Bourns Employees Federal Credit Union

INDEPENDENT AUDITOR'S REPORT ON AUDITED FINANCIAL STATEMENTS

December 31, 2016

Celebrating 50 YEARS *of Service*

RICHARDS & ASSOCIATES
Certified Public Accountants

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BOURNS EMPLOYEES FEDERAL CREDIT UNION

FINANCIAL REPORT CONTENTS
December 31, 2016

AUDITED FINANCIAL STATEMENTS

ACCOMPANYING INFORMATION

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

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of Bourns Employees Federal Credit Union, which comprise the statement of financial condition as of December 31, 2016, and the related statements of income, members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

INDEPENDENT AUDITOR'S REPORT *- continued*

Auditor's Responsibility ***- continued***

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Sincerely,

RICHARDS & ASSOCIATES
Certified Public Accountants

Michael E. Richards, CPA

Yorba Linda, California
March 31, 2017

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENT OF FINANCIAL CONDITION
December 31, 2016

ASSETS		
Cash and cash equivalents (Note 2)	$	698,488
Investments (Note 3)		11,620,599
Loans receivable, net of allowance for loan losses (Note 4)		24,485,615
Property & equipment (Note 5)		49,740
Accrued interest receivable		74,213
Share insurance deposit		304,782
Mortgage servicing rights (Note 12)		538,877
Prepaid expenses and other assets		89,184
TOTAL ASSETS	$	37,861,498
LIABILITIES AND EQUITY		
Members' share and savings accounts (Note 6)	$	31,133,435
Accounts payable and other liabilities		482,552
TOTAL LIABILITIES		31,615,987
Commitments and contingent liabilities (Note 8)		-
Members' equity, substantially restricted		
Appropriated (regular reserve)		952,125
Unappropriated (undivided earnings)		5,334,782
		6,286,907
Accumulated other comprehensive income		(41,396)
TOTAL MEMBERS' EQUITY		6,245,511
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	37,861,498

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENT OF INCOME

For the year ended December 31, 2016

INTEREST INCOME		
Loans	$	880,809
Investments		214,030
TOTAL INTEREST INCOME		1,094,839
INTEREST EXPENSE		
Members' share and savings accounts		140,855
Borrowed funds		817
TOTAL INTEREST EXPENSE		141,672
NET INTEREST INCOME		953,167
PROVISION FOR LOAN LOSSES (CREDIT)		(65,615)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		1,018,782
NON-INTEREST INCOME		
Service charges and other income		243,812
Gain on sale of investments		1,325
Gain on mortgae servicing rights		428,101
TOTAL NON-INTEREST INCOME		673,238
NON-INTEREST EXPENSE		
General and administrative expenses		
Compensation and benefits		786,283
Office operations		280,363
Other expenses		290,647
Loss on property and equipment		102
TOTAL NON-INTEREST EXPENSES		1,357,395
NET INCOME	$	334,625

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENT OF MEMBERS' EQUITY
For the year ended December 31, 2016

APPROPRIATED - REGULAR RESERVE	
Beginning / Ending balance	$ 952,125
UNAPPROPRIATED - UNDIVIDED EARNINGS	
Beginning balance	5,000,157
Net income	334,625
Ending balance	5,334,782
ACCUMULATED OTHER COMPREHENSIVE INCOME	
Beginning balance	(27,631)
Net change in unrealized loss on available-for-sale securities	(13,765)
Ending balance	(41,396)
TOTAL MEMBERS' EQUITY	6,245,511

