

Bourns Employees Federal Credit Union

INDEPENDENT AUDITOR'S REPORT ON
AUDITED FINANCIAL STATEMENTS

December 31, 2021 and 2020



Serving credit unions since 1967

RICHARDS & ASSOCIATES
Certified Public Accountants

21520 Yorba Linda Blvd., Ste. G-516
Yorba Linda, CA 92887
Msgs: (714) 287-6713
eFax: (714) 455-7082
[www. RichardsCPAs.com](http://www.RichardsCPAs.com)

BOURNS EMPLOYEES FEDERAL CREDIT UNION

FINANCIAL REPORT CONTENTS
December 31, 2021 and 2020

AUDITED FINANCIAL STATEMENTS	Page
Independent Auditor's Report	1
Statements of Financial Condition	3
Statements of Income	4
Statements of Comprehensive Income	5
Statements of Members' Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	9
ACCOMPANYING INFORMATION	
Independent Auditor's Report on Supplementary Information	42
Schedule of Other General and Administrative Expenses	43
Summary of Reclassifying and Adjusting Entries	44
REVIEW OF FINANCIAL TRENDS	47

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 statements of financial condition as of December 31, 2021 and 2020, and the related statements of income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RICHARDS & ASSOCIATES
Certified Public Accountants



Michael E. Richards, CPA

Yorba Linda, California
March 31, 2022

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 9,828,397	\$ 7,135,779
Investments (Note 3)	20,752,420	25,964,677
Loans receivable, net of allowance for loan losses (Note 4)	38,728,650	35,463,555
Premises & equipment (Note 5)	390,791	109,305
Accrued interest receivable	260,724	165,860
Share insurance deposit	645,096	595,244
Foreclosed and repossessed assets (Note 12)	732,598	694,094
Mortgage servicing rights (Note 13)	1,238,349	1,708,452
Core deposit intangible	322,422	370,286
Prepaid expenses and other assets	251,313	160,053
TOTAL ASSETS	\$ 73,150,760	\$ 72,367,305
 LIABILITIES AND EQUITY		
Liabilities:		
Members' share and savings accounts (Note 6)	\$ 61,938,788	\$ 60,162,182
Notes payable (Note 7)	2,000,000	2,000,000
Accounts payable and other liabilities	713,737	703,933
TOTAL LIABILITIES	64,652,525	62,866,115
 Commitments and contingent liabilities (Note 8)		
Members' equity, substantially restricted		
Appropriated (regular reserve)	952,125	952,125
Unappropriated (undivided earnings)	5,893,902	6,595,655
Equity acquired through merger	1,920,739	1,920,739
	8,766,766	9,468,519
Accumulated other comprehensive income	(268,531)	32,671
TOTAL MEMBERS' EQUITY	8,498,235	9,501,190
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ 73,150,760	 \$ 72,367,305

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENTS OF INCOME

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
INTEREST INCOME		
Loans	\$ 1,342,351	\$ 1,310,818
Investments	343,941	533,007
TOTAL INTEREST INCOME	<u>1,686,292</u>	<u>1,843,825</u>
INTEREST EXPENSE		
Members' share and savings accounts	289,745	429,807
Borrowed funds	31,000	62,034
TOTAL INTEREST EXPENSE	<u>320,745</u>	<u>491,841</u>
NET INTEREST INCOME	1,365,547	1,351,984
PROVISION FOR LOAN LOSSES	<u>15,275</u>	<u>99,781</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>1,350,272</u>	<u>1,252,203</u>
NON-INTEREST INCOME		
Service charges and other income	420,032	303,519
Other operating income	82,043	-
Gain on sale of loans	32,174	887,656
Gain on servicing assets	140,631	823,203
Gain on sale or disposal of premises and equipment	-	77,242
Gain on bargain purchase	-	72,982
TOTAL NON-INTEREST INCOME	<u>674,880</u>	<u>2,164,602</u>
NON-INTEREST EXPENSE		
General and administrative expenses		
Compensation and benefits	1,271,677	1,253,763
Office operations	620,817	616,156
Loan servicing	186,584	324,135
Other expenses	283,833	429,574
Other operating expense	363,994	283,202
TOTAL NON-INTEREST EXPENSES	<u>2,726,905</u>	<u>2,906,830</u>
NET (LOSS) INCOME	<u>\$ (701,753)</u>	<u>\$ 509,975</u>

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
NET (LOSS) INCOME	\$ (701,753)	\$ 509,975
Changes in net unrealized gains on available-for-sale securities	<u>(301,202)</u>	<u>72,727</u>
TOTAL COMPREHENSIVE (LOSS) INCOME	<u>\$ (1,002,955)</u>	<u>\$ 582,702</u>

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
APPROPRIATED - REGULAR RESERVE		
Beginning / Ending balance	<u>\$ 952,125</u>	<u>\$ 952,125</u>
UNAPPROPRIATED - UNDIVIDED EARNINGS		
Beginning balance	6,595,655	6,085,680
Net (loss) income	(701,753)	509,975
Ending balance	<u>5,893,902</u>	<u>6,595,655</u>
EQUITY ACQUIRED THROUGH MERGER		
Beginning / Ending balance	1,920,739	1,332,292
Transfer from merger with Victor Valley Federal Credit Union	-	588,447
Ending balance	<u>1,920,739</u>	<u>1,920,739</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Beginning balance	32,671	(40,056)
Changes in net unrealized gain on available-for-sale securities	(301,202)	72,727
Ending balance	<u>(268,531)</u>	<u>32,671</u>
TOTAL MEMBERS' EQUITY	<u>\$ 8,498,235</u>	<u>\$ 9,501,190</u>

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	<u>\$ (701,753)</u>	<u>\$ 509,975</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	15,275	99,781
Depreciation and amortization	55,859	45,126
Amortization (accretion) of securities, net	230,326	126,873
Stock dividends added to investments	(18,697)	-
Amortization of mortgage servicing rights	610,734	548,573
Gain on sale of loans	(32,174)	(887,656)
Gain on servicing assets	(140,631)	(823,203)
Net gains on sale or disposal of premises and equipment	-	(77,242)
Gain on merger	-	(72,982)
Amortization of premium on loans acquired from mergers	24,937	31,231
Amortization of premium net of discount on investments acquired from mergers	7,821	(7,848)
Amortization of core deposit intangible acquired from mergers	47,864	46,148
Net changes in operating assets and liabilities:		
Increase in accrued interest receivable	(94,864)	(35,371)
(Increase) decrease in prepaid expenses and other assets	(91,260)	19,053
Increase in accounts payable and other liabilities	<u>9,804</u>	<u>26,383</u>
Total adjustments	<u>624,994</u>	<u>(961,134)</u>
Net cash used in operating activities	<u>(76,759)</u>	<u>(451,159)</u>

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS - *continued*

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquired from mergers	\$ -	\$ 1,082,454
Net increase in foreclosed and repossessed assets	(38,504)	(694,094)
Proceeds from sale or maturing of debt securities		
- available-for-sale	5,613,967	4,880,965
Acquisition of debt securities - available-for-sale	(1,496,262)	(14,585,662)
Proceeds from maturing of debt securities - held-to-maturity	2,593,000	2,687,000
Acquisition of debt securities - held-to-maturity	(3,188,000)	(399,000)
Net increase in capital stock at Federal Home		
Loan Bank of San Francisco	(130,100)	(14,700)
Net decrease in deposits in financial institutions	1,299,000	6,568,000
Loans to members, net of principal collections	(3,273,133)	(1,593,817)
Purchase of premises and equipment, net of disposals	(337,345)	484,875
Net increase in share insurance deposit	(49,852)	(26,870)
	<u>992,771</u>	<u>(1,610,849)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	<u>1,776,606</u>	<u>4,788,895</u>
	<u>1,776,606</u>	<u>4,788,895</u>
NET INCREASE IN CASH AND		
CASH EQUIVALENTS	2,692,618	2,726,887
CASH AND CASH EQUIVALENTS AT		
BEGINNING OF YEAR	<u>7,135,779</u>	<u>4,408,892</u>
CASH AND CASH EQUIVALENTS AT		
END OF YEAR	<u>\$ 9,828,397</u>	<u>\$ 7,135,779</u>
SUPPLEMENTAL DISCLOSURES:		
Cash received during the year from interest on		
loans and investments	<u>\$ 1,835,815</u>	<u>\$ 1,958,710</u>
Cash paid during the year for dividends	<u>\$ 289,745</u>	<u>\$ 429,807</u>

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Date of management's review of subsequent events: Management has evaluated subsequent events through March 31, 2022, the date which the financial statements were available to be issued.

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. Specifically, Management has made estimates based on assumptions for the determination of the allowance for loan losses and the fair value of financial instruments and the assessment of other than temporary impairment on investments. Actual results could differ from those estimates.

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.

Fair value measurements: The Credit Union follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*.

FASB ASC 825, *Financial Instruments*, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Credit Union commitment. Subsequent changes must be recorded in earnings.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Fair value measurements - continued: FASB ASC 820, *Fair Value Measurement*, provides a framework for measuring fair value that requires an entity to determine fair value based on exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. The guidance also establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets and liabilities; quoted market prices that are not in active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

The Credit Union has no financial instruments or other accounts subject to fair value measurement and disclosure, other than the debt securities classified as available-for-sale.

Deposits in other financial institutions: Deposits in other financial institutions include certificates of deposit. 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).

Investment securities: Equity securities not using the equity method are carried at estimated fair value based on information provided by a third-party pricing service with changes in fair value and realized gains or losses reported in noninterest income. If fair value is not readily determinable, the equity security is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. All equity securities are evaluated at least annually for impairment. The Credit Union's equity securities have readily determinable fair values. Because changes in fair value are recorded as they occur, there is no expectation of a gain or loss on the sale of equity securities.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

Investment securities - continued: The Credit Union's investments in debt securities are classified and accounted for as follows:

Held-to-maturity: Government and government agency bonds, notes, and certificates which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretions of discounts which are recognized in interest income using the interest method over the period to maturity.

Available-for-sale: Government and government agency bonds, notes, and certificates are classified as available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on debt securities available-for-sale are recognized as direct increases or decreases in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale 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 comprised of uninsured capital investments in other institutions and are classified separately and are stated at cost, which reasonably approximates fair value. If such investments are deemed to be impaired, the recorded cost is reduced by the amount of the impairment.

Visa Inc. Stock: As part of the restructuring of Visa, Inc., the Credit Union was issued shares of Class B Common Stock in Visa, Inc. The shares represented by this issuance are fully paid and non-assessable. The Credit Union received a partial redemption of their Class B Common Stock in Visa, Inc. Currently, there is no readily available fair market value of the stock and therefore, the stock is not reflected in the Credit Union's financial statements. Once a readily available fair market value of the stock is available, the value of the stock will be reflected in the Credit Union's financial statements.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

Loans held for sale: Loans held for sale consist of mortgage loans carried at the lower of original cost or market value in compliance with FASB Accounting Standards Codification (ASC) 948-310, *Financial Services-Mortgage Banking, Receivables*. Market value is determined either on a loan-by-loan basis or combined by related pool. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Loans to members: Loans are reported at their recorded investment, which is the outstanding principal balance and net of any unearned income, such as deferred fees or costs, charge-offs and unamortized premiums or discounts on originated loans. 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. The Credit Union does not charge commitment fees.

