



2017  
**BOARD MEMBER**  
HANDBOOK

**CU\*ANSWERS**



## THE GOALS FOR OUR BOARD

Nothing says more about the health of a cooperative than the confidence that the cooperative stakeholders have in the role of the Board, and how the Board works on their behalf. Our Board wants you to know that we set high goals to earn your faith and maintain your confidence in the health of CU\*Answers as a cooperative.

We have five goals that we want all of our stakeholders and potential nominees to understand:

### GOAL 1: THE BOARD IS AN ASSET, CREATES A RETURN, IS A PRODUCT THAT CAN BE MARKETED

**Why is the Board important? Why is it a real asset and “product” that the business can count on?**

*How is the Board’s design and execution a win for the business?*

### GOAL 2: BOARD MEMBERSHIP IS A WIN-WIN

**Why is the Board important and valuable to the acting Board member’s interest?**

*How is this a win-win design and how can Board member execution benefit the Board member?*

### GOAL 3: THE BOARD GUARDS THE CUSTOMER-OWNER PERSPECTIVE

**Why is the Board important to the customer-owners of the cooperative?**

*How does the Board’s design and execution create value for the owners?*

### GOAL 4: THE BOARD HELPS STAFF TO FLOURISH

**Why is the Board important to the staff and professional team members?**

*How does the Board’s design and execution create a win for the staff’s careers?*

### GOAL 5: THE BOARD INFLUENCES THE CU MARKET FOR THE GOOD OF ALL CUS

**Why is the Board important to the marketplace at large?**

*How does the Board’s design and execution create a positive influence on the industry, community, or general public?*

If you would like to be part of our Board and help with the elevator speech related to each of these goals, take a hard look at the rest of this document and consider putting your name forward as a nominee for our upcoming election. Don’t hesitate to challenge us on our commitment to these goals. We work for you.

The CU\*Answers Board of Directors



## Concern for Community

While focusing on member needs, we work for the sustainable development of communities through policies and programs accepted by our members.





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Due to volume and postage costs, CU\*Answers Bylaws and Articles of Incorporation are bound in a separate booklet. They are available to our Stockholders on request. Please contact Stephanie Underwood at 800-327-3478 x 511 or [Stephanie.Underwood@cuanswers.com](mailto:Stephanie.Underwood@cuanswers.com) if you desire a copy.



# General Policy

## The CU\*Answers Mission

CU\*Answers' sole purpose is to enhance the service capabilities of its owners and clients through providing quality service and leadership in their data management and member service solutions.

## Primary Function of the Board of Directors

The primary function of the CU\*Answers Board of Directors is to ratify policy, plan CU\*Answers' course, ensure that CU\*Answers maintains its sound financial condition, keep communication open to educate Credit Unions about CU\*Answers initiatives, review the progress of the Chief Executive Officer (CEO) in achieving goals and objectives, and report to owners at the Annual Stockholders Meeting.

Another critical function is making decisions related to the distribution of returns to owners. See Page 19 for a detailed discussion of this responsibility.

## Board Composition

The Board of Directors in this CUSO shall consist of seven (7) members who are actively employed as the CEO (paid professionals) leading Credit Unions, which have ownership stock in the CUSO. To qualify to be on the Board of Directors, the CEO's Credit Union must have been under a CU\*BASE processing contract for at least one full year prior to his/her election to the Board.

Standing Board members who become ineligible for Board membership according to the above guidelines must submit a notification of their change in status to the Chair of the Board within ten (10) business days of the change in status. In the case where a standing Board member moves from one qualified Credit Union to another qualified Credit Union, the Board member continues to qualify as a standing Director. Any interruption in the qualified status that extends beyond the ten (10) day notification period shall constitute a resignation from the CU\*Answers Board of Directors.

At least two (2) of the positions shall be up for election each year at the Annual Stockholders Meeting. The normal term of a Board Member shall be three (3) years, starting October 1 and ending September 30. Directors are elected according to the procedures outlined in the "CU\*Answers Board of Directors Nomination and Election Procedures" policy document.