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 334,625
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses (credit)	(65,615)
Depreciation and amortization	21,737
Premium amortization net of discount accretion	37,002
Stock dividends added to investments	(9,831)
Capitalization of mortgage servicing rights	(484,105)
Amortization of mortgage servicing rights	112,931
Gain on sale of investments	(1,325)
Loss on property and equipment	102
Changes in operating assets and liabilities:	
Increase in accrued interest receivable	(20,731)
Increase in prepaid expenses and other assets	(15,193)
Increase in share insurance deposit	(1,656)
Increase in accounts payable and other liabilities	247,153
Total adjustments	(179,531)
Net cash provided by operating activities	155,094
CASH FLOWS FROM INVESTING ACTIVITIES:	
Loans granted, net of principal collection	(3,946,318)
Sale or maturing of securities	1,549,296
Acquisition of securities	(515,492)
Purchase of common stock at Federal Home Loan Bank	(7,300)
Increase in deposits in financial institutions	(1,831,000)
Purchase of property and equipment, net of disposals	(36,211)
Net cash used in investing activities	(4,787,025)

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENT OF CASH FLOWS - *continued*
For the year ended December 31, 2016

CASH FLOWS FROM FINANCING ACTIVITIES	
Net increase in members’ share and savings accounts	$ 555,593
Net cash provided by financing activities	555,593
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,076,338)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,774,826
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 698,488

SUPPLEMENTAL DISCLOSURES:

Cash received during the year from interest on loans and investments	$ 1,101,279
Cash paid during the year for dividends	$ 140,855
Net change in unrealized loss on available-for-sale securities	$ (13,765)

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Bourns Employees Federal Credit Union (Credit Union) is organized under the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws.

Nature of business: The Credit Union provides a variety of financial services to its members, many of whom are employees or former employees of Bourns, Inc., individuals who live or work in the Riverside County area, selected employee groups, and their qualifying family members. The Credit Union's primary source of revenue is interest from loans and investments.

Use of estimates: The preparation of financial statements, in conformity with generally accepted accounting principles in the United States of America (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 revenue and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses and fair value of financial instruments.

Cash and cash equivalents: For the purpose of the statements of financial condition and the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and investments with original maturity of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments: Certificates of deposit are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity. Certificates of deposit investments are stated at cost and are federally insured up to a maximum of $250,000 by the National Credit Union Administration (NCUA) or Federal Deposit Insurance Corporation (FDIC). Included with investments is a member capital account in a corporate credit union.

Negotiable securities are classified in accordance with the Credit Union's asset/liability management and investment policies. The following is a description of the classification and accounting procedures used for investments:

> <u>Available-for sale</u>: Investments that are not purchased principally to be sold in the near term nor with the positive intent and ability to hold until maturity as well as those without a defined maturity and could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors are classified as available for sale. These securities are marked to market, with unrealized gains or losses not affecting earnings but shown as a separate component of the equity portion of the balance sheet. Unrealized gains and losses on available for sale securities are recognized as direct increases or decreases in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments – continued: Purchase premiums and discounts are recognized in interest income over the term of the securities. Declines in the fair value of available-for-sale and held-to-maturity securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, Management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union does not maintain a trading portfolio. Other investments are classified separately, stated at cost and subject to OTTI evaluation.

Loans to members: The Credit Union originates mortgage loans both for sale and for its own portfolio. The Credit Union originated, both for sale and for its own portfolio, approximately $40,110,000 of first mortgage loans for its members in the year ended December 31, 2016. Approximately $32,370,000 of mortgages were sold in the year ended December 31, 2016.

Loans receivable: Loans receivable are stated at unpaid principal balance, net of any unearned income, such as deferred fees or costs, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method for consumer loans and home equity loans and the day count convention method for first mortgage real estate loans on principal amounts outstanding. When principal or interest is delinquent for sixty days or more, the Credit Union evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Loan fees and certain direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Allowance for loan losses: The allowance for loan losses reflects Management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Credit Union uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, Management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the auto loans secured portfolio; (ii) the real estate loans portfolio; (iii) the consumer loans portfolio and (iv) the unsecured and credit card loans portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of Management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing Management to provide additional amounts to or release balances from the allowance for loan losses. The Credit Union's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by Senior Management of the loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Loan charge-offs: For consumer loans, the Credit Union generally fully or partially charges down to the fair value of collateral securing the asset when:

- Management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Credit Union's internal loan review process or external examiners;
- the member has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- the loan is one hundred eighty days past due unless both well secured and in the process of collection.