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 secured loans portfolio; (ii) the real estate loans portfolio; (iii) the consumer loans portfolio and (iv) the unsecured and credit card loans portfolio.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

Allowance for loan losses – continued: 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. The Credit Union uses internally developed models in this process. 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. The Credit Union intends to adopt the new Current Expected Credit Losses (CECL) model as discussed further under "*Recent Accounting Pronouncement*" below.

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.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

Loan charge-offs - continued: 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.
- *Member business / commercial loans* – The Credit Union generally writes down to the net realizable value of collateral when the loan is 180 days past due or, if sooner, when a loss is confirmed.
- *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.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

Transfers of financial assets and participating interests: The Credit Union accounts for transfers and servicing of financial assets in accordance with FAS 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.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial assets has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro-rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Premises and equipment: Land is carried at cost. Building, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. The building, furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

Excess share insurance: The deposit in the American Share Insurance Corporate (ASI) provides additional insurance coverage of \$250,000 once a member's balance exceeds the coverage provided by the Credit Union's primary insurer, which requires the maintenance of a 1% to 1.3% refundable at-risk deposit by each insured credit union based on the maximum policy limits of coverage. Insured credit unions are also required to pay a quarterly premium based on the actual reported coverage and the Credit Union's financial condition and rating. The Credit Union maintains a deposit with ASI in the amount of \$30,000.

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.

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

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.

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.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

Revenue recognition: In the ordinary course of business, the Credit Union recognizes income from various revenue generating activities. Certain revenues are generated from contracts with members where such revenues are recognized when, or as, services or products are transferred to members' for amounts to which the Credit Union expects to be entitled. Certain specific policies related to revenue recognition from contracts with members include:

Service fees: Service fees include charges related to depository accounts under standard service agreements. Fees are generally recognized as services are delivered to or consumed by the customer or as penalties are assessed.

Credit and debit card revenue: Credit and debit card revenue includes fees from credit and debit cards processed through card association networks, annual fees, and other transaction and account management fees. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. The Credit Union records interchange fees as services are provided. Transaction and account management fees are recognized as services are provided, except for annual fees which are recognized over the applicable period. The costs of related loyalty rewards programs are netted against interchange revenue as a direct cost of the revenue generating activity.

Income taxes: The Credit Union is exempt, by statute, from federal and state income taxes under the provisions of the Internal Revenue Code.

Advertising costs: Advertising and promotion costs are expensed as incurred.

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.

Retirement plan: 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.

Presentation of comparative financial statements: To more clearly illustrate the financial condition of the Credit Union and the results of its operations, the current year financial information is presented along with the previous year. Certain reclassification may be made to the previous year financial statement presentation to correspond to current year's format. Total members' equity and net income are unchanged due to these reclassifications.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

Recent accounting pronouncements: Effective January 1, 2020, the Credit Union adopted Accounting Standard Update (ASU) No. 2014-09, Revenue from Contracts with Customers, also referred to as Accounting Standards Codification (ASC) Topic 606. The amount of revenue recognized reflects the consideration to which the Credit Union expects to be entitled to receive in exchange for promised services that compromise a performance obligation. The adoption of this guidance requires gross presentation of certain costs that were previously offset against revenue. Contracts in the scope of ASC 606 are often terminable on demand and the Credit Union has no remaining obligation to deliver future service. The adoption of the guidance did not result in any material changes in the timing of the Credit Union's revenue recognition.

In September 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new Current Expected Credit Losses (CECL) model will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration, and certain off-statement of financial condition credit exposures. The Credit Union will apply the standard's provisions as a cumulative-effect adjustment to unappropriated undivided earnings as of the beginning of the first reporting period in which the guidance is effective. This ASU will become effective for the Credit Union for annual periods beginning after December 15, 2022. Management is currently evaluating the potential impact of ASU No. 2016-13 on the Credit Union's consolidated financial statements. Since all credit union's fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2023.

The FASB issued ASU 2016-02, a new standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for nearly all lease arrangements. The option of an operating lease that is recorded off-balance sheet will be significantly limited in its use. In measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For a lessee, the effect of recording all leases as debt might affect financial covenants that exist in loan and other agreements. The lessor accounting remains largely consistent with existing GAAP. The new standard is effective for the Credit Union for annual periods beginning after December 15, 2021 and there are several options as to how the new pronouncement can be implemented. Management is currently evaluating the potential impact of ASU No. 2016-02 on the Credit Union's financial statements.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2: CASH AND CASH EQUIVALENTS

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

	December 31,	
	2021	2020
Cash on hand	\$ 429,634	\$ 410,119
Cash on deposit	9,398,763	6,725,660
	\$ 9,828,397	\$ 7,135,779

NOTE 3: INVESTMENTS

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

	December 31,	
	2021	2020
CERTIFICATES OF DEPOSIT	\$ 4,980,000	\$ 6,279,000

Certificates of deposit outstanding as of December 31, 2021 all mature within three years.

The acquisition of Colton Federal Credit Union in February 2019 resulted in a net discount of \$51,712 which includes an adjustment to the fair value of the investment portfolio. The Credit Union amortized \$4,463 and \$18,084 from the fair value adjustment on acquired investments for the years ended December 31, 2021 and 2020, respectively. The net discount amounted to \$4,463 as of December 31, 2020. The net discount was fully amortized by December 31, 2021.

The acquisition of Victor Valley Federal Credit Union in February 2020 resulted in a net premium of \$58,347 which includes an adjustment to the fair value of the investment portfolio. The Credit Union amortized \$12,284 and \$10,236 from the fair value adjustment on acquired investments for the years ended December 31, 2021 and 2020, respectively. The net premium amounted to \$35,827 and \$48,111 as of December 31, 2021 and 2020, respectively.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3: INVESTMENTS – *continued*

OTHER INVESTMENTS

	December 31,	
	2021	2020
Contributed capital account at corporate credit union	\$ 100,310	\$ 100,310
Capital stock, Federal Home Loan Bank	331,500	201,400
Capital stock, credit union service organizations	129,830	111,133
	\$ 561,640	\$ 412,843

The Credit Union maintains a perpetual contributed capital accounts with Catalyst Corporate Federal Credit Union that is uninsured by the National Credit Union Share Insurance Fund or any other deposit insurer. In addition, nonperpetual accounts usually require a multi-year advance notice before withdrawal. The perpetual contributed capital is redeemable only at the option of corporate credit union provided regulatory approval is obtained. Perpetual contributed capital cannot be pledged against borrowing, has no scheduled maturity, and offers non-cumulative dividends. This investment is not publicly traded; therefore, it is not practical to determine its fair value. The amortized cost approximates the fair value. This uninsured deposit is part of the corporate credit union’s regulatory capital and is subject to impairment or loss in the event the corporate credit union is required to merge with another entity, is placed into conservatorship, incurs significant losses, or is liquidated.

Investments in Credit Union Service Organizations are not publicly traded; therefore, it is not practical to determine its fair value. The amortized cost approximates the fair value.

The Credit Union, as a member of the FHLB of San Francisco, is required to maintain a minimum stock investment with the FHLB based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. There is no ready market for the FHLB stock; therefore, it has no quoted market value and is reported on the statement of financial condition at cost in investments and classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Credit Union had \$120,000 invested in Member Business Lending LLC as of December 31, 2017. The investment was written down to \$20,000 during the year ended December 31, 2018. The investment is still valued at \$20,000 as of December 31, 2021 and 2020. In January 2022, the Credit Union received a payment for this investment from CUBG, a credit union service organization, who agreed to purchase the investment. The Credit Union received \$19,129 for the investments and wrote off \$871.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3: INVESTMENTS – *continued*

AVAILABLE-FOR-SALE SECURITIES

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

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>Available-for-sale:</i>				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	\$ 10,116,484	\$ 14,814	\$ 283,345	\$ 9,847,953
	\$ 10,116,484	\$ 14,814	\$ 283,345	\$ 9,847,953

Included with mortgage-backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of \$22,127 and fair market value of \$17,127 as of December 31, 2021.

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>Available-for-sale:</i>				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	\$ 14,464,515	\$ 57,721	\$ 25,050	\$ 14,497,186
	\$ 14,464,515	\$ 57,721	\$ 25,050	\$ 14,497,186

Included with mortgage-backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of \$42,971 and fair market value of \$34,161 as of December 31, 2021.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3: INVESTMENTS – *continued*

AVAILABLE-FOR-SALE SECURITIES – *continued*

The amortized cost and fair value of investments debt securities, as of December 31, 2021, 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.

	Amortized Cost	Fair Value Cost
<u>Amounts maturing in:</u>		
Due after five years through ten years	\$ 12,614	\$ 13,802
Due after ten years	10,103,870	9,834,151
	\$ 10,116,484	\$ 9,847,953

Information pertaining to debt securities with gross unrealized losses as of December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

	December 31, 2021			
	Continuous Unrealized Losses Existing for			
	Fair Value	Less than 12 months	More than 12 months	
<u>Available-for-sale:</u>				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	\$ 9,037,485	\$ 166,365	\$ 116,980	\$ 283,345
	\$ 9,037,485	\$ 166,365	\$ 116,980	\$ 283,345

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3: INVESTMENTS – *continued*

AVAILABLE-FOR-SALE SECURITIES – *continued*

	December 31, 2020			Total Unrealized Losses
	Continuous Unrealized Losses Existing for			
	Fair Value	Less than 12 months	More than 12 months	
<i>Available-for-sale:</i>				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	\$ 7,416,966	\$ 16,240	\$ 8,810	\$ 25,050
	<u>\$ 7,416,966</u>	<u>\$ 16,240</u>	<u>\$ 8,810</u>	<u>\$ 25,050</u>

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 additional other-than-temporary impairment associated with these securities as of December 31, 2021.

HELD-TO-MATURITY SECURITIES

The amortized cost and fair value of debt securities held-to-maturity are as follows:

	December 31, 2021			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>Held-to-maturity:</i>				
Negotiable certificates of deposit	\$ 5,327,000	\$ 40,156	\$ 9,873	\$ 5,357,283
	<u>\$ 5,327,000</u>	<u>\$ 40,156</u>	<u>\$ 9,873</u>	<u>\$ 5,357,283</u>

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3: INVESTMENTS – *continued*

HELD-TO-MATURITY SECURITIES – *continued*

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i><u>Held-to-maturity:</u></i>				
Negotiable certificates of deposit	\$ 4,732,000	\$116,841	\$ 502	\$ 4,848,339
	\$ 4,732,000	\$116,841	\$ 502	\$ 4,848,339

The amortized cost and fair value of investments debt securities, as of December 31, 2021, 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.

