

# Service One Credit Union 2008 Annual Report

March 2009 Meeting





**Richard Miller**

**REPORT FROM THE  
CHAIR**

It is my pleasure to report that in 2008, Service One Credit Union experienced a successful year of positive earnings despite a severe economic downturn. Not only did the credit union's assets increase to over \$84.6, but its return-on-assets ratio ended at .60%. The credit union remained well capitalized at 13.16%, and consumer loan and mortgage charge-offs remained well within acceptable levels. The National Credit Union Association raised the member share insurance limit from \$100,000 to \$250,000 as the financial world suffered extraordinary losses.

The Board authorized two major initiatives early in 2008: The Campbell Lane "Green Addition" building project, and a student loan program. As economic conditions deteriorated, the student loan program was delayed due to the risk involved with this type of unsecured loans. We hope to revive this offering when financial matters stabilize. The Campbell Lane project should be completed by late summer 2009. It will utilize many innovative, cost-effective energy-conservation and environmental-sustainable features. We believe that the construction of a LEED certified building will add value for our members and to the community in which they live.

Service One strives to maintain its competitive edge as we assist our members in reaching their financial goals, improve our community, and ensure the financial soundness of the credit union. Even though Service One and the world-wide credit union system will experience hardships in the coming years, the Board and management will remain diligent in their efforts to help our current and future members build a sound financial future.

**Statements of Financial Condition**

**As of December 31, 2008 and 2007**

**Assets**

	<u>2008</u>	<u>2007</u>
Cash	\$ 1,265,529	\$ 736,337
Loans	52,790,832	52,714,005
Visa Credit Card Loans	8,799,229	8,828,162
Less Allowance for Loan Losses	(865,291)	(974,619)
Net loans - Note 1	<u>60,724,770</u>	<u>60,567,548</u>
Investments - Note 2	16,552,932	14,238,099
Accounts Receivable	12,992	21,562
NCUSIF Deposit	727,262	682,597
Prepaid Expenses and Other Assets	1,338,435	1,820,231
Buildings, Furniture and Fixtures - Note 3	2,973,249	2,516,069
Land - Note 3	624,407	624,407
Accrued Income	333,573	377,418
Other Real Estate Owned	209,696	0

**Total Assets**

\$ 84,762,845      \$ 81,584,268

**Liabilities, Capital & Members' Equity**

**Liabilities**

Accounts Payable	\$ 532,878	\$ 766,505
Dividends Payable	20	2,249

**Total Liabilities**

532,898      768,754

**Capital**

Shares	31,299,140	28,473,704
Share Certificates	20,898,996	23,726,295
Share Drafts	21,737,402	18,855,304

**Total Capital - Note 4**

73,935,538      71,055,303

**Members' Equity**

Regular Reserve	2,152,518	2,152,518
Undivided Earnings	8,117,449	7,607,693
Unrealized Gains (Losses) on AFS Securities	24,442	0

**Total Members' Equity**

10,294,409      9,760,211

**Total Liabilities, Capital & Members' Equity**

\$ 84,762,845      \$ 81,584,268

**Income statements**

**For the Years Ended December 31, 2008 and 2007**

**Operating Income**

	<u>2008</u>	<u>2007</u>
Interest on Loans to Members	\$ 4,925,393	\$ 5,166,955
Interest on Investments	629,434	555,927
Other Income	1,946,523	2,480,032

**Total Operating Income**

7,501,350      8,202,914

**Operating Expenses**

Members Insurance & Protection	53,746	68,325
Salaries & Benefits	2,351,950	2,463,399
Office Operations and Occupancy	959,818	933,523
Depreciation - Equipment & Building	262,353	254,455
Loan and Deposit Services	1,623,390	1,412,762
Education, Promotion and Annual Meeting	128,495	163,025
Other	51,863	32,962

**Total Operating Expenses**

5,431,615      5,328,451

**Income From Operations**

2,069,735      2,874,463

**Other Income (Expense)**

Non-Operating (Loss) or Gain	8,956	(2,687)
Dividend Expense	(1,568,935)	(1,765,841)

**Net Income**

\$509,756      \$ 1,105,935

# Order of Business

## Thursday, March 19, 2009

### Board of Directors



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

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

## Report of the Nominating Committee

The 2008 Nominating Committee respectfully recommends the following slate of candidates for election to Service One Credit Union's Board of Directors for three-year terms:

**Carol Glaser** joined the credit union in 1969. She has served on the Board of Directors for 16 years, serving as Chair for two years, and previously served on the Supervisory Committee for nine years, acting as Chair for four years. Glaser is a Certified Public Accountant and has worked for BKD, LLP for 25 years. She retired from full-time work and presently works during tax season for BKD, LLP.