The Credit Union's charge-off policies by segment of the loan portfolio are as follows:

- *Real Estate Loans* – The Credit Union generally writes down to the net realizable value when the loan is one hundred eighty days past due.
- *Auto Loans* – The Credit Union generally fully or partially charges down to the net realizable value when the loan is one hundred eighty days past due.
- *Unsecured Loans* – The Credit Union generally charges off when the loan is one hundred eighty days past due.
- *Credit Cards Loans* – The Credit Union generally fully charges off when the loan is one hundred eighty days past due.
- *Other Secured Loans* – The Credit Union generally fully or partially charges down to the net realizable value when the loan is one hundred eighty days past due.

Troubled Debt Restructurings: 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, if applicable, the related loan is classified as a troubled debt restructuring (TDR). The Credit Union strives to identify members in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include 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 that provide for a reduction of either interest or principal, the Credit Union measures any impairment on the restructuring as previously noted for impaired loans.

In addition to the allowance for the pooled portfolios, the Credit Union develops a separate allowance for loans that are identified as impaired through a TDR. As soon as the Credit Union determines that a loan under TDR is current and performing under the restructured payment, and after review, the Credit Union believes the status will continue, the loan is moved back into the respective segment or class and the allowance is calculated using the pooling method for the respective pool.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property and equipment: Fixed assets are carried at cost, less accumulated depreciation and amortization. Fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets.

Transfers of Financial Assets: The Credit Union accounts for transfers and servicing of financial assets in accordance with FASB ASC 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Servicing: Mortgage servicing assets are recognized separately when 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 either the fair value or the amortization method. The Credit Union has elected to initially and subsequently measure the mortgage servicing rights for consumer mortgage loans using the amortization method.

Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on the fair value at each reporting date.

Valuation of long-lived assets: Long-lived assets and certain identifiable intangible assets are 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.

Share insurance deposit: Each member's share and savings account is insured up to $250,000 by the National Credit Union Share Insurance Fund (NCUSIF). The deposit in the NCUSIF is in accordance with regulations set forth by the National Credit Union Administration (NCUA), 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. The Credit Union is required to pay annual assessments as determined by the NCUA Board.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Share insurance deposit – continued: Individual deposits in excess of the NCUSIF insured limit are insured by a private insurance company, American Share Insurance Corporation (ASI), subject to their policy limit of $250,000. There is no limitation as to the number of accounts a member can have under ASI's coverage. ASI requires the maintenance of a deposit by each insured credit union in an amount equal to 1% to 1.3% of a credit union's total shares, depending upon the credit union's rating with state regulators. The Credit Union maintains a deposit with ASI in the amount of $15,000.

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 or reduced by the NCUA Board.

Members' share and savings accounts: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the 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. Members' shares are subordinated to all other liabilities of the Credit Union in the event of liquidation. Interest on share and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on 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 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 under the provisions of the Internal Revenue Code.

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.

Comprehensive income (loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) that includes unrealized gains and losses on securities available-for-sale.

Retirement plans: The Credit Union has a contributory 401(k) retirement plan for all employees who have met both tenure and minimum age requirements specified in the plan through Bourns, Inc.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Fair value of financial instruments: Generally accepted accounting principles require the disclosure of fair values for financial instruments, including loans, investments, and shares. Determining fair values for financial instruments involves a series of complex methods and procedures and because of this, the Financial Accounting Standards Board exempted credit unions with assets less than $100 million from having to provide this disclosure. Management has opted to omit fair value disclosures.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents, including investments with original maturity of three months or less, are as follows:

Cash on hand	$ 131,259
Cash on deposit	567,229
	$ 698,488

NOTE 3: INVESTMENTS

The carrying and estimated fair values of investments are as follows:

CERTIFICATES OF DEPOSIT	$ 8,784,000

CONTRIBUTED CAPITAL ACCOUNT	$ 90,288

The member contributed capital account is invested in Catalyst Corporate Federal Credit Union. This deposit is a permanent capital contribution. This investment is not publicly traded; therefore, it is not practical to determine its fair value. The amortized cost approximates the fair value.