The table officers shall be Chair, Vice Chair, and Secretary/Treasurer. Officers are elected at a reorganization meeting to be held at the first Board meeting of each fiscal year (October). Because of the Chair's responsibility to cast tie-breaking votes, make key announcements, and other special duties, consideration should be given to concurrent terms for the Chair and Vice Chair. In the event, the Vice Chair would need to stand in for the Chair in situations where the Chair is the focal point of any action.

If a Board member resigns, the position will be filled according to the guidelines set forth in the "CU\*Answers Board of Directors Nomination and Election Procedures" policy document.



### **Continuing Board Education**

CU\*Answers offers to board members the opportunity to take advantage of in house classes with special emphasis placed on the duties and liabilities that come with participation on a board. These classes are offered yearly, and are part of a three-year cycle including the opportunity to engage with legal counsel at least once during the cycle. The goal is to eliminate the mystery surrounding the law governing board member liability by creating the best educated board in the business.

Class material will delve into the responsibilities of serving on both for-profit and non-profit boards. In exchange for the time invested, CU\*Answers board members will be presented with first class teaching materials that can be brought back to their Credit Union to help with the education of their own directors. Directors should expect to not only have a better understanding of the legal duties surrounding board participation, but will be able to use this opportunity to increase the participation and effectiveness of their own board of directors.

### **Board Member Liability Insurance**

CU\*Answers maintains direct Officer & Director Liability insurance coverage on each Director with a limit of \$3,000,000 per incident. Directors are indemnified by CU\*Answers according to the rules set forth in the CU\*Answers Bylaws.

### **Recording or Archival of Board Meetings**

The recording of board meetings for any reason other than for the production of the minutes is prohibited. That recording must be deleted immediately upon the completion of the transcription of the minutes. No Board member is allowed to record a meeting on a personal device without prior permission of the Board.

### **Audit Reports**

The Internal Auditor for CU\*Answers will provide a detailed report on the status of controls and adherence to policy for each board meeting. The Internal Auditor is always available to individual board members or the board collectively should the directors have questions or concerns about policy or controls.

### **Fielding Offers for the Sale of CU\*Answers**

The Board delegates to Management the responsibility to investigate any offers to purchase CU\*Answers. Management will bring to the Board any offers it has vetted and deems qualified. These offers would exclude general solicitations or mass mailings.

### **Reporting on Litigation**

Management is required to report all lawsuits filed against CU\*Answers to the Board of Directors. The CEO will report to the Chair at the earliest opportunity. Management will research and report findings to the Board within 14 days of receipt.

### **Confidentiality**

Directors are required to protect and hold confidential all non-public information obtained due to their directorship position absent the express or implied permission of the Board of Directors to disclose such information. Accordingly,



(i) no Director shall use Confidential Information for personal benefit or to benefit persons or entities outside the Company;

(ii) no Director shall disclose Confidential Information to a party or parties adverse to CU\*Answers or where such disclosure would harm of the interests of CU\*Answers; and

(iii) no Director shall disclose Confidential Information outside the Company, either during or after service as a Director of the CU\*Answers, except with authorization of the Board of Directors or as may be otherwise required by law or duty.

“Confidential Information” is all non-public information entrusted to or obtained by a Director by reason of his or her position as a Director of the Company. It includes, but is not limited to, non-public information that might be of use to competitors or harmful to the CU\*Answers or its clients if disclosed, such as:

non-public information about CU\*Answers financial condition, prospects or plans, its marketing and sales programs and research and development information, as well as information relating to mergers and acquisitions, stock splits and divestitures;

non-public information concerning possible transactions with other companies or information about the Company’s customers, suppliers or joint venture partners, which CU\*Answers is under an obligation to maintain as confidential; and

non-public information about discussions and deliberations relating to business issues and decisions, between and among employees, officers and Directors.



