



SERVICE
1NE
CREDIT
UNION



2010 ANNUAL REPORT
MARCH 2011 MEETING

LOCAL. TRUSTED. SERVING YOU.



John Wassom Report from the Chair

I am pleased to report that 2010 was a successful year for Service One Credit Union. Even though the economic recovery was slow, your credit union ended the year on a positive note at \$98,901,016 in assets and over 10% in capital. Because of our lower than anticipated delinquency and charge offs, Net Income improved to a positive \$428,106.

The financial industry has been inundated with new regulations as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. This past year the credit union has had to develop and implement compliance with several major Regulations: Reg DD and Reg E - Truth in Savings and the overdraft protection opt-in requirement; Reg Z - Truth in Lending credit card reform; Reg GG - the Internet Gambling Act; and, Reg CC -- dictating, among other things, how long deposited checks may be held before credit is given. Many more regulations will have to be implemented during 2011. Currently, the major legislative battle concerns the Federal Reserve's rule capping interchange fees which will reduce income that financial institutions earn on debit transactions. We believe that this cap will interfere with the ability of smaller institutions, such as your credit union, to offer no-fee debit cards in the face of competition from the nation's top five banks.

I have served on the Scholarship Committee for many years and am pleased to let you know that Service One Credit Union was inducted into the WKU Cornerstone Club and recognized by President Gary Ransdall for contributing over \$100,000 to WKU. Service One continues to fund member student scholarships to WKU. This year there were over 80 applications - the need is great.

Our success this past year partially results from the recovering economy, but our members' loyalty, and the Board of Directors' and management team's vigilance in guarding the safety and soundness of our financial cooperative, played the larger part. Credit unions were formed to serve their members and you can be assured that we will continue to consider your financial needs first.

STATEMENTS OF FINANCIAL CONDITION

As of December 31, 2010 and 2009

	2010	2009
Assets		
Loans	56,548,027	58,742,903
Visa Credit Card Loans	9,174,046	8,363,880
Less Allowance for Loan Losses	(805,352)	(999,358)
Net Loans - Note 1	64,916,721	66,107,425
Cash	1,611,572	1,131,643
Investments (Net of Unrealized Gains/(Losses)) - Note 2	19,680,454	23,299,288
Accounts Receivable	5,077	4,185
NCUSIF Deposit	880,971	848,470
Prepaid Expenses and Other Assets	5,665,102	5,422,233
Property, Furniture and Equipment - Note 3	5,838,361	4,653,226
Accrued Income	272,235	325,481
Other Real Estate Owned	30,523	0
Total Assets	\$98,901,016	\$101,791,951
Liabilities and Members' Equity		
Non-share Liabilities		
Accounts Payable	\$700,157	\$507,140
Dividends Payable	0	0
Total Non-share Liabilities	700,157	507,140
Share Liabilities		
Shares	35,188,096	32,414,333
Share Certificates	28,025,419	33,200,379
Share Drafts	24,689,719	25,679,125
Total Share Liabilities - Note 4	87,903,234	91,293,837
Total Liabilities	88,603,391	91,800,977
Members' Equity		
Regular Reserve	2,152,518	2,152,518
Undivided Earnings	8,128,046	7,699,940
Unrealized Gains (Losses) On AFS Securities	17,061	138,516
Total Members' Equity	10,297,625	9,990,974
Total Liabilities and Members' Equity	\$98,901,016	\$101,791,951