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	$ 2,451,532	$ 45,893	$ 87,289	$ 2,410,136
Capital stock, Federal Home Loan Bank	158,800	-	-	158,800
Capital stock, credit union service organizations	177,375	-	-	177,375
	$ 2,787,707	$ 45,893	$ 87,289	$ 2,746,311

Included with mortgage backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $203,561 and fair market value of $224,702 as of December 31, 2016.

Investments in Credit Union Service Organizations and Federal Home Loan Bank of San Francisco are not publicly traded; therefore, it is not practical to determine these fair values. The amortized cost approximates the fair value.

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

Information pertaining to securities with gross unrealized losses at December 31, 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Available-for-sale securities:				
Securities guaranteed by U.S. government sponsored enterprises	$ 2,066,848	$ 75,617	$ 11,672	$ 87,289
	$ 2,066,848	$ 75,617	$ 11,672	$ 87,289

The accounting standards provide a framework for measuring fair value and further defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Credit Union determines the fair values of its financial instruments based on the fair value hierarchy established in generally accepted accounting principles (GAAP), which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

This framework describes three levels of inputs that may be used to measure fair value. Financial instruments are considered level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Financial instruments are considered level 2 when they are generally valued using quoted prices for similar assets. The fair value of available-for-sale and held-to-maturity securities is based on quoted market prices or market prices for similar assets. Financial instruments are considered level 3 when valuation is calculated by the use of pricing models and/or discounted cash flow methodologies or valuation requires significant management judgment or estimation. The Credit Union uses level 1 or level 2 pricing, but does not use level 3 pricing.

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given, among other things, to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized losses. The reason for the temporary loss is that market interest rates are higher than when these securities were originally purchased. The Credit Union reviews all of its securities for impairment periodically. The Credit Union has determined that there was no other-than-temporary impairment associated with these securities at December 31, 2016.

A summary of investments by contractual maturity is 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.

Within one year	$ 5,421,000
One to five years	3,267,000
Over five years	96,000
Investments with declining balance	2,451,532
Subtotal	11,235,532
Investments without a defined maturity	426,463
	$ 11,661,995

Accrued interest receivable on investments amounted to $21,744 at December 31, 2016.

NOTE 4: LOANS RECEIVABLE

The composition of loans receivable is as follows:

Real estate	$ 17,691,576
Automobile	2,994,453
Credit cards	2,458,644
Home equity lines of credit	1,229,734
Consumer type	569,101
	24,943,508
Allowance for loan losses	(457,893)
	$ 24,485,615

Accrued interest receivable on loans amounted to $52,469 at December 31, 2016.

Allowance for loan losses: The Credit Union has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the Credit Union's portfolio. For purposes of determining the allowance for loan losses, the Credit Union segments certain loans in its portfolio by product type. The Credit Union's loans are segmented into the following pools: auto loan portfolio, real estate loan portfolio, consumer secured loan portfolio, and consumer unsecured loan portfolios. The Credit Union also sub-segments three of these segments into classes based on the associated risks within those segments. Real estate loans are divided into the following six classes: (a) first mortgage loans with fixed interest rate, (b) first mortgage loans with variable interest rate, (c) first mortgage for investment property loans, (d) second mortgage loans, (e) home equity lines of credit loans, and (f) mortgage loans under modification. Consumer secured loans are divided into the following two classes: (a) share secured loans and (b) miscellaneous secured loans. Consumer unsecured loans are divided into the following five classes: (a) classic credit card loans, (b) gold credit card loans, (c) platinum credit card loans, (d) signature loans, and (e) consumer loans under modification. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristic of its portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions that the Credit Union uses to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued: The following are the factors that the Credit Union uses to determine the balance of the allowance account for each segment or class of loans.