# Board Duties

## Primary Duties of the Board of Directors as a Governing Body

1. Work with the CEO to develop objectives and goals of the CUSO.
2. Ensure the CUSO adheres to pertinent laws, regulations and sound business practices. Review and request, as needed, changes in the charter and non-standard bylaw amendments.
3. Ensure the CUSO maintains sound financial condition and that the CUSO's assets are protected against unauthorized or illegal acts. Designate depositories, authorize borrowing and investing, and provide for bonding and other security factors, including internal control procedures.
4. Establish policies, or ensure they are established, and approve them for all CUSO programs and activities.
5. Ensure new products and services are developed as needed.
6. Approve the CUSO budget.
7. Manage and plan for CUSO equity (also see Page 19):
  - Establish the par value of stockholder shares
  - Declare annual patronage dividends
  - Declare annual stockholder dividends
  - Set the going ownership stock price for the open market
8. Review and acknowledge (annually at minimum):
  - Disaster Recovery Plan
  - ACH Audit
  - CPA Audit
  - Risk Assessment
  - D/R Gap Analysis
  - HR Employee Resource Report
  - E & O Insurance Coverage
  - Technology Plan
9. Review and acknowledge: (approximately every 18 months)
  - Miscellaneous Security Audit
10. Hire the Chief Executive Officer (CEO), define the scope of his/her job and review progress in attaining goals and objectives.
11. Confirm the Corporate Officer positions (CIO, CFO, COO) that are recommended by the CEO and ratify Officer contracts negotiated by the CEO. CEO will be responsible for recruitment and reporting of the Corporate Officers.
12. Attend Board meetings according to the policies set forth in the "CU\*Answers Board of Directors Attendance & Reimbursement Procedures (Page 12)," exercise judgment independently from the CEO, and report to the owners at the Annual Stockholders Meeting.
13. Appoint a Nominating Committee to fill vacancies on the Board of Directors and present a slate of Directors up for election at the Annual Stockholders Meeting.
14. Set the date for the Annual Stockholders Meeting.
15. Review and Ratify the Employee Share Plan.
16. Set the annual calendar for Board Meetings.



## Primary Duties of the Chairperson of the Board

As Chairperson of the Board, assure that the Board of Directors fulfills its responsibilities for the governance of the CUSO. The Chair acts as a partner to the CEO, helping him/her to achieve the mission of the CUSO. The Chair works to optimize the relationship between the board and management.

### Responsibilities:

- Chair meetings of the Board. See that it functions effectively, interacts with management optimally, and fulfills all of its duties. With the CEO, develop agendas.
- Consult with management and the entire Board on the need for Board Committees. Oversee the Board's annual reorganization and lead the Board in filling Committee seats.
- When appropriate, assist the CEO in recruiting Board and other talent for whatever volunteer assignments are needed.
- Communicate any concerns management has in regard to the role of the Board of Directors or individual Board Members to the Board for possible action.
- Communicate to the CEO the concerns of the Board of Directors and other CUSO owners.
- Take the lead in negotiating the CEO contract at least 15 months prior to expiration. At the discretion of the Chair, this process may include the HR Committee or the Board at large. The Chair of the Board will communicate a plan for this negotiation to the Board at least 30 days prior to starting official negotiations with the CEO.
- Work with the CEO/CFO to ensure that the CEO contract is being adhered to. Annually on or before August 30, advise the Board as to salary increases and bonus payouts for the CEO and record Board approval as part of the official minutes in advance of any change to the CEO compensation.
- Annually assess the Board's satisfaction with their role in the CUSO as the governing body. Ensure that the Board Member Handbook Committee has completed its work and that the Handbook reflects the current responsibilities, interactions, and day-to-day realities of how the Board functions. See also "Primary Duties of Standing and Special Committees (Page 10)."
- Serve as an alternate spokesperson for the CUSO in the general marketplace. Represent the Board of Directors and management as an advocate for the CUSO, whether it be dealing directly with a customer of the CUSO or the general Credit Union industry.
- Take an active role in preparing the bi-annual Report to Owners. Act as facilitator/host for the Annual Stockholders Meeting.
- Fulfill such other assignments as the Chairperson and CEO agree are appropriate and desirable for the Chairperson to perform.

## Primary Duties of the Vice Chairperson of the Board

The Vice Chairperson of the Board shall perform the duties of the Chairperson in the event of the death, resignation, absence or inability of the Chairperson of the Board to perform his/her duties.