INCOME STATEMENTS

For the Years Ended December 31, 2010 and 2009

Operating Income		
Interest on Loans to Members	\$4,696,911	\$4,877,584
Interest on Investments	211,613	276,046
Other Income	2,142,128	2,096,263
Total Operating Income	7,050,652	7,249,893
Operating Expenses		
Members Insurance & Protection	56,465	44,891
Salaries & Benefits	2,657,866	2,497,355
Office Operations and Occupancy	912,220	925,280
Depreciation - Equipment & Building	291,394	230,617
Loan and Deposit Services	1,330,447	1,953,839
Education, Promotion and Annual Meeting	148,095	152,098
Other	43,004	36,654
Total Operating Expenses	5,439,491	5,840,734
Income from Operations	1,611,161	1,409,159
Other Income (Expense)		
Non-Operating Gain (Loss)	(84,575)	(18,581)
Dividend Expense	(868,534)	(1,272,187)
NCUA Insurance Premium Expense	(229,946)	(127,271)
Write-down in Investment in Corporate Credit Union	0	(280,270)
Pension Plan Losses	0	(55,134)
Total Other Income (Expense)	(1,183,055)	(1,753,443)
Net Income (Loss)	\$428,106	\$(344,284)

ORDER OF BUSINESS

THURSDAY, MARCH 31, 2011

BOARD OF DIRECTORS



(L to R, Front Row) Leslie Weigel, Secretary/Treasurer; John C. Wassom, Chair; Louella Fong, Director; (L to R, Back Row) Richard Miller, Director; Carol Glaser, Director; Brenda Willoughby, Vice-Chair; C. Richard Aldridge, Director.

1. Call to Order - John Wassom, Chair
2. Ascertainment of Quorum
The bylaws state that 15 members constitute a quorum.
3. Reading and approval of minutes of the last meeting
Leslie Weigel, Secretary/Treasurer
4. Report of the Directors - John Wassom, Chair
5. Report of the Treasurer - Leslie Weigel, Secretary/Treasurer
6. Report of the Supervisory Committee - Pamela Napier, Chair
7. Report of the President - Valerie C. Brown
8. New Business - John Wassom, Chair
9. Report of the Nominating Committee – Brenda Willoughby, Vice Chair
10. Elections - John Wassom, Chair
11. Prize Drawings (one entry per member)
12. Adjournment - John Wassom, Chair

REPORT OF THE NOMINATING COMMITTEE

The 2011 Nominating Committee respectfully recommends the following slate of candidates for election to Service One Credit Union's Board of Directors for three-year terms:

Dr. Fong, retired, is the former Department Head of the WKU Consumer and Family Sciences Department. She has been a member of the credit union since 1982 and has served on the Board for 13 years. Dr. Fong previously served as Chair, Vice-Chair, Secretary/Treasurer and as a Supervisory Committee member. She currently serves on the Marketing and Community Involvement committees.

Dr. John Wassom, semi-retired, is the former Department Head of Economics and Marketing. Currently he serves as Special Assistant to the Dean of the Gordon Ford College of Business and is the Interim Chair of the Business Division of Commonwealth School, University College. Dr. Wassom has been a member of the credit union for 29 years and has served on the board for 25 years. Dr. Wassom currently serves as Board Chair and as Vice Chair of the Risk Management Committee.

SERVICE ONE CREDIT UNION, INC.

VISION STATEMENT

Service One Credit Union endeavors to:

- Provide members with solutions to life's financial challenges in order to achieve their financial goals.
- Improve our community.
- Ensure financial soundness.

MISSION STATEMENT

- Great member experience is our #1 priority.
- The mission of Service One Credit Union is to provide the best contemporary financial services to meet the changing needs of a dynamic and diverse membership.



MINUTES FROM LAST YEAR'S ANNUAL SHAREHOLDERS' MEETING SERVICE ONE CREDIT UNION MARCH 18, 2010

CALL TO ORDER:

The 47th Annual Shareholders' Meeting of Service One Credit Union was held at the Carroll Knicely Center, WKU South Campus in Bowling Green, KY, on Thursday, March 18, 2010. Chair Wassom called the meeting to order at 7:05 PM and welcomed all credit union members. Chair Wassom requested that Leslie Weigel, Secretary/Treasurer determine if a quorum was present. Weigel declared that a quorum was present.

READING OF THE MINUTES:

Chair Wassom informed members that the Minutes of the 2009 Annual Shareholders' Meeting were included in the programs and asked for any additions or corrections. Hearing none, the minutes were approved as distributed.