Auto loans: Auto loans include loans secured by new auto or used auto. These loans are not assessed at an underlying class level. A historical loss percentage is applied to the segment. The historical loss percentage is calculated using a twelve months, twenty-four months, and thirty-six months ratio and the period with the highest historical loss percentage is used. The historical loss period at December 31, 2016 was twelve months.

Based on the Credit Union's assessment on credit risk and analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to loan balances. At December 31, 2016, the Credit Union considered additional loss estimations based on the loan delinquency category, bankruptcy category, and collateral value.

Real estate loans: Real estate loans are pooled by portfolio class and a historical loss percentage is applied to each class. Historical loss percentage time frames may vary between classes. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period. The historical loss percentage is calculated using a twelve months, twenty-four months, and thirty-six months ratio and the period with the highest historical loss percentage is used. At December 31, 2016, the historical loss time frame for each class was as follows:

First mortgage loans with fixed interest rate – twenty-four months
First mortgage loans with variable interest rate – thirty-six months
First mortgage for investment property loans – thirty-six months
Second mortgage loans – thirty-six months
Home equity lines of credit loans – twelve months
Mortgage loans under modification – thirty-six months

The Credit Union estimates an additional component of the allowance for loan losses for the non-impaired real estate segment through the application of loss factors to loans grouped by their individual credit risk rating categories. These ratings reflect the estimated default probability and quality of underlying collateral. The loss factors used are statistically derived through the observation of losses incurred for loans within each internal credit risk rating over a specified period of time.

In addition, based on the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to the loan balances. Currently, the Credit Union may consider additional loss estimations based on the average foreclosure rate where the properties are located, the loan delinquency category, bankruptcy category, and collateral value.

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued:

Consumer secured portfolio: Consumer secured loans include loans secured by shares or other collateral. Consumer secured loans are pooled by portfolio class and a historical loss percentage is applied to each class. The historical loss percentage is calculated using a twelve months, twenty-four months, and thirty-six months ratio and the period with the highest historical loss percentage is used. At December 31, 2016, the historical loss time frame for each class was twelve months.

Based on the Credit Union's assessment on credit risk and analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to loan balances. At December 31, 2016, the Credit Union considered additional loss estimations based on the loan delinquency category, bankruptcy category, and collateral value.

Consumer unsecured portfolio: Unsecured consumer loans are pooled by portfolio class and a historical loss percentage is applied to each class. Historical loss percentage time frames may vary between classes. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period. The historical loss percentage is calculated using a twelve months, twenty-four months, and thirty-six months ratio and the period with the highest historical loss percentage is used. At December 31, 2016, the historical loss time frame for each class was as follows:

Classic credit card loans – thirty-six months
Gold credit card loans – thirty-six months
Platinum credit card loans – twelve months
Signature loans – thirty-six months
Consumer loans under modification – twelve months

Based on the Credit Union's assessment on credit risk and analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to loan balances. At December 31, 2016, the Credit Union considered additional loss estimations based on the loan delinquency category and bankruptcy category.

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued:

The Credit Union's estimation process: The Credit Union estimates loan losses under multiple economic scenarios to establish a range of potential outcomes for each criterion the Credit Union applies to the allowance calculation. Management applies judgment to develop its own view of loss probability within that range, using external and internal parameters with the objective of establishing an allowance for the losses inherent within these portfolios as of the reporting date.

A significant portion of the Credit Union's consumer loans is secured by collateral. In order to track and measure the risk of nonperformance for this segment, the Credit Union uses loan-to-value (LTV) estimations based on the Metropolitan Statistical Area (MSA) where the collateral is located. The Credit Union determines loss multipliers based on the LTV percentage. There is a direct relationship between the LTV percentage and the loss multiplier. The higher the LTV percentage, the higher the risk for the Credit Union not receiving all contractual amounts of the loan.