**Brenda Willoughby** joined the credit union in 1986. Willoughby was appointed by the Board of Directors to the Supervisory Committee, and served as Committee Chair for a one-year term. She was appointed to fill a vacant position on the Board of Directors in 2005. Willoughby is an employee of AT&T, and received her Masters in Economics in 1998 from Western Kentucky University.

**Leslie Weigel** joined the credit union in 1979. Two years ago, Weigel was appointed by the Board of Directors to the Supervisory Committee and, in December 2008, was selected by the Board to complete the vacant term of retiring member, Frank Conley. Weigel has lived in Bowling Green for 32 years. In December 2007, she retired from Sun Trust Bank, Atlanta, where she held the title of Senior Vice President.

## 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

## Tuesday, April 1, 2008

**CALL TO ORDER** The 45th Annual Shareholders' Meeting of Service One Credit Union was held at the Carroll Knically Center, WKU South Campus in Bowling Green, KY, on Tuesday, April 1, 2008. Chair Richard Miller called the meeting to order at 7:00 PM. Miller welcomed all members. Miller requested that Brenda Willoughby, Secretary/Treasurer determine if a quorum was present. Willoughby declared that a quorum was present.

**READING OF THE MINUTES** Chair Miller informed members that the Minutes of the 2007 Annual Shareholders' Meeting were included in the programs and asked for any additions or corrections. Hearing no objections, the minutes were approved as distributed.

**REPORT OF THE CHAIRMAN OF THE BOARD** Chair Miller stated that he was pleased to report that 2007 had been an exceptional year for the credit union. Chair Miller introduced the members of the Board of Directors and Supervisory Committee members and expressed his thanks for their dedication to Service One. Chair Miller introduced Cordell Lawrence, Executive Director of the Kentucky Office of Financial Institutions. Lawrence stated that he was pleased to be invited to the annual meeting on the 45th year of service and thanked the Board and management for their strong leadership. Lawrence stated that credit unions are strong nationwide and have rich historical traditions. He gave an overview of the financial condition of credit unions as a whole. Lawrence reported that credit unions are successful because of their low cost, high service to members and the philosophy of people helping people. Lawrence thanked the employees of Service One and stated that he appreciated the service that is provided to the community. Chair Miller stated that he had a lengthy report that he would not read and referred the members to the Annual Shareholders' report. Miller reported that total assets at the end of 2007 were over \$81 million, and that return on assets was strong. Miller noted that the performance of our credit union this past year could be attributed to the commitment and talent of the Board of Directors and employees. He stated that it was a pleasure to be a member of Service One Credit Union's board. Miller asked Treasurer Brenda Willoughby to give the Treasurer's Report.

**REPORT OF THE TREASURER** Treasurer Brenda Willoughby stated that complete financial reports for 2006 and 2007 could be found in the Annual Reports and that she would make her report as brief as possible. Willoughby reported that total assets at December 31, 2007, were \$81,584,268, an increase of \$3,864,719 (or 4.97%) from the prior year-end balance of \$77,719,549. Willoughby stated that net loans decreased \$620,619 (or 1.01%) from the prior year balance of \$61,188,167, ending the year 2007 at \$60,567,548. Treasurer Willoughby informed the membership that Service One Credit Union maintained good liquidity during the year. Total cash and investments at December 31, 2007, were \$14,974,436, an increase of \$3,175,714 over the balance of \$11,798,722 at the previous year-end. Willoughby noted that member deposits increased \$2,563,034 (or 3.74%) during 2007, ending the year at \$71,055,303. Willoughby stated that approximately 87% of these deposits were loaned out to members as of year-end 2007. Willoughby reported that total members' equity at December 31, 2007 was \$9,760,211, which calculates to 11.96% of total assets. Federal regulations state that any credit union with a net worth ratio of 7% or above is considered "Well Capitalized", which is the highest rating possible. Treasurer Willoughby stated that net income for the year ended December 31, 2007, was \$1,105,935 versus \$978,313 for the year ended December 31, 2006. Total dividends paid to members during 2007 were \$1,765,841, an increase of \$253,528 (or 16.76%) over last year's dividends paid of \$1,512,313. Willoughby noted that it took the combined efforts of the staff and Board of Directors to have a financially successful year. Treasurer Willoughby asked if there were any questions. Hearing none, Willoughby moved to accept the 2007 year-end Annual Financial Report. The motion was seconded by C. Richard Aldridge. Chair Miller 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 Leslie Weigel and Pat Stewart and stated that Harold Little was out of town due to the birth of his first grandchild. Napier expressed her thanks to the other Supervisory Committee members and staff for their hard work in 2007. Chair Napier reported that Edwards and Associates, CPA, Nashville, TN conducted their annual audit for year ending December 31, 2007 for the credit union. The Supervisory Committee met with the auditors for an exit interview on February 29, 2008, she was pleased that Service One was given a glowing report and an Unqualified Opinion. Napier stated that Edwards and Associates had commended John Stanford, Asset Protection and Mary Miller, Records Retention and their staffs for their work. Chair Napier recognized the outstanding jobs by the entire Service One staff and stated that assets are secure as always.