### **Primary Duties of the Secretary/Treasurer of the Board**

The Secretary/Treasurer is responsible for ensuring that complete and regular financial statements are prepared and submitted to Stockholders. Ensure that the activities of the CUSO serve the best interest of all stockholders. In the event the Chair or Vice Chair is unable to perform their duties this position would become the acting Chair.

#### **Responsibilities:**

- Cause to be maintained minutes of all meetings of the Board and of the Stockholders and keep a record of all votes at such meetings.
- Give, or see to the giving of notice of all meetings of the stockholders and the board of directors, and perform other duties as may be prescribed by the board of directors.
- Review the financial statements prepared by the staff showing the CUSO's condition assuring their completeness and timeliness.
- Present prior year annual meeting minutes at Annual Stockholders Meetings.

### **Primary Duties of Individual Members of the Board**

Board Members are responsible for providing governance to the CUSO and representing it to the community.

#### **Responsibilities:**

- Regularly attend board meetings and important related meetings.
- Make serious commitment to participate actively in committee work.
- Volunteer for and willingly accept assignments and complete them thoroughly and on time.
- Stay informed about committee matters, prepare well for meetings and review and comment on minutes and reports.
- Get to know other committee members and build a collegial working relationship that contributes to consensus.

### **Potential Board Member Candidate**

When the directors review potential officer candidates for the CU\*Answers Board, directors shall ensure that each candidate meets the qualifications to be a CU\*Answers director as provided by the bylaws and/or Articles of Incorporation. Should such officer meet the qualifications as provided for in the bylaws and/or Articles of Incorporation, the CU\*Answers directors shall determine as to whether the potential candidate has the requisite experience and independent judgment to make decisions as a board member of CU\*Answers. Subject to the bylaws, Articles of Incorporation, and the non-discrimination limitations below, sole discretion as to whether a potential officer candidate meets the qualifications to be a CU\*Answers director rests with the current members of the CU\*Answers board. Potential candidates may be required to interview or submit evidence of relevant experience as required by the board, prior to approval or rejection of the potential officer's candidacy.

The directors shall *not* reject an otherwise qualified candidate on the basis of race, color, religion, sex, national origin, ancestry, disability, sexual orientation, age or use of leave protected by the Family and Medical Leave Act. No candidate for the CU\*Answers Board shall be required to answer a question on the basis of race, color, religion, sex, national origin, ancestry, disability, sexual orientation, age or use of leave protected by the Family and Medical Leave Act.



# Primary Duties of Standing and Special Committees

During the reorganization meeting of the CU\*Answers Board of Directors (October), the Board will select members to serve on Standing Committees. At this time the Board of Directors may create any additional special committees to function for the upcoming annual, or the Board can decide to do away with committees.

## **Nominating Committee**

This committee is a full-time standing committee consisting of 3 members and is responsible for the oversight of the annual election procedures and the selection of new Board members to fill unexpired terms.

### **Responsibilities:**

- Accept nominations from owners for service on the CU\*Answers Board of Directors from the January Board meeting until the day before the regular March Board meeting.
- Review all applications and vote on all qualified candidates to be placed on the ballot as defined by the bylaws and/or Articles of Incorporation.
- Present candidates to the Board at least 60 days prior to the Annual Meeting.
- Cause ballots to be collected and counted during the June Stockholders meeting. In the case of a tie, the nominating committee will vote and the majority wins (2/3). (election rules found on Page 16)
- Announce any resignations and propose for Board approval new candidate(s) to fill an unexpired term according to the rules on Page 17.

## **Annual Election of Board Officers and Committee Appointments**

- After the Annual Meeting and Election of Board members, and 60 days prior to the end of the Fiscal year, the current Chairperson of the Nominating Committee will initiate the Board Officer Reorganization process and Xtend Director position by proactively polling and encouraging board members to nominate board members for the new year reorganization meeting in October (the first board meeting of the new fiscal year).