Loans by Segment: The total allowance reflects Management's estimate of loan losses inherent in the loan portfolio at December 31, 2016. The Credit Union considers the allowance for loan losses of $457,893 adequate to cover loan losses inherent in the loan portfolio at December 31, 2016. The following table presents by portfolio segment, the changes in the allowance for loan losses and the loans receivable.

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued:

Loans by Segment - *continued*:

	Allowance for Loan Losses and Receivable in Loans For the Year Ended December 31, 2016			
	Real Estate	Consumer	Credit Cards	Total
Allowance for Loan Losses:				
Beginning balance	$ 532,922	$ 20,995	$ 44,821	$ 598,738
Charge-offs	-	(35,917)	(59,271)	(95,188)
Recoveries	-	10,324	9,634	19,958
Provision for loan losses (credit)	(220,124)	38,476	116,033	(65,615)
Ending balance	$ 312,798	$ 33,878	$ 111,217	$ 457,893
Ending balance:				
• individually evaluated for impairment	312,798	12,587	50,417	375,802
• collectively evaluated for impairment	-	21,291	60,800	82,091
Loans Receivable:				
Ending balance:				
• individually evaluated for impairment	4,817,079	64,664	54,798	4,936,541
• collectively evaluated for impairment	14,104,231	3,498,890	2,403,846	20,006,967
	$ 18,921,310	$ 3,563,554	$ 2,458,644	$ 24,943,508

Changes in accounting methodology: For the year ended December 31, 2016, there were no significant changes in the accounting methodology for the allowance for loan losses.

Credit quality information: Payment activity is reviewed by Management periodically to determine how loans are performing. Loans are considered to be nonperforming when days delinquent is greater than sixty days.

NOTE 4: LOANS RECEIVABLE - *continued*

Credit quality information - continued: Nonperforming loans would also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs would be classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period.

	First Mortgages	Other Mortgages
Performing	$ 17,422,245	$ 1,229,734
Nonperforming	269,331	-
Total	$ 17,691,576	$ 1,229,734

Age analysis of past due loans receivable by class: Following is a table which includes an aging analysis of past due loans receivable as of December 31, 2016. Also included are loans that are sixty days or more past due as to interest and principal and still accruing, because they are (a) well-secured and in the process of collection or (b) real estate loans or (c) loans exempt under regulatory rules from being classified as nonaccrual.

Credit Quality Information
Age Analysis of Past Due Loans Receivable by Class

	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans Receivable
Real estate	$ 222,303	$ 269,331	$ 491,634	$ 18,429,676	$ 18,921,310
Consumer	28,248	64,664	92,912	3,470,642	3,563,554
Credit cards	932	54,798	55,730	2,402,914	2,458,644
Total	$ 251,483	$ 388,793	$ 640,276	$ 24,303,232	$ 24,943,508

NOTE 4: LOANS RECEIVABLE - *continued*

Impaired loans: The Credit Union considers a loan to be impaired when, based on current information and events, the Credit Union determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Credit Union identifies a loan as impaired, the Credit Union measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Credit Union uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If the Credit Union determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Credit Union recognizes impairment through an allowance estimate or a charge-off to the allowance. The Credit Union determines impairment based on a sixty-day default period and all loans classified as TDRs.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Nonaccrual loans: The Credit Union generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach sixty days past due.

When the Credit Union places a loan on nonaccrual status, the Credit Union reverses the accrued unpaid interest receivable against interest income and accounts for the loan on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, the Credit Union returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Credit Union has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the member's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable. As of December 31, 2016, $291,500 of loans were placed on nonaccrual status with approximately $700 of accrued interest not recognized in the financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

Furniture, fixtures, and equipment	$ 151,551
Accumulated depreciation and amortization	(101,811)
	$ 49,740

Depreciation and amortization expense amounted to $21,737 for the year ended December 31, 2016.