REPORT OF THE CHAIRMAN OF THE BOARD:

Chair Wassom introduced the members of the Board of Directors and Supervisory Committee and expressed his thanks for their dedication to Service One. He reported that the Credit Union has a dedicated volunteer Board of Directors.

Chair Wassom stated that he would not read the report from the Chair and referred the members to the Annual Shareholders' Report. Wassom reported that total assets at the end of 2009, were almost \$102 million. Wassom stated that he has been studying the financial markets for over fifty years and this past year has been the most tumultuous. He reported that Board Members and Management kept a keen eye on the financial health of the Credit Union during this difficult year. Wassom stated that the Board and Staff will continue to do their very best and we will persevere.

Wassom asked Treasurer Leslie Weigel to give the Treasurer's Report.

REPORT OF THE TREASURER:

Treasurer Leslie Weigel stated that complete financial reports for 2008 and 2009 are included in the Annual Reports and that she would make her report as brief as possible. Weigel reported that the Credit Union is just over \$100 in assets and grew more than \$17 million in 2009.

Weigel stated that total assets at December 31, 2009, were \$101,791,951, a \$17,029,106 increase from the prior year-end balance of \$84,762,845. Weigel stated that net loans increased \$5,382,655 from the prior year balance of \$60,724,770, and ended the year 2009 at \$66,107,425.

Treasurer Weigel informed the membership that Service One Credit Union maintained good liquidity positions during the year that ended on December 31, 2009. Weigel stated that total cash and investments at December 31, 2009, were \$24,430,931, an increase of \$6,612,470 over the balance of \$17,818,461 at the previous year-end.

Weigel noted that member deposits increased \$17,358,299 during the year, from \$73,935,538 at December 31, 2008, to \$91,293,837 at December 31, 2009. Weigel stated that the percentage of these deposits loaned to members as of year-end 2009 was 73.51%.

Weigel reported that Total Members' Equity at December 31, 2009 was \$9,990,974, or 9.82% of 2009 year-end total assets. Weigel noted that Federal regulations state that any credit union with a net worth ratio of 7.00% or above is considered "Well Capitalized", which is the highest rating possible. At December 31, 2008, Members' Equity was \$10,294,409, or 12.15% of 2008 year-end total assets.

Treasurer Weigel reported that the Net Loss of \$(344,284) for the year-ended December 31, 2009, represented a 167.54% decrease from the Net Income of \$509,756 for the year-ended December 31, 2008. Other Expenses totaling \$462,675 were recorded as an indirect result of the housing market bubble and the impact it had on the stock market. Weigel stated that none of these Other Expenses were attributable to policies or operational decisions made directly by the Board or Management of Service One Credit Union. Treasurer Weigel reported that had the Credit Union not been impacted by these additional expenses, the company would have generated a Net Income of \$118,391. Nonetheless, as required by Generally Accepted Accounting Principles these additional expenses have been properly reflected in the company's Income Statement.

Treasurer Weigel asked if there were any questions. Hearing none, Leslie Weigel moved to accept the 2009 year-end Annual Financial Report. The motion was seconded by Brenda Willoughby. Chair Wassom asked for any questions or corrections. Hearing none, the motion carried.

REPORT OF SUPERVISORY COMMITTEE:

Chair Pamela Napier expressed greetings from the Supervisory Committee. Napier introduced Committee Member Pat Stewart and noted that Harold Little was not in attendance due to another event.

Napier stated that she wanted to recognize the other Supervisory Members and Staff for their hard work in 2009. Chair Napier reported that Edwards and Associates, CPA, Nashville, TN just completed their annual audit for year ending December 31, 2009 and the Credit Union received a good report. Napier noted that the formal written report is pending.

REPORT OF THE PRESIDENT:

President Valerie Brown welcomed members to the 47th Annual Meeting of the Credit Union.

Brown informed the membership that 2009 has been the worst year in her 30 years as CEO of the Credit Union. She gave a brief report on the financial crisis and the consequences to credit unions. Brown stated that it was very disappointing for Service One to have to pay for mistakes made by others.