	Amortized Cost	Fair Value Cost
<i><u>Amounts maturing in:</u></i>		
Due in one year or less	\$ 1,247,000	\$ 1,254,686
Due after one year through five years	4,080,000	4,102,597
	\$ 5,327,000	\$ 5,357,283

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3: INVESTMENTS – *continued*

HELD-TO-MATURITY SECURITIES – *continued*

Information pertaining to debt securities with gross unrealized losses as of December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

	December 31, 2021			Total Unrealized Losses
	Continuous Unrealized Losses Existing for			
	Fair Value	Less than 12 months	More than 12 months	
<i><u>Held-to-maturity:</u></i>				
Negotiable certificates of deposit	\$ 3,029,127	\$ 9,873	-	\$ 9,873
	<u>\$ 3,029,127</u>	<u>\$ 9,873</u>	<u>-</u>	<u>\$ 9,873</u>
	December 31, 2020			
	Continuous Unrealized Losses Existing for			
	Fair Value	Less than 12 months	More than 12 months	
<i><u>Held-to-maturity:</u></i>				
Negotiable certificates of deposit	\$ 149,498	\$ 502	-	\$ 502
	<u>\$ 149,498</u>	<u>\$ 502</u>	<u>-</u>	<u>\$ 502</u>

In estimating other-than-temporary impairment losses, the Credit Union considers, among other things, the length of time and the extent to which the fair value has been less than cost, and the financial condition and near-term prospects of the issuer. The Credit Union does not intend to sell these securities, and it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in cost. All securities owned by the Credit Union are payable at par at maturity.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3: INVESTMENTS – *continued*

HELD-TO-MATURITY SECURITIES – *continued*

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 as of December 31, 2021.

Accrued interest receivable on investments amounted to \$35,929 and \$64,059 as of December 31, 2021 and 2020, respectively.

NOTE 4: LOANS RECEIVABLE

The composition of loans receivable is as follows:

	December 31,	
	2021	2020
Real estate	\$ 25,786,598	\$ 21,091,182
Automobile	6,738,338	7,442,521
Credit cards	2,642,210	2,881,133
Other consumer loans	2,184,531	2,266,668
Home equity lines of credit	1,206,833	1,924,381
Commercial loans	445,911	186,153
Student loans	22,285	19,472
	39,026,706	35,811,510
Discount on loans, net of premium	(56,582)	(72,644)
Allowance for loan losses	(241,474)	(275,311)
	\$ 38,728,650	\$ 35,463,555

Accrued interest receivable on loans amounted to \$224,795 and \$101,801 as of December 31, 2021 and 2020, respectively. Included in the accrued interest receivable on loans is deferred interest from loan forbearances due to Covid-19 totaling \$141,358 as of December 31, 2021.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 4: LOANS RECEIVABLE – *continued*

The acquisition of Bakery Employees Credit Union in February 2017 resulted in a net discount of \$14,931 which includes both an adjustment to the fair value of the loan portfolio and the estimated credit risk in the portfolio. The Credit Union reduced the discount from the estimated credit risk in the portfolio by \$41,000 and recognized it as part of other operating income. There was no loan charge-off or recovery for the years ended December 31, 2021 and 2020. The Credit Union amortized \$2,893 from the loss on acquired loans for the year ended December 31, 2020. The net discount amounted to \$8,653 and \$49,653 as of December 31, 2021 and 2020, respectively.

The acquisition of Colton Federal Credit Union in February 2019 resulted in a net premium of \$18,273 which includes both an adjustment to the fair value of the loan portfolio and the estimated credit risk in the portfolio. There was no loan charge-off or recovery for both years ended December 31, 2021 and 2020. The Credit Union amortized \$8,767 and \$14,863 from the loss on acquired loans for the years ended December 31, 2021 and 2020, respectively. The Credit Union has a net discount of \$17,459 and \$8,692 as of December 31, 2021 and 2020, respectively.

The acquisition of Victor Valley Federal Credit Union in February 2020 resulted in a net discount of \$11,490 which includes both an adjustment to the fair value of the loan portfolio and the estimated credit risk in the portfolio. There was a net loan charged off of \$10,666 for the year ended December 31, 2020. There was no loan charged-off or recovery for the year ended December 31, 2021. The Credit Union amortized \$16,170 and \$13,475 from the loss on acquired loans for the years ended December 31, 2021 and 2020, respectively. The net discount amounted to \$30,469 and \$14,299 as of December 31, 2021 and 2020, respectively.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 4: LOANS RECEIVABLE - *continued*

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 portfolio. 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.

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 as of December 31, 2021 was thirty-six 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. As of December 31, 2021, 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. The historical loss period as of December 31, 2021 was thirty-six months.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued:

Real estate loans - continued: 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.

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. As of December 31, 2021, the historical loss time frame for each class was thirty-six 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. As of December 31, 2021, 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. As of December 31, 2021, the historical loss time frame for each class was as follows:

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

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued:

Consumer unsecured portfolio - continued: 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. As of December 31, 2021, the Credit Union considered additional loss estimations based on the loan delinquency category and bankruptcy category.

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.

Loans by Segment: The total allowance reflects Management's estimate of loan losses inherent in the loan portfolio as of December 31, 2021 and 2020. The Credit Union considers the allowance for loan losses of \$241,474 and \$275,311 adequate to cover loan losses inherent in the loan portfolio as of December 31, 2021 and 2020, respectively. The following tables present by portfolio segment, the changes in the allowance for loan losses and the loans receivable.

Allowance for Loan Losses and Receivable in Loans
For the Year Ended December 31, 2021

	Real Estate	Consumer	Credit Cards	Total
<u>Allowance for Loan Losses:</u>				
Beginning balance	\$ 163,384	\$ 48,069	\$ 63,858	\$ 275,311
Charge-offs	-	(59,660)	-	(59,660)
Recoveries	-	9,118	1,430	10,548
Provision for loan losses (credit)	(24,815)	44,528	(4,438)	15,275
Ending balance	<u>\$ 138,569</u>	<u>\$ 42,055</u>	<u>\$ 60,850</u>	<u>\$ 241,474</u>
Ending balance:				
• individually evaluated for impairment	105,028	2,939	720	108,687
• collectively evaluated for impairment	33,541	39,116	60,130	132,787
	<u>\$ 138,569</u>	<u>\$ 42,055</u>	<u>\$ 60,850</u>	<u>\$ 241,474</u>

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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, 2021				
	Real Estate	Consumer	Credit Cards	Total
<u>Loans Receivable:</u>				
Ending balance:				
• individually evaluated for impairment	1,123,116	91,754	1,440	1,216,310
• collectively evaluated for impairment	26,316,226	8,853,400	2,640,770	37,810,396
	\$ 27,439,342	\$ 8,945,154	\$ 2,642,210	\$ 39,026,706

Allowance for Loan Losses and Receivable in Loans				
For the Year Ended December 31, 2020				
	Real Estate	Consumer	Credit Cards	Total
<u>Allowance for Loan Losses:</u>				
Beginning balance	\$ 173,139	\$ 31,936	\$ 40,852	\$ 245,927
Charge-offs	-	(27,148)	(144,714)	(171,862)
Recoveries	90,000	11,005	460	101,465
Provision for loan losses (credit)	(99,755)	32,276	167,260	99,781
Ending balance	\$ 163,384	\$ 48,069	\$ 63,858	\$ 275,311

Ending balance:

• individually evaluated for impairment	135,245	4,725	9,790	149,760
• collectively evaluated for impairment	28,139	43,344	54,068	125,551
	\$ 163,384	\$ 48,069	\$ 63,858	\$ 275,311

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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, 2020			
	Real Estate	Consumer	Credit Cards	Total
<u>Loans Receivable:</u>				
Ending balance:				
• individually evaluated for impairment	1,036,959	4,725	9,790	1,051,474
• collectively evaluated for impairment	22,164,757	9,723,936	2,871,343	34,760,036
	\$ 23,201,716	\$ 9,728,661	\$ 2,881,133	\$ 35,811,510

Changes in accounting methodology: For the year ended December 31, 2021, 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.

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	\$ 26,208,110	\$ 1,206,833
Nonperforming	24,399	-
Total	\$ 26,232,509	\$ 1,206,833

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 4: LOANS RECEIVABLE - *continued*

Age analysis of past due loans receivable by class: Following are tables which include an aging analysis of past due loans receivable as of December 31, 2021 and 2020. 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
As of December 31, 2021

	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans Receivable
Real estate	\$ 141,340	\$ 24,399	\$ 165,739	\$ 27,273,603	\$ 27,439,342
Consumer	61,574	91,754	153,328	8,791,826	8,945,154
Credit cards	25,205	1,440	26,645	2,615,565	2,642,210
Total	\$ 228,119	\$ 117,593	\$ 345,712	\$ 38,680,994	\$ 39,026,706

Credit Quality Information
Age Analysis of Past Due Loans Receivable by Class
As of December 31, 2020

	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans Receivable
Real estate	\$ 355,759	\$ 65,115	\$ 420,874	\$ 22,780,842	\$ 23,201,716
Consumer	17,277	4,961	22,238	9,706,423	9,728,661
Credit cards	21,994	9,790	31,784	2,849,349	2,881,133
Total	\$ 395,030	\$ 79,866	\$ 474,896	\$ 35,336,614	\$ 35,811,510

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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, 2021, \$117,593 of loans were placed on nonaccrual status with approximately \$1,100 of accrued interest not recognized in the financial statements.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 5: PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2021	2020
Land	\$ 7,000	\$ 7,000
Building and improvements	256,217	256,217
Furniture, fixtures, and equipment	641,144	303,800
Subtotal	904,361	567,017
Accumulated depreciation and amortization	(513,570)	(457,712)
	\$ 390,791	\$ 109,305

Depreciation and amortization expense amounted to \$55,859 and \$45,126 for the years ended December 31, 2021 and 2020, respectively.

NOTE 6: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Shares and savings accounts are summarized as follows:

	December 31,	
	2021	2020
Share drafts	\$ 5,742,280	\$ 4,694,528
Share savings	34,968,255	33,703,479
Other deposits	21,228,253	21,764,175
	\$ 61,938,788	\$ 60,162,182

Member accounts are insured to at least \$250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. Government. The aggregate amounts of uninsured members' share and savings accounts were approximately \$2,410,000 and \$1,680,000 as of December 31, 2021 and 2020, respectively.

Nonmember deposit were approximately \$163 and \$169 as of December 31, 2021 and 2020, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled to approximately \$3,034 and \$1,835 as of December 31, 2021 and 2020, respectively.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 6: MEMBERS' SHARE AND SAVINGS ACCOUNTS - *continued*

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

	December 31,	
	<u>2021</u>	<u>2020</u>
No contractual maturity	\$ 46,200,623	\$ 43,452,785
Within one year	11,496,443	11,684,572
One to three years	3,506,004	4,486,042
Over three years	735,718	538,783
	<u>\$ 61,938,788</u>	<u>\$ 60,162,182</u>

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 a line of credit agreement with Catalyst Corporate Federal Credit Union at a rate to be determined by the lender when funds are borrowed. As of December 31, 2021 and 2020, the Credit Union had no outstanding balance on the line of credit but could borrow up to \$2,500,000. The line has no expiration date, but is subject to review and change by the issuing institution.