**REPORT OF THE PRESIDENT** President Valerie Brown welcomed members to the 45th annual meeting of the credit union. Brown stated that it was a wonderful evening—full of good company and good credit union reports. Brown informed the membership that new products and services were added in 2007, and stated that she is most proud of lowering all the deposit account fees to below \$20.00 – the lowest in town. President Brown stated that with the subprime mortgage crisis and home purchases declining, members who had their mortgages with Service One should be pleased. She noted that members did not see large payment increases in their adjustable-rate mortgages because they are designed to help members, not to trip them up by creating chaos in their budgets. President Brown stated that as environmental sustainability issues began to re-emerge and the price of energy increased, the credit union began changing some internal behaviors, such as recycling at each of the branches. She reported that e-statements were offered, saving energy through eliminating postage and paper, and special loan discounts were offered for fuel-efficient automobiles and home improvements. Brown stated that a decision was made to build a "green" addition to the overcrowded Campbell Lane Office. She informed the membership that plans for the building were displayed in the lobby of the conference center. Brown introduced David Bryant, Architect, and invited the membership to view the plans for this exciting addition. Brown reported that Bryant designed a well-insulated, sustainable, energy-efficient building that will add value to the membership and serve as a model in the community for green building practices. She noted that the design utilizes natural daylighting, geothermal heating and air conditioning, photovoltaic cells, or solar panels, water containment and recycling for irrigation and toilet flushing, a roof with vegetation rather than asphalt shingles, bio-retention basin areas for storm water runoff, natural and recycled materials for interior finishes along with energy-star appliances. President Brown stated that this addition is expected to be certified at the LEED Platinum level by the US Council for Green Buildings. Brown reported that rebates and incentives are in order from this council as well as from TVA, and BGMU's chief engineer is providing assistance in planning for electric generation from the solar panels. President Brown stated that Rob Atnip, Service One's Facilities Manager, is coordinating the project, and would be available after the meeting for questions. Brown noted that plans are to break ground in early May. Brown stated that she is very excited about the project and appreciated all the ideas and support that the board and employees have given. Brown introduced management and their staff. She reported that the following 4 people were promoted this year to Assistant Vice-Presidents: Ken Vogler – Mortgage Department Manager; John Stanford – Asset Protection Department Manager; June Nakoski – HR Specialist and Branch Coordinator; Mary Miller – Audit and Records Department Manager. Brown recognized the 2007 Serious-About-Service winners Stanley Groves, Beth Lennan, Carol Wooley, Jerome Simmons, and LaFaithe Carver. These five individuals were selected by their peers during 2007 for outstanding service to their fellow employees and the membership.

**NEW BUSINESS** There was no new business brought before the Chair.

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

**PRIZE DRAWINGS** A financial fair was held for members preceding the Shareholders' meeting. Information on Mortgages, Virtual Branch/Virtual Bill Pay, Young Savers Accounts, Insurance and Investment Options, and the new plans from Campbell Lane were available for review.

The winners of the drawings at the Shareholders' meeting are as follows:

Judy Carver	Papa Johns Pizza & Leather Checkbook Cover	Eleanor Allen	\$25 Cash	Anne Redmon	\$50 Cash
Mary Jane Bluhm	Papa Johns Pizza & Leather Checkbook Cover	Irvin Sample	\$25 Cash	Renee Decuir	\$50 Cash
Vergie Besaw	Papa Johns Pizza & Leather Checkbook Cover	Diane Carver	\$25 Cash	Sherry Parrish	\$100 Cash
Alex Sneed	\$25 gift card and Leather Checkbook Cover	Morris Smith	\$25 Cash	Helen Skees	\$100 Cash
James Westbrook	\$40 Gift Card	Mae Etta Hines	\$50 Cash	David House	\$500 Cash
Chris Grinstead	\$50 Liberty Gift Certificate & Leather Checkbook Cover	Joseph Schwab	\$50 Cash		
Chris Russell	\$100 Best Buy Gift Card				