President Brown stated that the Credit Union has a wonderful staff and there are 19 employees that have been with the Credit Union for over 10 years. Brown reported that there was no salary increase for employees in 2009 and the first quarter of 2010. Brown introduced each department manager and asked their staff to stand.

Brown recognized the 2009 Serious-About-Service winners Beth Lennan, Duane Dedman, Rebecca Saltsman, Carol Wooley, Michele Walldridge and Tammy Thompson. These individuals were selected by their peers during 2009 for outstanding service to their fellow employees and the membership. President Brown congratulated these employees for their recognition by other employees.

President Brown stated that the Credit Union has the best rates on credit cards with 5.99% APR for the first 12 months and a goal to open 180 new Visa Platinum

cards in 2010. Brown stated that a new product was developed, "Concept Green Ecounts", which will combine several products and save on printing and mailing expenses.

President Brown noted that the center pieces on the tables are the same plants that are on the roof of the green addition at Campbell Lane. She informed the membership that the older portion of the building is now under renovation and is expected to be completed by Memorial Day.

NEW BUSINESS:

There was no new business brought before the Chair.

ELECTIONS:

Nominating Committee Chair, Brenda Willoughby reported that the Nominating Committee had submitted and published the names of C. Richard Aldridge and Richard Miller for three-year terms on the Board of Directors. No additional nominations were received. Chair Wassom declared these nominees elected by acclamation.

PRIZE DRAWINGS:

A mini financial fair was held for members preceding the Shareholders' Meeting for information on Mortgages, Virtual Branch/Virtual Bill Pay, Young Savers Accounts, Insurance and Investment Options, and the new plans from Campbell Lane. The winners of the drawings at the Shareholders' Meeting are as follows:

2010 WINNERS

1. Bowling Green Hot Rods Suite Package (\$600 value) – Alan Adams
2. Bowling Green Hot Rods Gift Basket (Shirt, hat, baseball cards, ball, car decal) – Tippy Cohron
3. Large Papa Johns pizza coupon and Harland Clarke leather checkbook cover – Donna Wofford
4. Large Papa Johns pizza coupon and Harland Clarke leather checkbook cover – Dorothy Share
5. Hilltopper Sports Package (Football Helmet, 4 baseball game tickets and 4 cups) – Buddy Childress
6. \$25 Mariah's Gift Card – WNKY – Roy Hamilton
7. \$25 Mariah's Gift Card – WNKY – Robert Ambuske
8. \$25 Mariah's Gift Card – WNKY – Thomas Yungbluth
9. \$25 Mariah's Gift Card – WNKY – Shante Marlow
10. \$25 Mariah's Gift Card – WNKY – Margaret Curtis
11. \$25 Mariah's Gift Card – WNKY – Donald Ritter
12. \$25 Mariah's Gift Card – WNKY – Marianne Bluhm
13. \$25 Mariah's Gift Card – WNKY – David Hughes
14. \$25 Mariah's Gift Card – WNKY – Patricia Marlow
15. \$25 Mariah's Gift Card – WNKY – Diane Carver
16. \$25 and Harland Clarke leather checkbook cover – Gary Price
17. \$25 and Harland Clarke leather checkbook cover – Billy Mansfield
18. \$25 – Rita Johnson
19. \$25 – Virginia Wiltshire
20. \$50 – Jonathan Hodges
21. \$50 – Nathaniel Vogler
22. \$50 – Ethel Davis
23. \$50 – Haley Smith
24. \$100 – Bob Parson
25. \$100 – Cletus Mitchell
26. \$500 – Patrick Napier

ADJOURNMENT:

Chair Wassom adjourned the meeting at 7:54 PM.