NOTE 6: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Shares and savings accounts are summarized as follows:

Share drafts	$ 2,428,425
Share savings	14,149,634
Other deposits	14,555,376
	$ 31,133,435

The aggregate amounts of uninsured members’ share and savings accounts were approximately $249,113 as of December 31, 2016.

A summary by maturity of members' share and savings accounts is as follows:

No contractual maturity	$ 19,482,010
Within one year	8,649,891
One to three years	2,386,174
Over three years	615,360
	$ 31,133,435

Interest rates are set by the Board of Directors, based on an evaluation of current and future market conditions.

NOTE 7: BORROWED FUNDS

The Credit Union maintains lines of credit agreement with Catalyst Corporate Federal Credit Union at a rate to be determined by the lender when funds are borrowed. At December 31, 2016, the Credit Union had no outstanding balances on the lines of credit but could borrow up to $2,500,000.

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union is 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.

The principal commitments of the Credit Union are as follows:

Loan commitments: At December 31, 2016, the Credit Union had outstanding commitments for unused lines of credit agreements totaling approximately $8,550,000 that are not reflected in the accompanying financial statements.

Financial instruments with 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.

These financial instruments include commitments for lines of credit, credit cards, and home equity lines of credit. The contract amounts represent credit risk totaling approximately $8,550,000 as of December 31, 2016.

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. Since 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 generally consists of certificates of deposit, share accounts, automobiles and real estate.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. 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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES - *continued*

Financial instruments with concentration of credit risk: The Credit Union's lending activity is with its members, many of whom are employees or former employees of Bourns, Inc., individuals who live or work in the Riverside County area, selected employee groups, and their qualifying family members. The Credit Union's policy is to obtain collateral whenever necessary.

A substantial portion of the cash equivalents portfolio is comprised of deposits in Catalyst Corporate Federal Credit Union. As of December 31, 2016, the deposit exceeds the insured amount by approximately $300,000 for Catalyst Corporate Federal Credit Union.

NOTE 9: RELATED-PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans at December 31, 2016 amounted to approximately $2,180,000. Deposits from those related parties at December 31, 2016 amounted to approximately $550,000.

Bourns, Inc. provided support and services, including personnel and related benefit costs, office space, data processing, and various other operating expenses for the benefit of the members of Bourns Employees Federal Credit Union. The Credit Union reimburses these costs. Any unpaid amount are recorded as part of liabilities as of December 31, 2016.

NOTE 10: RETIREMENT PLAN

401(k) Retirement plan: The Credit Union has a 401(k) retirement plan through Bourns, Inc., for all employees who have met both the tenure and minimum age requirements specified in the plan. The Credit Union contributions are based on a percentage of employee compensation and totaled $12,887 for the year ended December 31, 2016.

NOTE 11: REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by the National Credit Union Administration. Failure to meet minimum net worth 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 guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific net worth guidelines that involve quantitative measures of the Credit Union's assets and liabilities, 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.

NOTE 11: REGULATORY CAPITAL - *continued*

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amount and ratios (set forth in the table below) of net worth (as defined in the regulations) to assets (as defined). Credit Unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR), which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as calculated by the NCUA at December 31, 2016 is 6.34%. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes that as of December 31, 2016, the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent call reporting period, NCUA 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% of assets and meet any applicable RBNWR. There are no conditions or events since that notification that Management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios at December 31, 2016 are also presented in the table, as follows:

Actual		For Capital Adequacy Purposes		To be Well-Capitalized per Prompt Corrective Action Provisions	
Amount	Ratio	Amount	Ratio	Amount	Ratio
$ 6,286,907	16.6%	$ 2,271,690	6.0%	$ 2,650,305	7.0%

The calculations above are made without including other comprehensive income.