The purpose of this contact is not to unseat or cause unneeded changes in the board's organization, but to make sure that every board member is confident in discussing and considering how the board officers are set and who is considered. From these conversations, the Nominating Committee Chairperson will present a slate of nominees for each Board position at the October board meeting.

- During the first board meeting of each new fiscal year the Chairperson of the exiting Nominating Committee will chair the process and lead the board through the vote.



- For example: The 2017 Nominating Committee Chairperson would have contacted the board between August 1 and September 30, 2017 and discussed the 2018 Slate of Board Officers. From these conversations, the Nominating Committee Chairperson would initiate a nomination process prior to the October board meeting and validate that process with the board at the October 2017 meeting. The board would then vote on the nominees and complete the process.

### **Board Handbook Committee**

This Committee is responsible for updating the Board Member Handbook on an annual basis. The Board of Directors will select at least 2 Board members and 2 staff to sit on this committee.

#### **Responsibilities:**

- Solicit from Board Members and management suggestions for changes to the Board Member Handbook.
- Review the Handbook to ensure it reflects the current responsibilities, interactions, and day-to-day realities of how the Board functions.
- Compile and submit proposed changes to the Board of Directors in time for the Handbook to be ratified prior to opening nominations for the next Board member election (generally January of each year).

### **HR Committee**

The HR Committee is appointed and ratified by the CU\*Answers Board of Directors each year as part of the annual Board reorganization.

#### **Responsibilities:**

- Complete bi-annual review of the Corporate Officer Contingency Plan. Make recommendations to the Board of Directors and ensure the plan is kept up to date.
- Complete a bi-annual review of the Officer Travel Policy. Make recommendations to the Board of Directors and ensure the policy is kept up to date.
- Beyond these two standing responsibilities, the HR Committee is a standing resource that the Chair of the Board can solicit for duties as assigned related to HR policies, interactions, and planning.

### **Investment Committee**

The Investment Committee is appointed and ratified by the CU\*Answers Board of Directors each year as part of the annual Board reorganization. The Committee will have the authority to delegate any of its responsibilities to subcommittees as the Committee may deem appropriate in its sole discretion. The Committee will have authority to consult such outside legal, accounting, and other advisors as the Committee may deem appropriate in its sole discretion, subject to the authority of the Board to approve related fees.

The Committee will meet at such intervals as it may determine. A majority of the members of the entire Committee will constitute a quorum. The Committee will act on the affirmative vote of a majority of members present at a meeting at which a quorum is present. Without a meeting, the Committee may act by unanimous written consent of all members.



The Committee will report its activities and any recommendations to the Board after each Committee meeting. The Committee will review at least annually the adequacy of this Charter and recommend any proposed changes to the Board for approval.

**Purpose:**

- To review and evaluate any and all investments, undertakings, and commitments by CU\*Answers, Inc in, for, or with respect to equity investments by the Corporation referred to the Committee by the Board (collectively, “Investments”);
- To monitor the Investments and any relationship or conflict of interest that arises, exists, or may exist from time to time, between or involving the Corporation and any entity in which the Corporation has made an Investment (each such entity a “Venture”);
- To report its findings, analyses, and recommendations to the Board of Directors of the Corporation; and
- To assist the Corporation’s Board of Directors (the “Board”) in carrying out its responsibilities relating to investments.

**Responsibilities:**

- To review from time to time the prospects, strategies, and performance of each Investment and each Venture.
- To the extent not prohibited by applicable law or regulation or confidentiality requirements, to obtain such information from the board of directors or similar governing body of each Venture and each Venture’s management, accounting, and audit personnel as the Committee deems necessary and appropriate to fulfill its duties; and
- To the annual audited financial statements and any other financial statements prepared by or on behalf of such Venture, including matters required to be reviewed under applicable legal, regulatory or exchange requirements, and discuss with the Venture if necessary.