APPROVED:

John Wassom, Chair

RESPECTFULLY SUBMITTED:

Leslie Weigel, Secretary/Treasurer

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2010

Cash Flows from Operating Activities

Interest received	\$4,750,157
Interest paid	(868,786)
Cash paid to suppliers and employees	(4,778,082)
Other income	2,353,741
Net cash provided by operating activities	1,457,030

Cash Flows from Investing Activities

Investments purchased	(14,299,990)
Matured investments	16,339,756
Loan principal received,	
Net of new loans (disbursed)	727,176
Net change in ODP accounts	(14,189)
Acquisition of property and equipment	(1,478,767)
Proceeds from sales of property	63,056
Decrease (increase) in other assets	(303,473)
net cash provided by investing activities	1,033,569

Cash Flows from Financing Activities

Net increase in members share accounts	(3,395,883)
Net cash used in financing activities	(3,395,883)

Net increase (decrease)
in cash & cash equivalents (905,284)

Cash and cash equivalents,
beginning of year 10,587,394

Cash and cash equivalents,
end of year 9,682,110

Reconciliation of net income to net cash provided by (used in) operating activities:

Net income (loss) from operations	\$428,106
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation & amortization	289,807
Non-operating (income)loss	56,702
Provision for loan loss expense	380,894
Provision of overdraft privilege losses	15,174
Changes in:	
Accrued interest receivable	54,932
Dividends payable	0
Other liabilities	231,415
	<u>1,457,030</u>



Valerie C. Brown Report from the President

Your credit union management team and staff have faced many challenges this past year. One major challenge was integrating products and services so that we could successfully convert the credit union's core processing system. Many months of training and disruption of operations were handled well by the staff. We expect that the credit union will save nearly \$130K annually in computing costs in addition to increased efficiencies in operations and service to our membership..

The Kentucky Banker's Association's suit filed in 2007 challenged credit unions' field of membership expansions. This year, the Kentucky Supreme Court overturned this ruling and once again credit unions can choose to serve communities where they are located. Service One Credit Union reinstated its community field of membership and language was added to the membership policy to allow anyone who "lives, works or worships in the Barren River Area Development District" to join the credit union. This victory will allow us to continue serving our prime members as well as those who are not considered "prime" customers for the banks.

The energy-efficient Green Building on Campbell Lane has received resounding affirmation by the community and our members. Rob Atnip, SOCU's Facilities Manager, has conducted numerous tours this past year for groups such as WKU's architectural, engineering and environmental sustainability classes and the Kentucky Solar Energy Society. We plan to continue our leadership by encouraging green building practices to reduce waste and costs.

It is our goal to offer personalized service for your financial needs through loans, certificates and savings accounts, as well as through technologically-advanced services. Many thanks go to your volunteer Board of Directors and Supervisory Committee, and our great group of dedicated employees. Please continue to spread the word about the value of a credit union where you, the member-owner, ultimately make the final decisions.

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the Year Ended December 31, 2009

	Allowance for Loan Losses*	Regular Reserve	Unrealized Gains (Losses) on AFS Securities	Undivided Earnings
Balances Dec. 31, 2009	\$999,358	\$2,152,518	\$138,516	\$7,699,940
Reclassification of beginning balances				428,106
Income (loss) Allocation				
Change in Unrealized Gains (Losses)			(121,455)	
Provision for Loan Losses	396,068			
Loans Charged Off	(706,640)			
Recovery of Loans Charged Off	116,566			
Balances, December 31, 2010	\$805,352	\$2,152,518	\$17,061	\$8,128,046

* Includes Overdraft Protection Allowance

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

Note 1 - Net Loans

Automobile	\$19,822,281
Share-secured	434,095
Signature	1,932,204
Member Business	724,967
Mortgage	36,920,107
Credit Card-unsecured	4,326,227
Other	1,562,192
Less Allowance for Loan Losses	(805,352)
Total	\$64,916,721

Note 2 - Investments Book Value Market Values

Government & Other Securities	\$8,181,938	\$8,181,938
Short Term Investments	9,623,882	9,623,882
Long Term Investments	1,874,634	1,874,634
Totals	\$19,680,454	\$19,680,454

Note 3 - Building, Furniture & Fixtures

Land	\$624,407
Buildings & improvements	5,324,808
Furniture & Fixtures	3,538,246
Assets awaiting capitalization	0
	<u>9,487,461</u>
Less Accumulated Depreciation	(3,649,100)
Total	\$5,838,361