The Credit Union maintains a line of credit agreement with Federal Home Loan Bank of San Francisco at a rate to be determined by the lender when funds are borrowed. As of December 31, 2021 and 2020, the Credit Union had no outstanding balance on the line of credit but could borrow up to \$18,847,052 and \$18,747,658, respectively. The line has no expiration date, but is subject to review and change by the issuing institution.

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.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES - *continued*

The principal commitments of the Credit Union are as follows:

Lease agreement: The Credit Union leases its office facilities under various operating lease as follows:

Branch	Term (Years)	Expiration Date	Annual Rent
Colton Branch	1	April 2022	\$ 18,300

Rent expense was approximately \$66,852 and \$52,470 for the years ended December 31, 2021 and 2020, respectively.

The future minimum lease payments for each of the succeeding years under noncancellable operating leases with initial or remaining lease terms in excess of one year consisted of the following as of December 31, 2021:

Minimum Payments	
2022	\$ 6,100
	\$ 6,100

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 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 \$10,340,000 and \$9,380,000 as of December 31, 2021 and 2020, respectively.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES - *continued*

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. 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.

Financial instruments with concentration of credit risk: Most of the Credit Union's business activity is with its members as previously described in Note 1. 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 and Federal Home Loan Bank of San Francisco.

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 as of December 31, 2021 and 2020 amounted to approximately \$1,320,000 and \$1,400,000, respectively.

Deposits from those related parties as of December 31, 2021 and 2020 amounted to approximately \$1,039,000 and \$490,000, respectively.

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, 2021.

NOTE 10: RETIREMENT PLAN

401(k) Retirement plan: The Credit Union has a 401(k) retirement plan 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 \$29,978 and \$29,386 for the years ended December 31, 2021 and 2020.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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.

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 as of December 31, 2021 is 6.32%. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes that as of December 31, 2021, the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, the most recent call reporting period, NCUA categorized the Credit Union as "well-capitalized" under the regulatory framework for prompt corrective action. The Credit Union had always been categorized 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 has always been categorized 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. However, during the COVID-19 environment, members increased their share deposits significantly and the net worth ratio temporarily declined slightly, but remained well above 7%. Management believes this is a temporary situation and during the post COVID-19 environment the net worth ratio will return to a more normal level.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 11: REGULATORY CAPITAL - *continued*

December 31, 2021					
Actual		For Capital Adequacy Purposes		To be Well-Capitalized per Prompt Corrective Action Provisions	
<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
\$ 8,766,766	12.0%	\$ 4,389,046	6.0%	\$ 5,120,553	7.0%

December 31, 2020					
Actual		For Capital Adequacy Purposes		To be Well-Capitalized per Prompt Corrective Action Provisions	
<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
\$ 9,468,519	13.1%	\$ 4,342,038	6.0%	\$ 5,065,711	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: FORECLOSED AND REPOSSESSED ASSETS

The balances of real estate acquired through foreclosure (foreclosed assets) are included in other assets on the statements of financial condition. As of December 31, 2021 and 2020, the Credit Union had foreclosed assets totaling \$732,598 and \$694,094, respectively.

NOTE 13: 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 \$131,059,916 and \$159,414,316 as of December 31, 2021 and 2020, respectively.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 13: MORTGAGE SERVICING RIGHTS - *continued*

A summary of the changes in the balance of mortgage servicing rights for the period ended December 31, 2021 and 2020 is as follows:

	December 31,	
	2021	2020
Balance, beginning of year	\$ 1,708,452	\$ 1,433,822
Servicing assets recognized during the year	140,631	823,203
Amortization of servicing assets	(610,734)	(548,573)
Balance, end of year	\$ 1,238,349	\$ 1,708,452

NOTE 14: ACQUISITION

In February 2020, Bourns Employees Federal Credit Union acquired the assets and assumed the liabilities of Victor Valley Federal Credit Union. The fair value of assets acquired from Victor Valley Federal Credit Union totaled to \$9.63 million.

Non-cash investing activity due to acquisition with Victor Valley Federal Credit Union is as follows:

Fair value of investments, property, and other assets acquired	\$ 6,411,194
Fair value of loans receivable acquired	\$ 2,027,989
Fair value of members' share accounts assumed	\$ 8,862,597
Fair value of liabilities assumed	\$ 100,539

NOTE 15: COVID 19

As a result of the spread of the coronavirus (COVID-19), economic uncertainties have arisen for some members of the Credit Union. Management has implemented appropriate actions for the personal safety of staff and members of the Credit Union. Additionally, special programs are available for members experiencing financial difficulties. At this time, the overall financial effect of the coronavirus pandemic is uncertain, although it is likely to have a negative impact on net interest income. However, the Credit Union is implementing plans to address any potential financial disruption.

Section 4013 of the CARES Act stipulates that a financial institution may elect not to apply GAAP requirements to loan modifications related to the COVID-19 pandemic that would otherwise be categorized as TDR, and suspends the determination of loan modifications related to the COVID-19 pandemic from being treated as TDRs.

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, 2021, and our report thereon dated March 31, 2022, which expressed an unmodified opinion on those financial statements, appears on page AFS-1 and page 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

Review of Financial Trends

RICHARDS & ASSOCIATES
Certified Public Accountants



Michael E. Richards, CPA

Yorba Linda, California
March 31, 2022

BOURNS EMPLOYEES FEDERAL CREDIT UNION

SCHEDULE OF OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Outsourced services	\$ 100,290	\$ 270,680
Office occupancy	90,963	80,958
Education and promotion	34,739	29,441
Travel and conference	20,118	16,495
Regulatory supervision	15,477	18,112
Members' insurance	1,680	1,680
Other expenses	<u>20,566</u>	<u>12,208</u>
	<u><u>\$ 283,833</u></u>	<u><u>\$ 429,574</u></u>

This schedule is supplemental information only.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES

For the year ended December 31, 2021

	<u>DEBIT</u>	<u>CREDIT</u>
<i>RECLASSIFYING ENTRY 1</i>		
Loans receivable	\$ 3,034	
Members' share and savings account		\$ 3,034

To reclassify negative shares to loans receivable.

RECLASSIFYING ENTRY 2

Investments	\$ 129,830	
Other assets		\$ 129,830

To reclassify investments in credit union service organizations

RECLASSIFYING ENTRY 3

Share insurance deposit	\$ 30,000	
Other assets		\$ 30,000

To reclassify share insurance deposit balance at American Share Insurance as of December 31, 2021.

RECLASSIFYING ENTRY 4

Other non-operating income	\$ 140,631	
Mortgage servicing rights		\$ 140,631

To reclassify the gain on servicing rights.

This schedule is supplemental information only.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES - *continued*

For the year ended December 31, 2021

	<u>DEBIT</u>	<u>CREDIT</u>
<i>RECLASSIFYING ENTRY 5</i>		
Accrued interest on loans	\$ 141,358	
Other assets		\$ 141,358
<i>To reclassify deferred interest income.</i>		
 <i>RECLASSIFYING ENTRY 6</i>		
Loan servicing	\$ 25,000	
Compensation and benefits		\$ 25,000
<i>To reverse correcting entry from 2020.</i>		
 <i>RECLASSIFYING ENTRY 7</i>		
Other operating income	\$ 32,174	
Gain on sale of loans		\$ 32,174
<i>To reclassify the premium on FNMA loans sold during the audit period.</i>		
 <i>ADJUSTING ENTRY 1</i>		
Accrued expenses	\$ 12,700	
Office operations		\$ 12,700
<i>To reverse the CUNA fraud deductible.</i>		

This schedule is supplemental information only.

BOURNS EMPLOYEES FEDERAL CREDIT UNION

SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES - *continued*

For the year ended December 31, 2021

	<u>DEBIT</u>	<u>CREDIT</u>
<i>ADJUSTING ENTRY 2</i>		
Operating fee	\$ 15,477	
Other liabilities		\$ 15,477

To expense the NCUA operating fee.

ADJUSTING ENTRY 3

Other liabilities	\$ 41,043	
Other operating fee		\$ 41,043

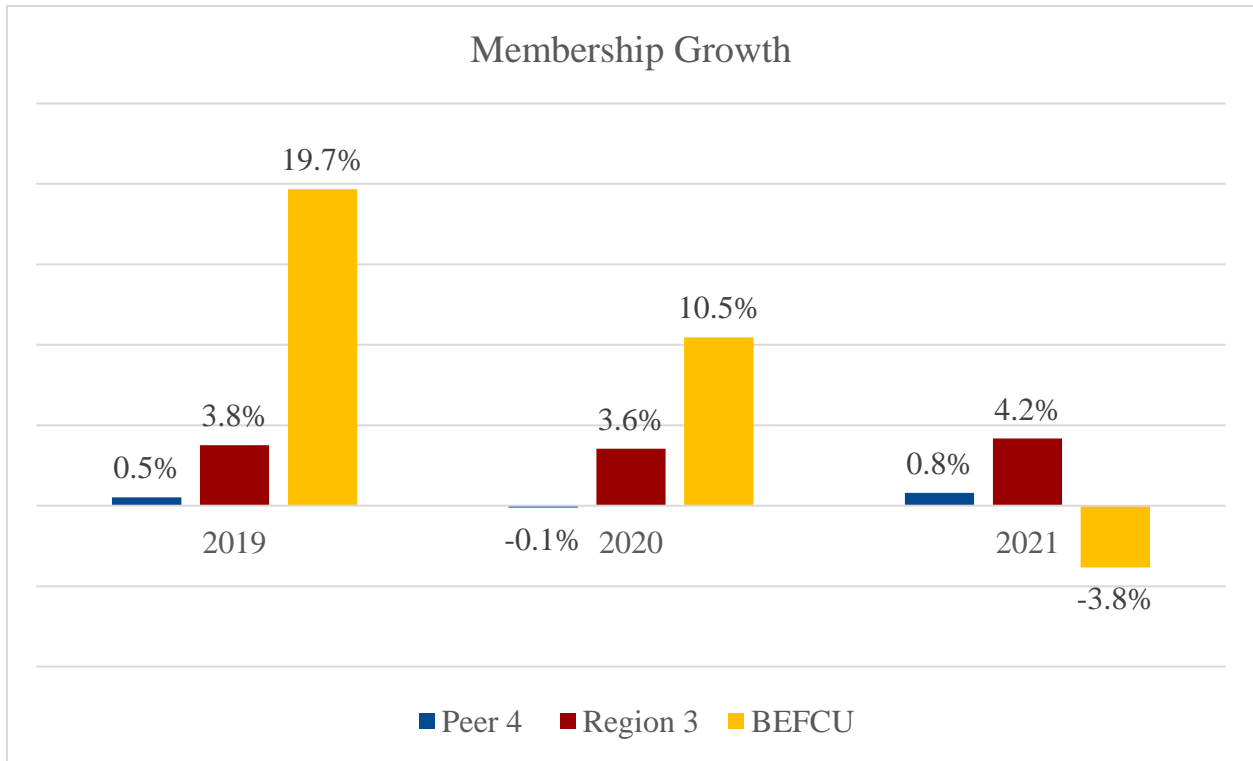
To clear mortgage fee income.