**ADJOURNMENT** Chair Miller adjourned the meeting at 7:44 PM.

**APPROVED:** Richard Miller, Chair

**RESPECTFULLY SUBMITTED:** Brenda Willoughby, Secretary/Treasurer

## Statement of Cash Flows

For the Year Ended December 31, 2008

### Cash Flows from Operating Activities

Interest Received	\$ 4,969,237
Interest Paid	(1,571,163)
Cash Paid to Suppliers & Employees	(4,643,191)
Other Income	2,711,365
<b>Net Cash Provided by Operating Activities</b>	<b><u>1,466,248</u></b>

### Cash Flows from Investing Activities

Investments Purchased	(9,387,895)
Matured Investments	7,447,063
Loan Principle Received, Net of New Loans (disbursed)	(984,697)
Net Change in ODP Accounts	(24,431)
Acquisition of Property & Equipment	(719,478)
Proceeds from Sales of Property	116,097
Decrease (increase) in other Assets	22,719
<b>Net Cash Used in Investing Activities</b>	<b><u>(3,530,622)</u></b>

### Cash Flows from Financing Activities

Net Increase in Members Share Accounts	2,831,480
<b>Net Cash Provided by Financing Activities</b>	<b><u>2,831,480</u></b>

## Statement of Changes in Members' Equity

For the Year Ended December 31, 2008

	<u>Allowance for Loan Losses*</u>	<u>Regular Reserve</u>	<u>Unrealized Gains (Losses) on AFS Securities</u>	<u>Undivided Earnings</u>
<b>Balances, December 31, 2007</b>	\$991,619	\$2,152,518	\$ 0	\$7,607,693
Income Allocation				509,756
Change in Unrealized Gains (Losses)			24,442	
Provision for Loan Losses	494,953			
Loans Charged Off	(752,810)			
Recovery of Loans Charged Off	131,529			
<b>Balances, December 31, 2008</b>	<b><u>\$865,291</u></b>	<b><u>\$2,152,518</u></b>	<b><u>\$24,442</u></b>	<b><u>\$8,117,449</u></b>

\*Beginning balance restated to include Allowance for ODP Losses.

## Notes to Financial Statements

For the Year Ended December 31, 2008

### Note 1 - Net Loans

Automobile	\$ 22,825,088
Share-Secured	427,766
Signature	2,415,470
Member Business	578,236
Mortgage	29,497,084
Credit Card - Unsecured	4,231,939
Other	1,614,478
Less Allowance for Loan Losses	(865,291)
<b>Total</b>	<b><u>\$ 60,724,770</u></b>

### Note 2 - Investments

	<u>Book Value</u>	<u>Market Value</u>
Government Securities	\$1,543,672	\$1,543,672
Short Term Investments	13,807,800	13,807,800
Long Term Investments	1,201,460	1,201,460
<b>Totals</b>	<b><u>\$16,552,932</u></b>	<b><u>\$16,552,932</u></b>

<b>Net Increase (Decrease) in Cash &amp; Cash Equivalents</b>	<b>767,106</b>
<b>Cash &amp; Cash Equivalents, beginning of year</b>	<b>6,656,208</b>
<b>Cash &amp; Cash Equivalents, end of year</b>	<b><u>\$ 7,423,314</u></b>

### Reconciliation of Net Income to Net Cash provided by (used in) operating activities

Net Income From Operations	\$ 509,756
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation & Amortization	262,381
Losses (gains) on asset sales	0
Non-Operating (income) loss	37,810
Provision for loan loss expense	822,944
Provision for overdraft privilege losses	22,136
Changes In:	
Accrued Interest Receivable	43,845
Dividends Payable	(2,229)
Other Liabilities	(230,395)
	<b><u>\$ 1,466,248</u></b>

### Note 3 - Building, Furniture & Fixtures

Land - Campbell Lane	\$149,609
Land - Glasgow	33,598
Land - Bypass	425,000
Land - Campus	16,200
Building - Campbell Lane	903,903
Building - Glasgow	390,890
Building - Campus	502,023
Building - Bypass	975,641
Furniture & Fixtures	2,727,980
Assets Awaiting Capitalization	638,937
	6,763,781
Less Accumulated Depr.	(3,166,125)
<b>Total</b>	<b><u>\$3,597,656</u></b>

### Note 4 - Capital

Share Drafts	\$ 21,737,402
Regular Shares	25,137,181
IRA Share Accounts	6,161,959
IRA Share Certificates	177,736
Share Certificates	20,721,260
<b>Total</b>	<b><u>\$73,935,538</u></b>



**Valerie C. Brown**

### REPORT FROM THE PRESIDENT

Despite challenges in the financial system during 2008, Service One Credit Union experienced a successful year of sound growth. I credit this success to the expertise and commitment of our volunteer leadership, management, and employees. Because of the collapse of banks and other financial giants last year, many members of SOCU inquired about the safety and soundness of their credit union. We were able to assure them that Service One was strong and their deposits were secure.