Note 4 - Capital

Share Drafts	\$24,689,719
Regular Shares	27,717,200
IRA Share Accounts	7,470,896
IRA Share Certificates	411,233
Share Certificates	27,614,186
Total	\$87,903,234

STAFF

AUBREY ATEs	Savings Officer
ROB ATNIP	Facilities Manager
HEATHER BERRY	Head Teller - Campus*
ANN BOOTS	Asst Branch Mgr - Campus
PAUL BUHRMESTER	Training Coordinator*
CHRISTINE CARRICO	Archival Specialist
LA FAITHE CARVER	E-Member Information Specialist*
DONNA COSAND	Electronic Services Officer
ANGELA CRABTREE	Head Teller - Bypass*
JIM DRIVER	Credit Counselor/ Property Evaluator
MYRA DWYER	Executive Secretary*
JENNIFER DYSON	Savings Officer
EMILY ELLIS	Savings Officer*
SHELLY FORSHEE	Electronic Services Specialist
SCOTT FRANKLIN	Asset Protection Representative
STANLEY GROVES	Asst Branch Mgr - Glasgow*
LYNN HARRIS	Senior Accountant
ANDREA HOLLAND	Head Teller - Campbell Lane
STEPHANIE HOWARD	Member Service Consultant
MATTHEW HUTCHESON	Savings Officer
DIANE JONES	Savings Officer*
JO ANN KEARNS	Dealer Direct Manager
BETH LENNAN	Member Service Consultant*
KATHERINE LINDSEY	Fraud Prevention Specialist
ANITA LITTERALL	IRA Specialist Quality Control Specialist
ADAM MARCUM	Loan Operations Specialist
JUSTIN MORRIS	Accountant
VERONICA PHEAL	Member Information Specialist
KARA PHELPS	Archival Specialist
TINA PRICE	Asst Branch Mgr - Campbell Lane*
NORMA PRICE	Savings Officer*
MELINDA QUALLS	Bankruptcy Specialist/ Sr Asset Prot Officer*
ASHLEY RIDDLE	Savings Officer
JENNY RUSSELL	Operations Assistant*
WILLIAM SIMS	Network Administrator*
LISA SNEED	Membership Development & Marketing Coordinator*
KENDRA TURNER	Mortgage Loan Processor
MICHELE WALDRIDGE	Savings Officer*
MARK WESTFALL	Computer Operations Assistant
AMANDA WOODS	Head Teller - Glasgow
CAROL WOOLEY	Asst Branch Manager - ByPass*
COURTNEY YEAGER	Member Information Specialist*
DAVID ELLIS	SEG Coordinator

BOARD OF DIRECTORS

JOHN C. WASSOM	Chair
BRENDA WILLOUGHBY	Vice-Chair
LESLIE WEIGEL	Secretary/Treasurer
C. RICHARD ALDRIDGE	Director
LOUELLA FONG	Director
CAROL GLASER	Director
RICHARD MILLER	Director

SUPERVISORY COMMITTEE

PAMELA NAPIER	Chair
HAROLD LITTLE, JR.	Member
J. PAT STEWART	Member
JAMES MCCASLIN	Member

MANAGEMENT TEAM

VALERIE C. BROWN	President/CEO
LEAH J. ECKLEY	EVP/COO
STEPHEN CARRICO	Senior VP/CFO
KRISTIE KENNEDY	VP Lending
SEAN MOORE	VP Information Systems & Technology
LORI HODGES	AVP Membership Development & Marketing
MARY MILLER	AVP Compliance/ Security Officer*
JUNE NAKOSKI	AVP HR/Branch Coordinator
JOHN STANFORD	AVP Asset Protection Department
KENNETH VOGLER	AVP Mortgage Department

BRANCH MANAGERS

NANCY BUMPUS	Branch Manager - Bypass
MARY CARRELL	Branch Manager - Campus
SHELLY SMITH	Branch Manager - Glasgow
TAMMY THOMPSON	Branch Manager - Campbell Lane*



• Serious About Service (SAS) Winners, 2010 and prior.