ADJUSTING ENTRY 4

Provision for loan losses	\$ 41,000	
Other operating income		\$ 41,000

To recognize the transfer from discount acquired through merger to allowance for loan losses as other operating income and provision for loan losses.

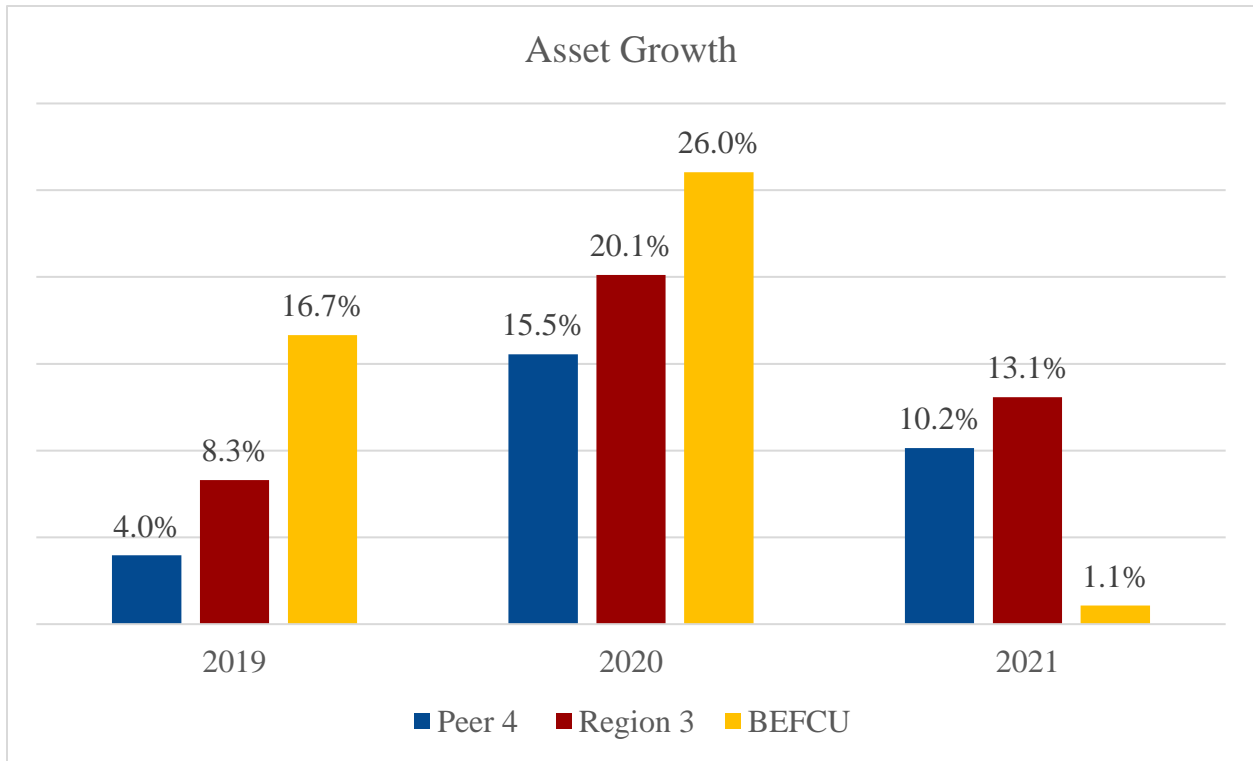
Bourns Employees Federal Credit Union
 Financial Trends 2019 through December 31, 2021



Accountant’s Comments

Membership growth is the result of implementing effective business strategies in the Credit Union’s market place. Member growth strategies are driven by the board’s philosophy towards service levels, delivery channels, product pricing, and breadth of services offered. From a strategic planning perspective, membership growth is where the rubber meets the road.

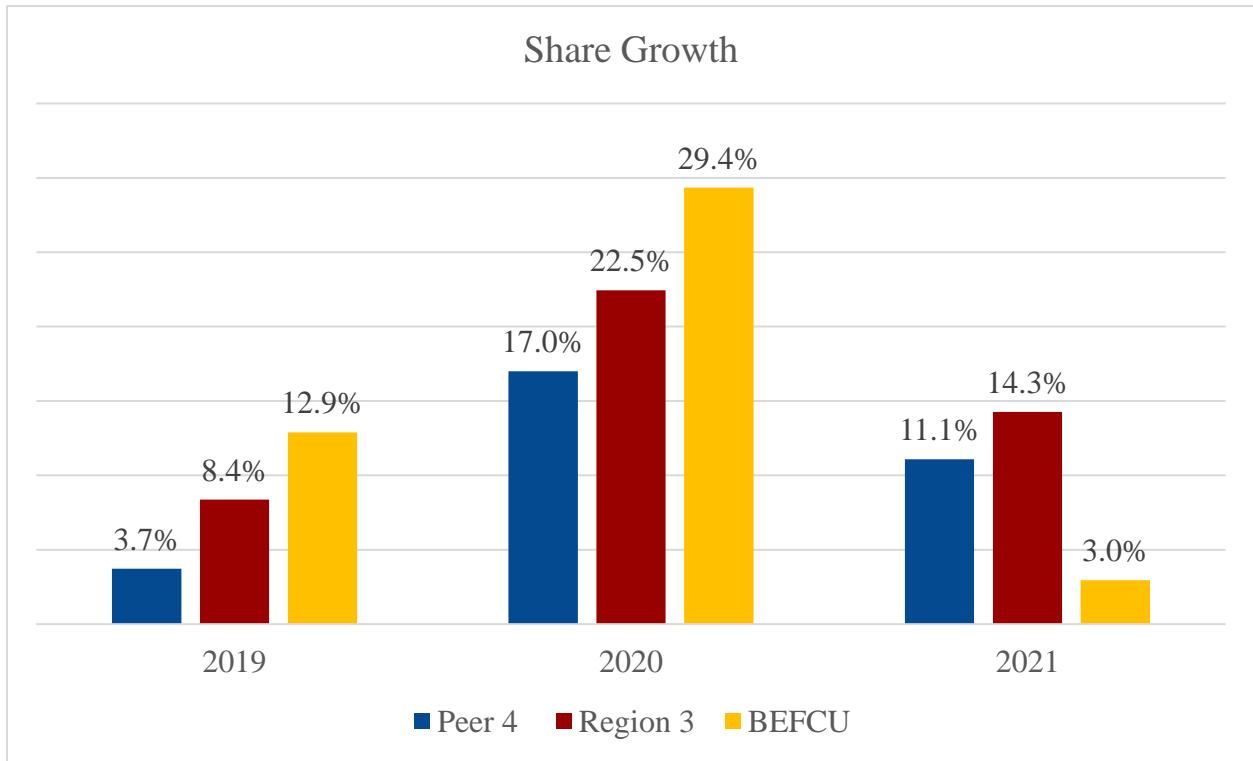
Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021



Accountant’s Comments

A credit union’s asset growth is affected by both internal and external factors. The external factors include the state of the economy, and the make-up and size of the credit union’s field of membership. The internal factors include the quality of member service, the menu of products available, and the credit union’s pricing philosophy.

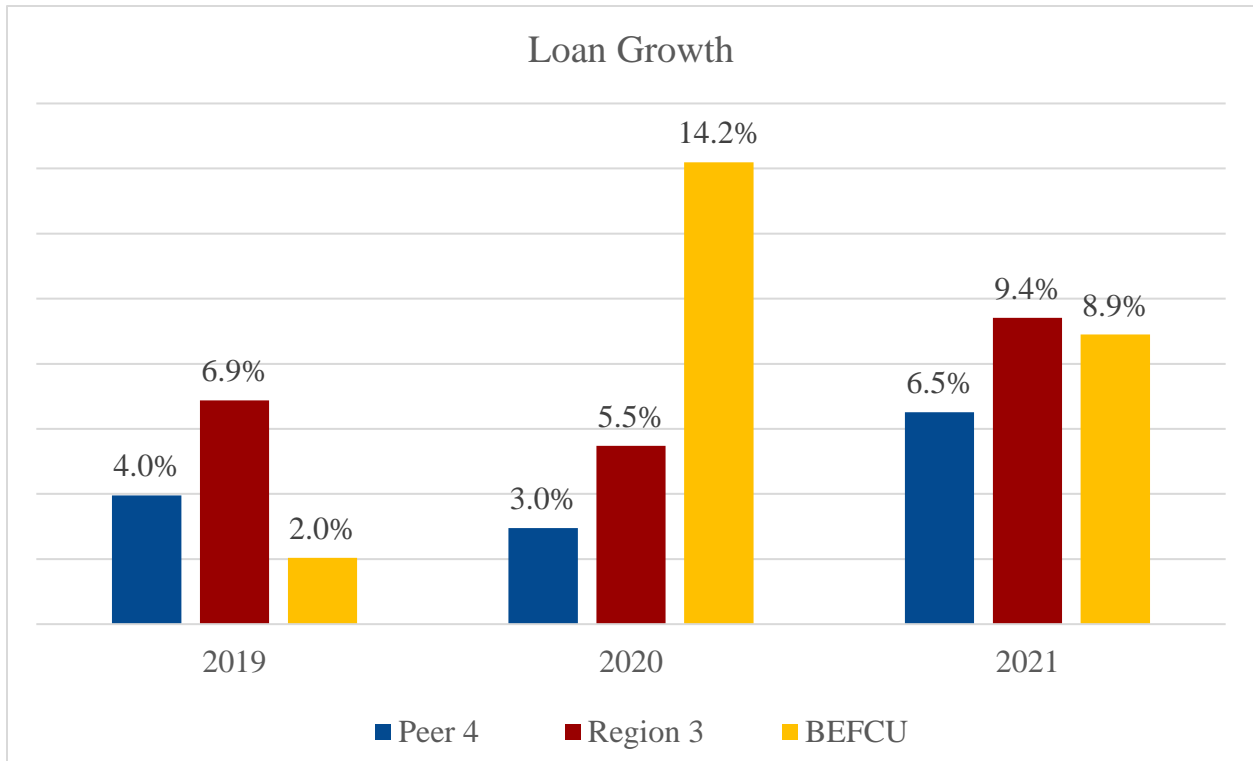
Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021



Accountant’s Comments

This ratio impacts more than one risk area. It provides a general view of the credit union’s growth in shares for the cycle and may help to assess interest rate risk. Rapid growth in shares may indicate inappropriate pricing and increased volatility in the balance sheet. Share growth also reflects a credit union’s risk management practices, and is a factor in assessment of strategic risk and planning. Share growth that outpaces the ability to generate sufficient net income (a primary earnings ingredient is loan interest income) reduces the overall strength of the credit union’s net worth.