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Furthermore, in performing its calculation of total assets, the Credit Union used the quarter-end option, as permitted by regulation.

NOTE 12: MORTGAGE SERVICING RIGHTS

Mortgage loans serviced for Federal National Mortgage Association (FNMA or Fannie Mae) are not included in the accompanying statements of financial condition. The unpaid principal balance of the loans being serviced was $42,795,140 at December 31, 2016.

NOTE 12: MORTGAGE SERVICING RIGHTS - *continued*

A summary of the changes in the balance of mortgage servicing rights for the period ended December 31, 2016 is as follows:

Balance, beginning of year	$ 167,703
Servicing assets recognized	484,105
Amortization of servicing assets	(112,931)
Balance, end of year	$ 538,877

NOTE 13: SUBSEQUENT EVENTS

The Credit Union acquired Bakery Employees Credit Union on February 1, 2017. The fair value of the assets totaled to approximately $7,500,000 as of February 1, 2017.

The Credit Union has evaluated subsequent events through March 31, 2017, which is the date the financial statements were available to be issued. Other than the merger in February 2017, there were no other significant subsequent events through March 31, 2017.

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

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

We have audited the financial statements of Bourns Employees Federal Credit Union as of and for the year ended December 31, 2016, and our report thereon dated March 31, 2017, which expressed an unmodified opinion on those financial statements, appears on page AFS-1 and AFS-2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information listed below is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of Management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information presented herein is fairly stated in all material respects in relation to the financial statements taken as a whole.

Schedule of Other General and Administrative Expenses

Summary of Reclassifying and Adjusting Entries

Sincerely,

RICHARDS & ASSOCIATES
Certified Public Accountants

Michael E. Richards, CPA

Yorba Linda, California
March 31, 2017

BOURNS EMPLOYEES FEDERAL CREDIT UNION

SCHEDULE OF OTHER GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended December 31, 2016

Loan servicing	$ 145,534
Outsourced services	33,830
Office occupancy	31,979
Education and promotion	27,740
Travel and conference	18,380
Regulatory supervision	6,686
Members' insurance	480
Miscellaneous expenses	26,018
	$ 290,647

This schedule is supplemental information only.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES

For the year ended December 31, 2016

		DEBIT		CREDIT
RECLASSIFYING ENTRY 1				
Loans receivable	$	4,282		
Members' share and savings accounts			$	4,282
To reclassify negative shares to loans receivable.				
RECLASSIFYING ENTRY 2				
Investments	$	177,375		
Other assets			$	177,375
To reclassify investments in credit union service organizations.				
RECLASSIFYING ENTRY 3				
Other income	$	9,831		
Income from investments			$	9,831
To reclassify income from credit union service organizations.				
RECLASSIFYING ENTRY 4				
Other assets	$	6,451		
Cash and cash equivalents			$	6,451
To reclassify other assets accounts as of December 31, 2016.				

This schedule is supplemental information only.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES - *continued*

For the year ended December 31, 2016

	DEBIT	CREDIT
RECLASSIFYING ENTRY 5		
Cash and cash equivalents	$ 5,720	
Other liabilities		$ 5,720

To reclassify other assets account with a credit balance as of December 31, 2016.

	DEBIT	CREDIT
RECLASSIFYING ENTRY 6		
Other assets	$ 1,625	
Cash and cash equivalents		$ 1,625

To reclassify cash advance in process as of December 31, 2016.

	DEBIT	CREDIT
ADJUSTING ENTRY 1		
Members' insurance	$ 17,612	
Undivided earnings		$ 17,612

To reverse the adjustment to accrued Temporary Corporate Credit Union stabilization expense as of December 31, 2015.

	DEBIT	CREDIT
ADJUSTING ENTRY 2		
Accrued expenses	$ 17,612	
Members' insurance		$ 17,612

To reverse the accrual for Temporary Corporate Credit Union stabilization expense.