863</u>	<u>\$ 518,467</u>
Foregone interest on non-accrual loans	<u>\$ 18,656</u>	<u>\$ 14,307</u>
	<u>For the Years Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
Average investment in impaired loans	<u>\$ 2,213,299</u>	<u>\$ 1,027,884</u>

Interest collected on impaired loans for the years ended March 31, 2011 and 2010 was not significant as interest is not accrued on non-accrual loans or other loans past-due 90 days or more.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 4 – LOAN SERVICING

Loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of mortgage loans serviced for others were \$9,812,219 and \$7,637,135 at March 31, 2011 and 2010, respectively. The balance of capitalized servicing rights totaled \$106,805 and \$88,613 at March 31, 2011 and 2010, respectively.

<u>Statement of Financial Condition Disclosures</u>	<u>Servicing Assets</u>
Carrying amount as of the beginning of year	\$ -
Mortgage servicing rights capitalized	90,194
Mortgage servicing rights amortized	<u>(1,581)</u>
Balance at March 31, 2010	88,613
Mortgage servicing rights capitalized	32,046
Mortgage servicing rights amortized	<u>(13,854)</u>
Balance at March 31, 2011	<u>\$ 106,805</u>

As of March 31, 2011 and 2010, the Credit Union has not had a valuation of the servicing rights performed by a third party.

NOTE 5 – FURNITURE AND EQUIPMENT

Furniture and equipment at March 31 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 397,480	\$ 388,127
Accumulated depreciation	<u>(373,908)</u>	<u>(358,812)</u>
Total	<u>\$ 23,572</u>	<u>\$ 29,315</u>

Depreciation expense amounted to \$15,096 and \$18,824 for the years ended March 31, 2011 and 2010, respectively.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 6 – MEMBERS’ SHARE AND SAVINGS ACCOUNTS

Members’ share and savings accounts at March 31 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Regular share accounts	\$ 12,351,674	\$ 14,118,752
Share draft accounts	1,423,939	1,241,235
Money market accounts	381,333	594,214
IRA share accounts	2,206,562	2,229,468
Other share accounts	<u>513,434</u>	<u>550,960</u>
 Total share accounts	 <u>16,876,942</u>	 <u>18,734,629</u>
Share and IRA certificates		
0.00% to 1.99%	14,116,160	10,520,667
2.00% to 2.99%	3,101,070	8,802,871
3.00% to 3.99%	589,182	790,173
4.00% to 4.99%	1,506,545	1,935,715
5.00% to 5.99%	<u>1,322,856</u>	<u>2,644,728</u>
 Total certificate accounts	 <u>20,635,813</u>	 <u>24,694,154</u>
 Total members’ share and savings accounts	 <u>\$ 37,512,755</u>	 <u>\$ 43,428,783</u>

Scheduled maturities of share and IRA certificates at March 31 are as follows:

Years Ending March 31

2012	\$ 17,820,716
2013	1,961,935
2014	760,566
2015	<u>92,596</u>
 Total certificate accounts	 <u>\$ 20,635,813</u>

The aggregate amounts of members’ share and savings accounts in denominations of \$100,000 or more were approximately \$21,263,000 and \$20,279,000 at March 31, 2011 and 2010, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled \$-0- and \$2,927 at December 31, 2011 and 2010, respectively.

The National Credit Union Insurance Fund (NCUSIF) insures members’ shares and certain individual retirement accounts up to \$250,000 as a result of an amendment approved by the House-Senate conference committee on regulatory overhaul in June 2010. The new law also requires NCUA to use the higher \$250,000 standard maximum share insurance amount when making decisions about premiums and administering insurance deposit adjustments. The increase in share insurance coverage includes all account types, such as share drafts, money markets, shares, and certificates of deposit.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 7 – LINE OF CREDIT

The Credit Union maintains a line of credit with Western Bridge as described below:

<u>March 31,</u>	<u>2011</u>	<u>2010</u>
Total available	\$ 1,583,762	\$ 4,000,000
Borrowed	<u>-</u>	<u>-</u>
Remaining available	<u>\$ 1,583,762</u>	<u>\$ 4,000,000</u>
Term	LOC	LOC

The Western Bridge line is collateralized by 67% of the Credit Union's automobile loans at March 31, 2011 and 2010, respectively. The Credit Union can borrow up to \$4,000,000; as of March 31, 2011, they only have collateral to borrow up to \$1,583,762.

NOTE 8 – ADVERTISING

Advertising expense totaled approximately \$20,000 and \$14,000 for the years ended March 31, 2011 and 2010, respectively.

NOTE 9 – OFF-BALANCE SHEET ACTIVITIES

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 amounts 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 those loans recorded in the financial statements.

At March 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2011</u>	<u>2010</u>
Commitments to extend credit:		
Home equity lines	\$ 1,944,532	\$ 2,786,295
Credit cards	5,349,409	5,071,557
Overdraft loans	226,716	225,642
Other commitments	<u>4,763</u>	<u>3,689</u>
Total	<u>\$ 7,525,420</u>	<u>\$ 8,087,183</u>

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 9 – OFF-BALANCE SHEET ACTIVITIES (CONTINUED)

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 creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate and member share balances.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

NOTE 10 – CONTINGENCIES AND COMMITMENTS

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

NOTE 11 – 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 generally accepted accounting principles. 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 following table) of net worth (as defined in the regulations) to assets and RBNW ratios (as defined). As of March 31, 2011 and 2010, the Credit Union's RBNW requirement is 5.94% and 6.36%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes that, as of March 31, 2011, the Credit Union meets all capital adequacy requirements to which it is subject. No conditions or events have occurred since the calculation date that management believes has changed the Credit Union's category.