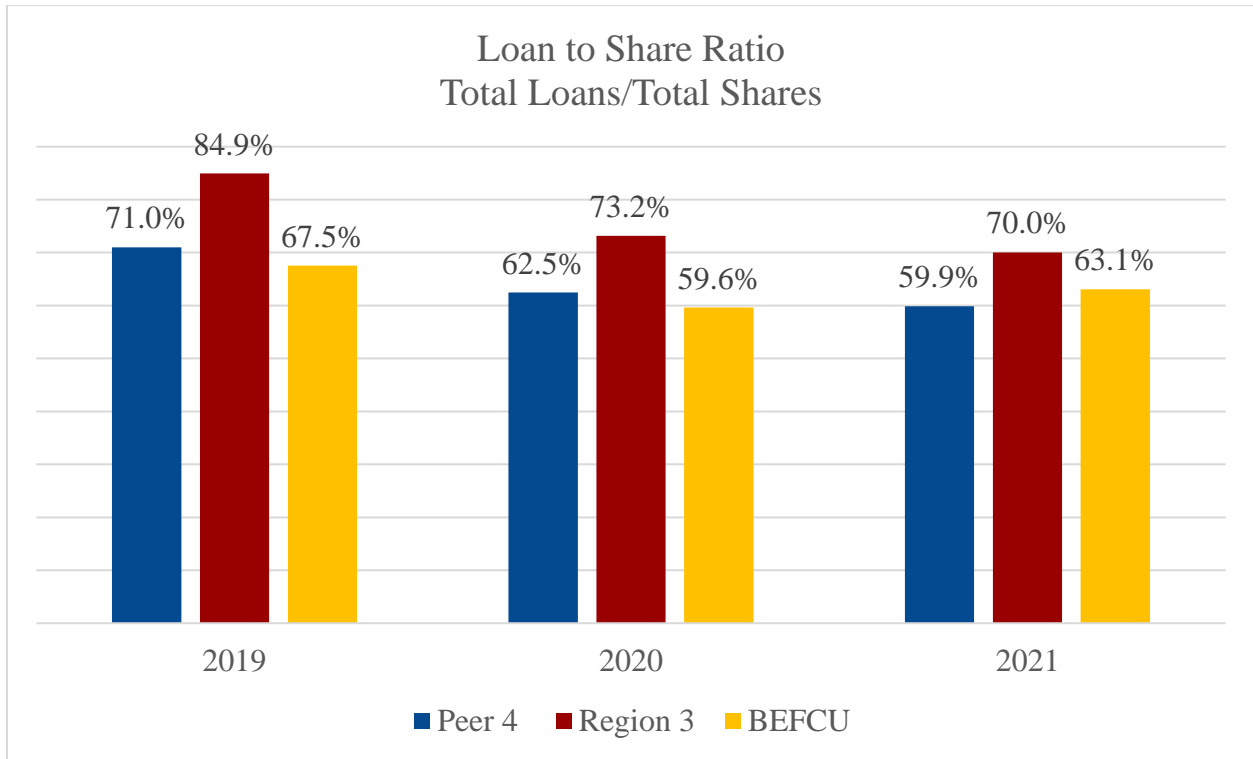
Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021



Accountant's Comments

Loan growth is driven by several factors, including the state of the economy, membership demographics, the level of risk the credit union is willing to manage, and the credit union's ability to gain market share. The overall market for loans is influenced by the membership's confidence in their ability to manage debt. The demographic factors that influence loan growth include the number of borrowing age members, how affluent the membership is, and their cultural attitudes towards debt and borrowing. The credit union's ability to penetrate its potential loan market through marketing, product development, sales culture development, and the use of multiple delivery channels are all reflected in this ratio.

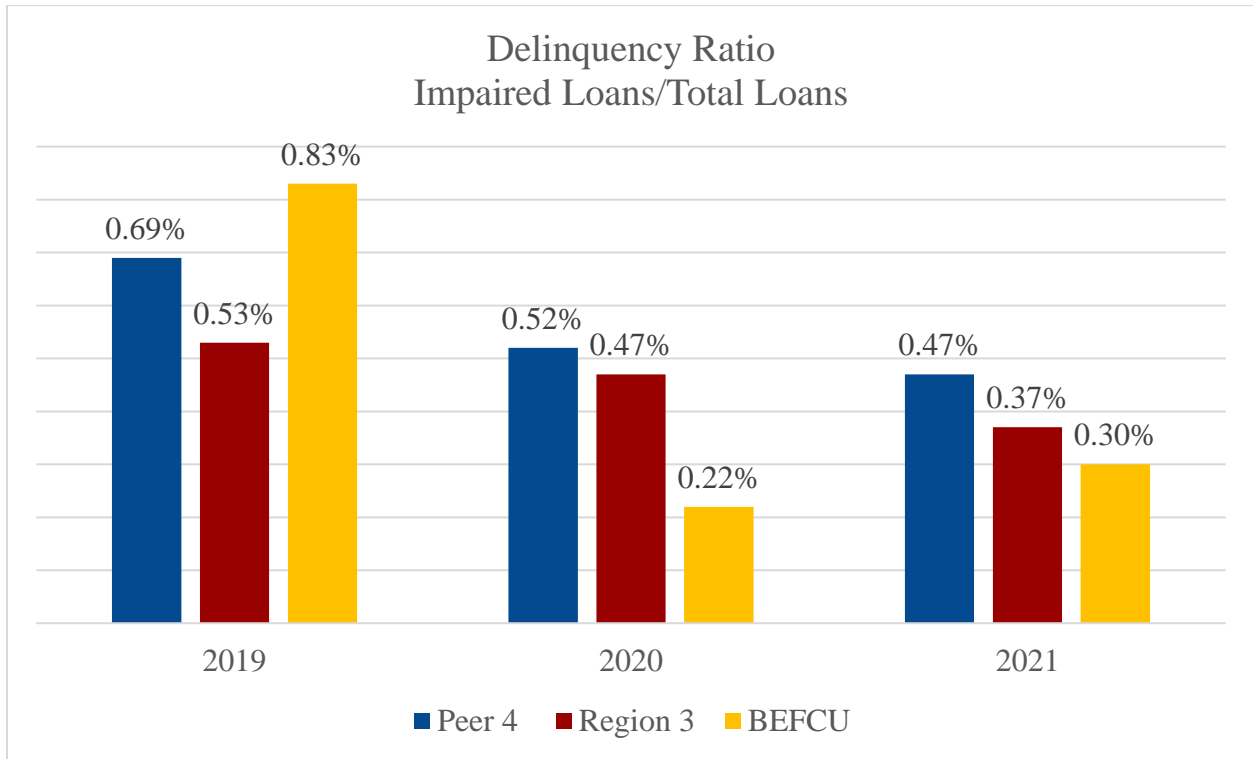
Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021



Accountant’s Comments

The loan-to-share ratio is driven by the credit union’s loan and deposit acquisition performance. Most credit unions concentrate on building the loan portfolio while focusing less on deposits, unless liquidity is an issue. In general, loan growth can be influenced more by the credit union’s operations (sales culture, marketing, product development, risk management, etc.) than deposit growth. Deposit growth is generally influenced more by non-operational factors like membership demographics than by operational factors. In general, a higher ratio indicates greater profitability.

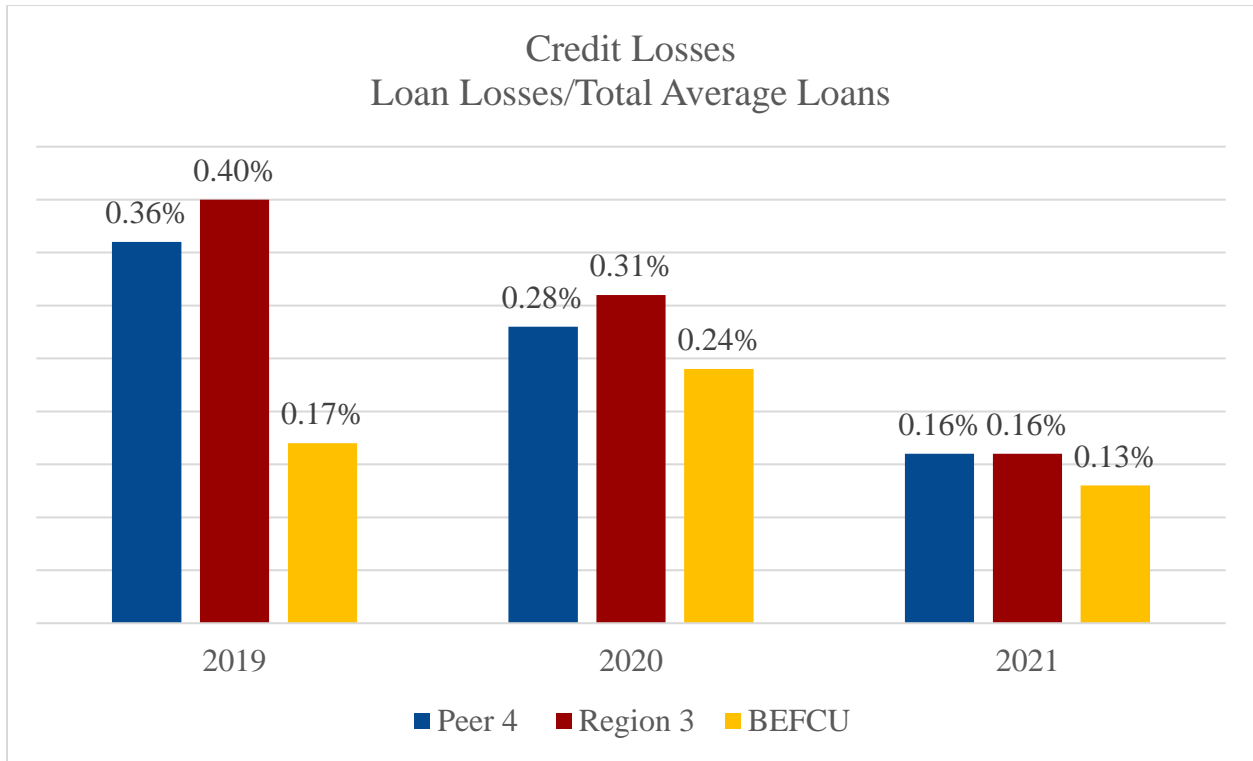
Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021



Accountant's Comments

This Asset Quality ratio measures delinquent loans in relation to total loans. This ratio is an indicator of the effectiveness of delinquency control and quality of loans held in portfolio. A high ratio in relation to regional and national averages indicates the credit union may have higher loan and lease loss requirements relative to other credit unions.