Regulators in the credit union system tightened many of their standards in 2008 and the Board of Directors and management team made regular adjustments to the credit union's rates, policies, and procedures in order to comply. Keeping the credit union safe and sound involves a constant balancing of risk and service. As a not-for-profit financial cooperative, the credit union invests conservatively while trying to keep most of its assets in loans to members. Mortgage lending increased over 2007 levels as members responded to falling rates and the various home loan programs offered by Service One thereby keeping our loan-to-share ratio averaging close to 80%.

The financial industry faces an uncertain future, yet you can be assured that safety and soundness are of paramount importance to your credit union's leadership. As we continue to assist our members and positively impact our community's future, we will strive to stay in the forefront of excellence in financial services offerings.

## 2008 Staff

Melanie Bateman	Mortgage Loan Processor
Heather Berry	Campus Head Teller*
Paul Buhrmester	Training Coordinator
Christine Carrico	Records Department
LaFaithe Carver	Member Information Specialist*
Debra Chyle	Member Service Consultant*
Angela Crabtree	Savings Officer*
Jim Driver	Credit Counselor
Myra Dwyer	Executive Secretary*
Dave Ellis	Pinnacle Group
Emily Ellis	Savings Officer
Holly Finn	Marketing Specialist
Shelly Forshee	ESO Asst. Manager
Scott Franklin	Asset Protection Officer
Stanley Groves	Glasgow Asst. Branch Manager*
Lynn Harris	Accountant
Andrea Holland	Asset Protection Officer
Stephanie Johnson	Savings Officer
Diane Jones	Savings Officer*
Nicole Jones	Savings Officer*
Mechelle Knight	Member Service Consultant
Beth Lennan	ByPass Head Teller*
Katherine Lindsey	Fraud Prevention Specialist
Anita Litterall	Admin Clerk VP/Lending
Adam Marcum	ESO Assistant
Justin Morris	Admin Asst. SrVP/CFO
Kara Phelps	Records Department
Norma Price	Savings Officer*
Tina Price	Campbell Lane Head Teller*
Angela Prude	Member Information Specialist
Melinda Qualls	Bankruptcy Specialist
Kristen Rakers	Savings Officer
Austin Ramsey	Marketing Assistant
Jennifer Rigsby	Savings Officer
Jenny Russell	Admin Asst. EVP/COO*
Rebecca Saltsman	Savings Officer
Carol Schneider	Credit Card Specialist
Jereme Simmons	Member Service Consultant*
Bill Sims	Network Administrator
Lisa Sneed	Membership Development* and Marketing Coordinator
Tammy Thompson	Campbell Ln. Asst. Branch Mgr.*
Kendra Turner	Mortgage Loan Processor
Michele Waldrige	Savings Officer
Mark Westfall	Computer Operations Assistant
Amanda Woods	Glasgow Head Teller
Carol Wooley	Bypass Assistant Branch Mgr. *

## Board of Directors

Richard Miller	Chair
John C. Wassom	Vice-Chair
Brenda Willoughby	Secretary/Treasurer
C. Richard Aldridge	Director
Frank Conley	Director**
Louella Fong	Director
Carol Glaser	Director
Leslie Weigel	Director

## Supervisory Committee

Pamela Napier	Chair
Harold Little, Jr.	Member
J. Pat Stewart	Member

## Management Team

Valerie C. Brown	President/CEO
Leah J. Eckley	Executive VP/COO
Stephen Carrico	Senior VP/CFO
Sean Moore	VP, Information Systems/ Information Technology
Kristie Kennedy	VP, Lending
Rob Atnip	Facilities Manager
Duane Dedman	AVP Information Systems
Donna Cosand	Electronic Services Operations Manager
JoAnn Kearns	Dealer Direct Manager
Lori A. Hodges	Membership Development and Marketing Manager
Mary Faye Miller	AVP Records/ Information Security Officer*
June Nakoski	AVP Human Resources/ Branch Coordinator
John Stanford	AVP Asset Protection Dept.
Ken Vogler	AVP Mortgage Department
Ann Boots	Campus Office Manager
Nancy Bumpus	Campbell Ln. Branch Manager
Shelly Smith	Glasgow Branch Manager
Nancy Ware	Senior Branch Manager/ ByPass Branch Manager

\* Serious About Service (SAS) Winners, 2008 and prior.

\*\* Retired 12/2008