As of March 31, 2011, the most recent call reporting period, the NCUA has categorized the Credit Union as well capitalized under the regulatory framework for Prompt Corrective Action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7%. The Credit Union's actual capital amounts and ratios as of March 31, 2011 and 2010 are also presented in the table.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 11 – CAPITAL REQUIREMENTS (CONTINUED)

The Credit Union's actual capital amounts and ratios as of March 31, 2011 are as follows:

	<u>Actual</u>		<u>To Be Adequately Capitalized Under Prompt Corrective Action Provisions</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Net worth	\$ 4,519,063	10.69%	\$ 2,535,678	6.0%	\$ 2,958,291	7.0%
Risk-based net worth requirement	\$ 2,510,321	5.94%	N/A	N/A	N/A	N/A

Because the RBNW ratio of 5.94% is less than the net worth ratio of 10.69%, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

The Credit Union's actual capital amounts and ratios as of March 31, 2010 are as follows:

	<u>Actual</u>		<u>To Be Adequately Capitalized Under Prompt Corrective Action Provisions</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Net worth	\$ 5,400,135	11.05%	\$ 2,933,498	6.0%	\$ 3,422,414	7.0%
Risk-based net worth requirement	\$ 3,109,507	6.36%	N/A	N/A	N/A	N/A

NOTE 12 – 401(k) RETIREMENT PLAN

The Credit Union's employees are included in Bourns Inc. retirement and savings plans, covering substantially all employees who have completed at least one year of service and met minimum age requirements. The Credit Union's annual contribution is discretionary and was \$15,235 and \$13,877 in 2011 and 2010, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credits to members of the Board of Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties at March 31, 2011 and 2010 were approximately \$3,308,000 and \$3,959,000, respectively. Loans to related parties are made under the same terms available to other members. Deposits from related parties at March 31, 2011 and 2010 amounted to approximately \$1,959,000 and \$2,052,000, respectively.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 13 - RELATED PARTY TRANSACTIONS (CONTINUED)

The Credit Union's Corporate Sponsor, Bourns, Inc., provides personnel and related benefit costs, occupancy, data processing and various other operating expenses for the benefit of the members of Bourns Employees Federal Credit Union at no cost to the Credit Union.

NOTE 14 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of Fair Value

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurements are to focus on an exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 14 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Hierarchy

The Credit Union groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 Valuation is based on quoted prices in active markets for identical assets or liabilities that the Credit union has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgments or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value estimation.

The following methods and assumptions were used by the Credit Union in estimating fair value disclosures for financial instruments:

Available-For-Sale Securities: Market value technique for taxable municipal bonds, MSA and CMO's are marked to market on a monthly basis, of which information is performed and provided on monthly basis by FinSer. Month end market prices are obtained through the FinSer investment accounting service. FinSer obtains their market values from Interactive Data Corporation (IDC) or direct trader quotes.

Impaired Loans: The fair value of impaired loans is generally based on recent real estate appraisals or automated valuation models. These processes may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available.

BOURNS EMPLOYEES FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE 14 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis at March 31, 2011 and 2010 are summarized as follows:

<u>Fair Value Measurements at Reporting Date Using</u>				
	<u>Total</u>	<u>Quoted Prices in</u>	<u>Significant Other</u>	<u>Significant</u>
<u>March 31, 2011</u>	<u>Carrying Value</u>	<u>Active Markets</u>	<u>Observable</u>	<u>Unobservable</u>
		<u>for Identical</u>	<u>Inputs</u>	<u>Inputs</u>
		<u>Assets/Liabilities</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
		<u>(Level 1)</u>		
Taxable municipal bonds	\$ 567,000	\$ -	\$ 567,000	\$ -
Federal agency mortgage-backed securities	1,477,000	-	1,477,000	-
Collateralized mortgage obligation securities	2,441,000	-	2,441,000	-
<u>March 31, 2010</u>				
Available-for-sale securities	\$ 8,378,000	\$ -	\$ 8,378,000	\$ -

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances the Credit Union makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the statements of financial condition by caption and by level in the fair value hierarchy at March 31, 2011 and 2010 for which a nonrecurring change in fair value has been recorded:

<u>Fair Value Measurements at Reporting Date Using</u>				
	<u>Carrying Value</u>	<u>Quoted Prices in</u>	<u>Significant Other</u>	<u>Significant</u>
<u>March 31, 2011</u>	<u>Carrying Value</u>	<u>Active Markets</u>	<u>Observable</u>	<u>Unobservable</u>
		<u>for Identical</u>	<u>Inputs</u>	<u>Inputs</u>
		<u>Assets/Liabilities</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
		<u>(Level 1)</u>		
Impaired loans	\$ 917,000	\$ -	\$ -	\$ 917,000
<u>March 31, 2010</u>				
Impaired loans	\$ 666,000	\$ -	\$ -	\$ 666,000

This information is an integral part of the accompanying financial statements.