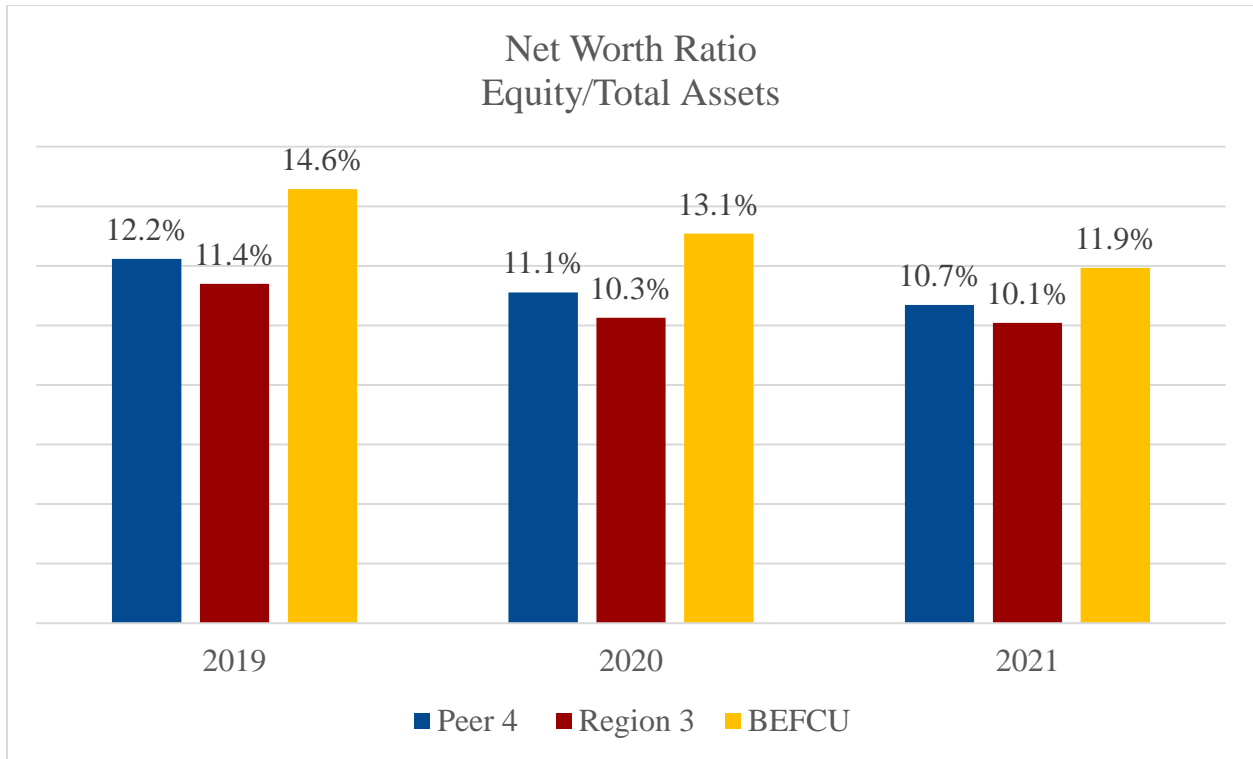
Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021



Accountant's Comments

This Asset Quality ratio measures net charge-offs in relation to average loans. Net charge-offs are an important indicator of the effectiveness of lending and collection practices. A high ratio in relation regional and national averages may indicate a higher level of uncollectible loans relative to other credit unions.

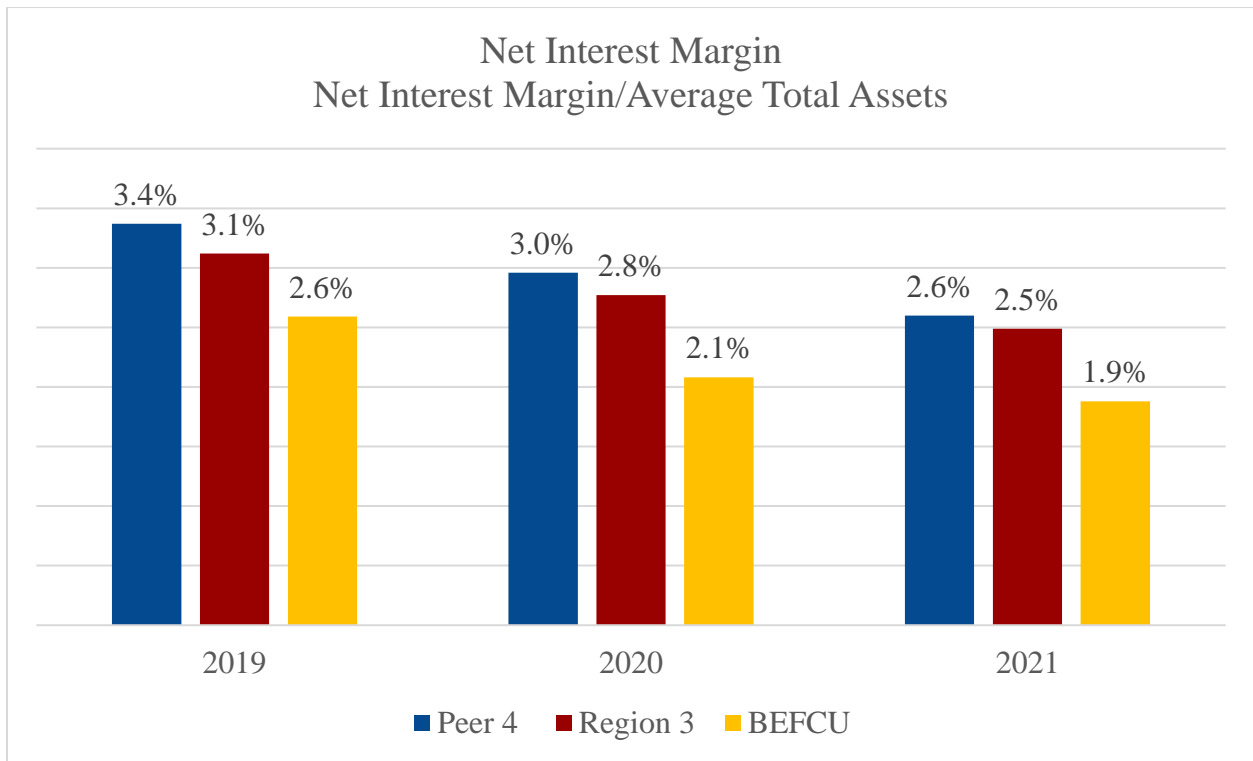
Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021



Accountant's Comments

This Capital Adequacy ratio measures net worth in relation to total assets. Net worth cushions fluctuations in earnings, supports growth, and provides protection against insolvency. The rate of net worth growth should be commensurate with the levels of risk and asset growth.

Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021

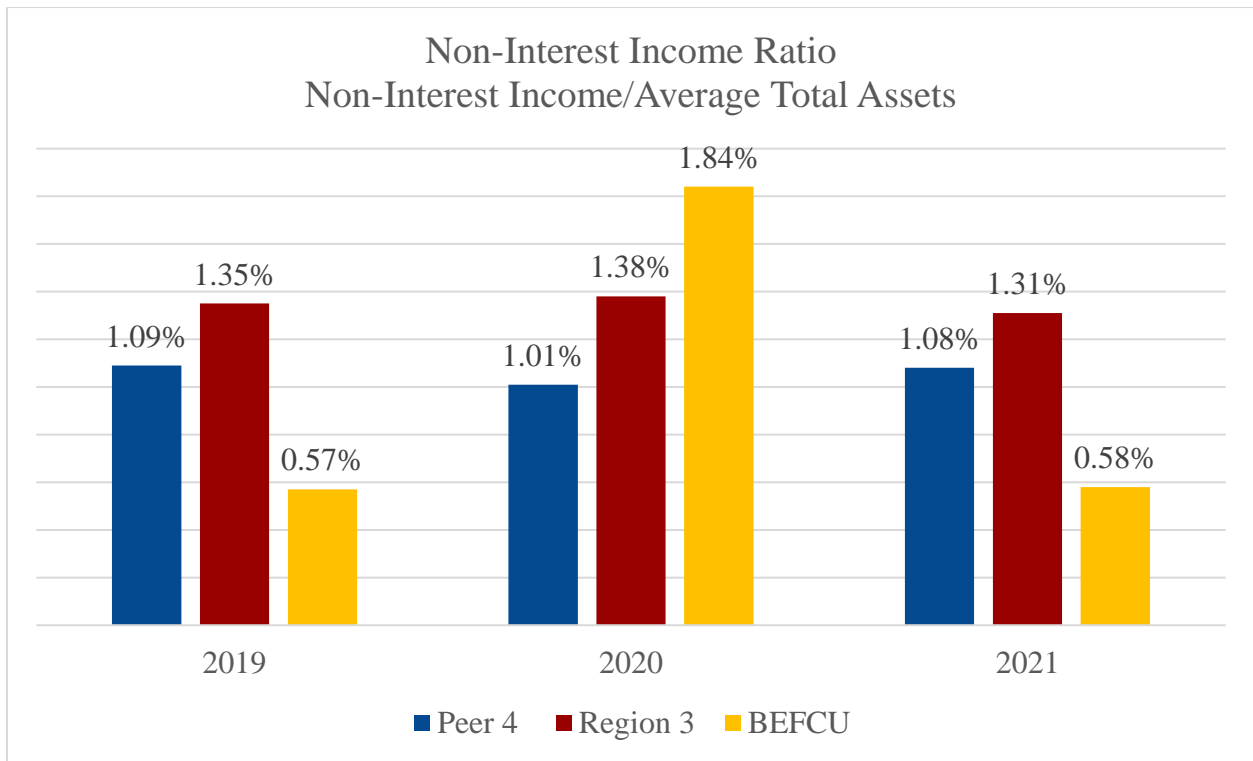


Accountant’s Comments

The measure is the result of the credit union’s execution of its lending, investing, and liquidity strategies. The credit union’s ability to manage its spread is a critical component in managing this metric. For example, appropriately pricing loan products (via risk-priced loans) or deposit products (through a clear differentiation between rate sensitive and non-rate sensitive products) significantly enhances the organization’s flexibility in managing the margin.

Credit unions with lower operating expense levels or strong non-interest income will be able to sustain more competitive loan and deposit pricing strategies. Credit unions with higher expenses, loan losses, or lower non-interest income levels will need to maintain higher net interest margins.

Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021

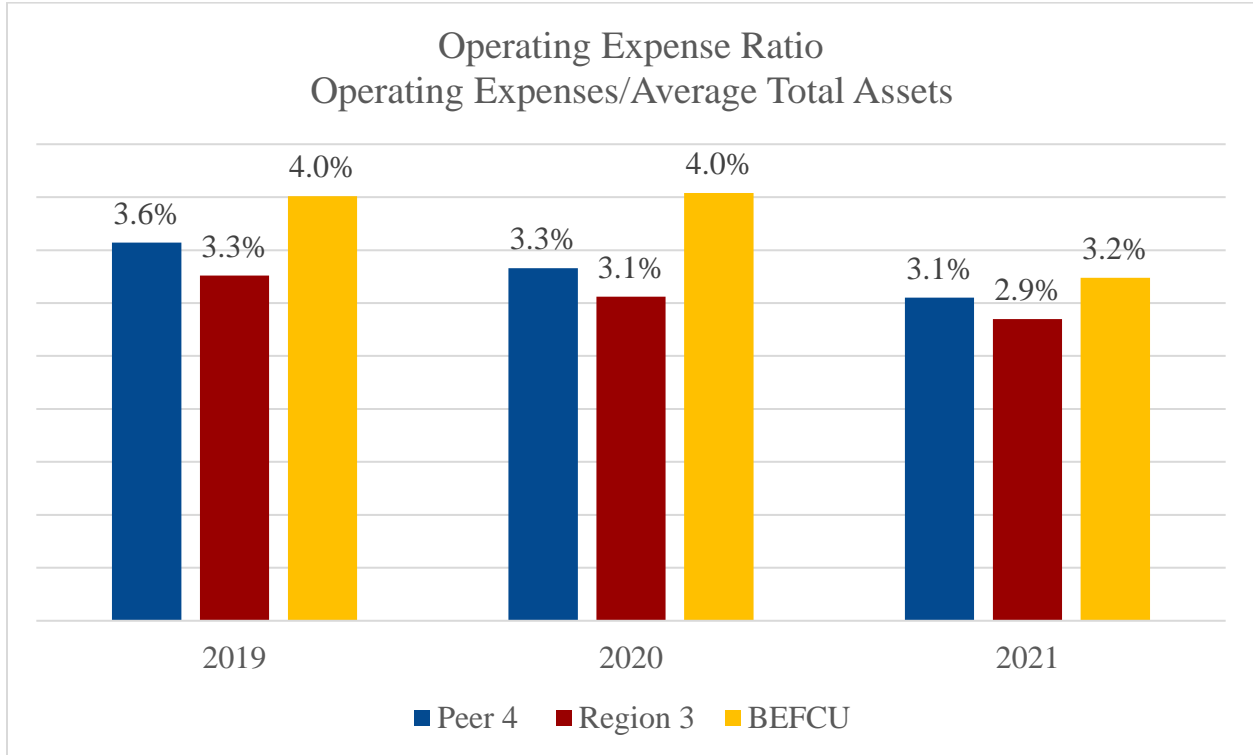


Accountant’s Comments

This ratio measures the amount of non-interest income the credit union generates as a percentage of average assets. The higher the number, the more income is being generated by sources other than asset-based products. Analyzing non-interest income as a percentage of assets removes the variations that exist when comparing the ratio to total income (e.g., viewing by assets removes the impact of a weak loan-to-asset ratio). Non-interest income factors that impact the ratio generally fall into two major categories.

The first is income generated directly from members in the form of fees. The second is income generated indirectly from members or other aspects of the credit union’s operations (e.g., interchange income from credit and check cards). The rate of asset growth is the most impactful variable on the ratio, although strategies for non-interest income play a part as well. Rapid asset growth will depress the ratio, while slow or stagnant asset growth will inflate the ratio.

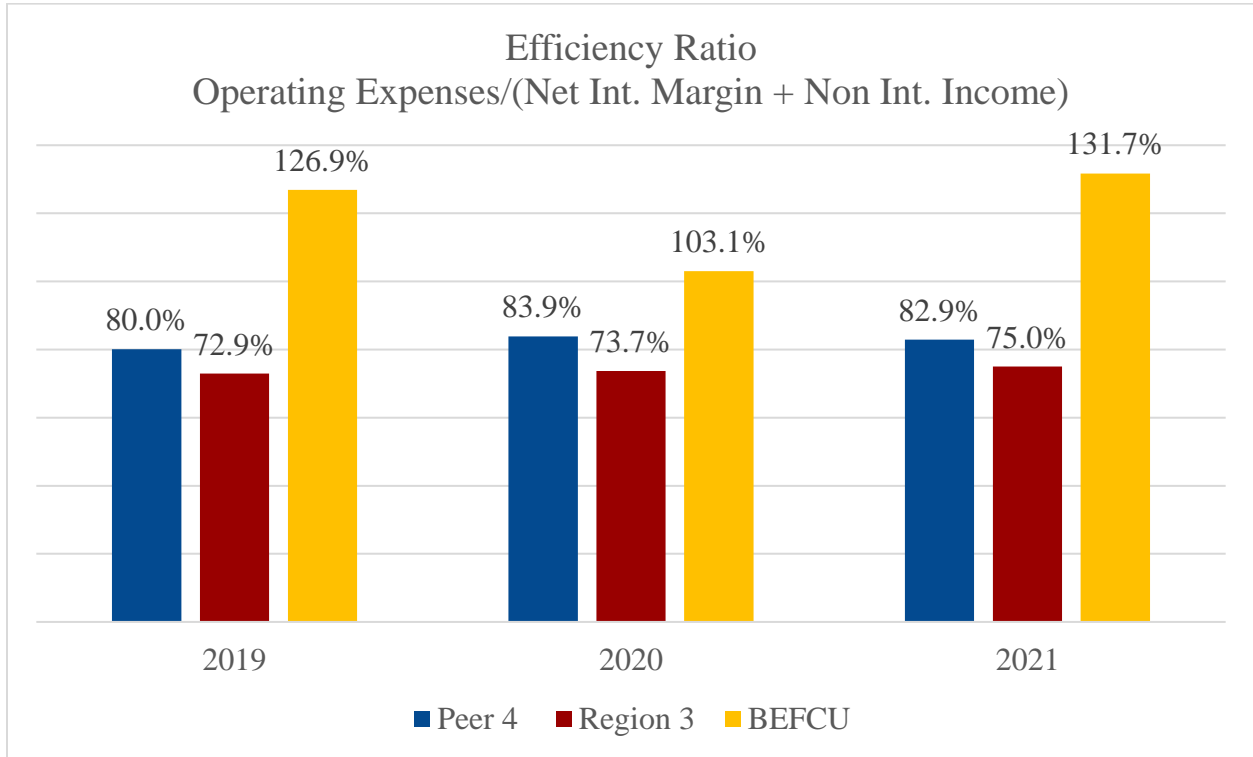
Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021



Accountant’s Comments

The operating expense ratio reflects both the operating efficiency and the operating strategy of a credit union. The breadth of a credit union’s product and service line will also have an impact on this ratio. Managing expenses more efficiently can have a significant impact on a credit union’s competitiveness and the value it creates for members. In comparing expenses to assets, this ratio underscores the idea that a larger balance sheet is a result of a larger operation that requires greater resources. The ratio can be compared to the operating expense to income ratio, which can show larger swings due to the impact of interest rate changes on total income. Overall, credit unions are operated very efficiently.

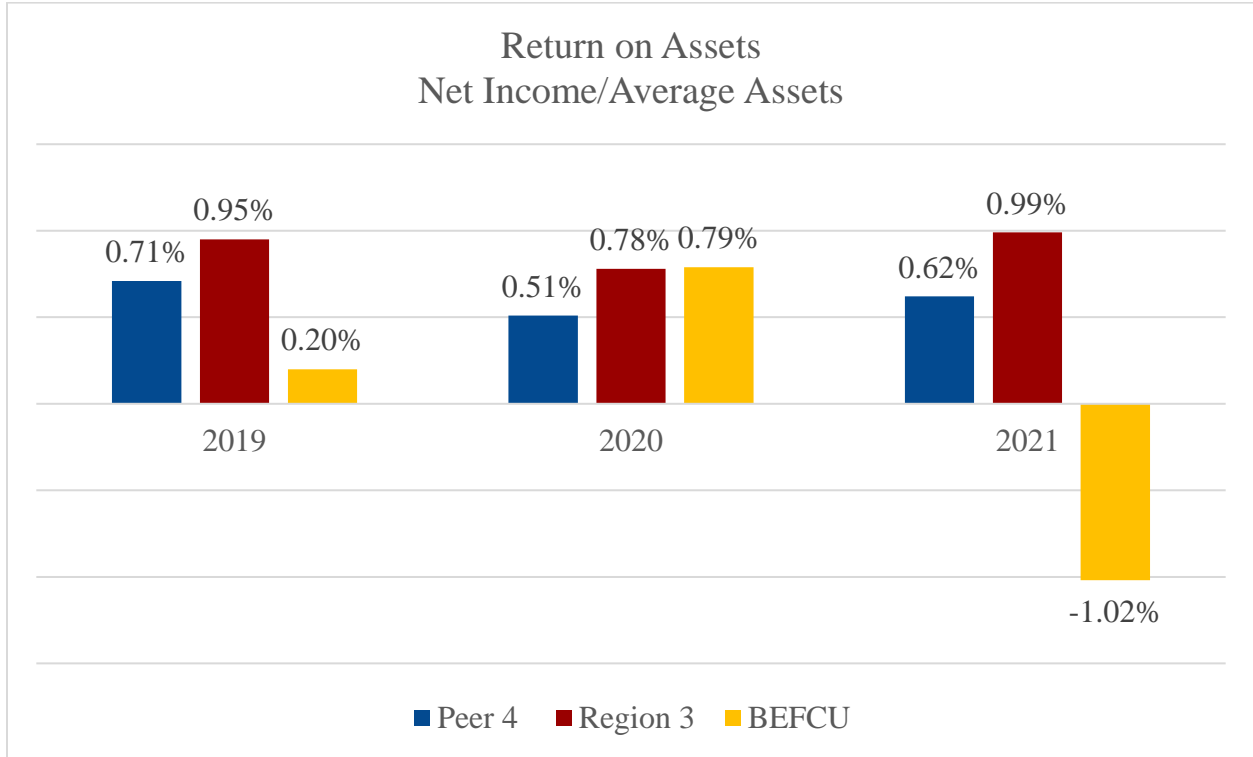
Bourns Employees Federal Credit Union
Financial Trends 2019 through December 31, 2021



Accountant's Comments

The lower the efficiency ratio, the better. A high or rising efficiency ratio means that the credit union is losing a larger share of its income to overhead expenses. A low efficiency ratio means that operating expenses are a smaller percentage of income. In general terms, the efficiency ratio can be interpreted as how much does it cost the credit union to create \$1 of revenue. The efficiency ratio can fluctuate over time, influenced by the interest rate environment since income is generally more sensitive to changes in interest rates than expenses are. In theory, credit unions with higher ratios of non-interest income to total income should see less fluctuation in the efficiency ratio than credit unions with little fee income.

Bourns Employees Federal Credit Union
 Financial Trends 2019 through December 31, 2021



Accountant’s Comments

Return on Assets (ROA) is an important gauge of a credit union’s profitability. It shows how efficiently management is running the credit union by revealing how much income is generated for each dollar of assets deployed. In general, a high ROA relative to state and national averages reflects management’s success at utilizing its assets to generate income. Credit unions, however, should view ROA in light of their institution’s distinct strategy. For example, if a credit union passes along potential profits to members (e.g., no fees, high deposit rates, low lending rates), then its strategy might result in a lower ROA relative to other credit unions.