## Attendance & Reimbursement Procedures

During the annual reorganization Board meeting, the CU\*Answers Board adopts a calendar and set of rules relating to the attendance of the CU\*Answers Board Meetings for the upcoming annual. The rules are set recognizing the demands that serving on the CU\*Answers Board of Directors will place on the potential candidates. Following are the current rules in place for the 2017 business year:

- Board members are expected to attend seven (7) Board meetings annually with full reimbursement of direct expenses. The attended (face-to-face meetings or via Phone Conference) are based upon the approved calendar. For the 2017 fiscal year, Board meetings will be held in October, November, January, March, April, June, July and August. See “Summary of Key Dates for CU\*Answers Owners” for meeting themes.
- Board Financial Review Conference Calls are held the months where there is no in-person Board meeting scheduled. These meetings are not required for Board Members to attend. The Financial Review Conference Calls are based on the approved calendar. For the 2017 fiscal year, they will be held the fourth (4<sup>th</sup>) Thursday of the month when the board does not meet in-person, unless otherwise noted. The months include September, November, December, February, and May.



- Board meetings are typically held on the fourth (4<sup>th</sup>) Thursday of the month, unless otherwise noted. Meetings usually begin at 1:00 p.m. ET. Attendance at the Board Workshop and the Friday morning breakfast is optional but strongly recommended.

| MEETING FORMAT, PERSPECTIVE, & INTERACTION  |                                |
|---|--------------------------------|
| <b>Workshop</b> - a focus group perspective – the development of customer-owner feedback and buy-in to the direction of the network. Not conformity, but awareness and proxy leadership                                       | 12:30 to 2:00 p.m. ET          |
| <b>Meeting</b> - a business meeting perspective – oversight and insuring accountability to business processes and execution.  | 2:00 to 6:30 p.m. ET           |
| <b>Group Dinner</b> - a partnership perspective – peers interacting as peers for networking, potential partnership, and industry coaching and mentoring – building things beyond CU*A together. Time together for all events. | 6:30 p.m. ET                   |
| <b>Friday Morning Breakfast &amp; Committee Meetings</b> – a return to the CU – interacting with the network to earn a return as a customer of the network (best buyer – fast to market intelligence).                        | 7:30 to 9:00 a.m. ET as needed |

- Beyond the scheduled Board meetings, each Board member is encouraged to participate in the annual calendar of CUSO events. Refer to the “Summary of Key Dates” section.
- Based on need and special circumstances, the Board may vote to fund reimbursement for additional face-to-face meetings for all Board members.
- Reimbursement will be made to the Credit Union, not to the individual Director. Reimbursement of direct travel expenses for special events shall be at the discretion of the CEO.
- Board members who miss three consecutive regularly scheduled Board meetings are subject to a Board review and may be expelled or removed by the Board of Directors based on a majority vote. In the event of a tie, the Chair has the deciding vote. In a situation where it is the Chair absent for three consecutive meetings, the Vice Chair has the deciding vote.
- Established protocol for electronic voting by the board is when all must agree to vote electronically versus in person on the proposed subject before soliciting votes.



## Need a policy?

Take one that has already been proven by one of your peers.

PolicySwap is a collaborative website where CU\*Answers clients can share policies and procedures with each other.



**PolicySwap**  
CU\*ANSWERS



# Nomination and Election Procedures

## Annual Election of Directors

The Nominating Committee will accept nominations from owners for service on the CU\*Answers Board of Directors from the January Board meeting until March 31.

The nominating committee will present candidates to the Board at least 60 days prior to the Annual Meeting. After the Board Meeting, a notice will be sent to all owner Credit Unions with a sample ballot to be used at the Annual Meeting. Following are guidelines for the nomination and election process:

### Applications for Nomination

- Any interested candidates should submit a letter of intent along with a professional resume to CU\*Answers, Attn: Nominating Committee.
- To qualify to serve on the CU\*Answers Board, each candidate must be a full-time paid CEO/Manager of a Credit Union which has held CU\*Answers ownership for at least one year as of the application date.
- All applications must be received no later than March 31 (or other specified date, in the case of a special election to fill a vacated seat).
- The Nominating Committee will review all qualified candidates' applications and vote on all candidates to be placed on the ballot. All candidates with a majority vote (2/3) will be placed on the ballot.
- Once the ballot is reviewed by the Board at the March Board Meeting (or specified date, in the case of a special election to fill a vacated seat), the ballot will be presented to all owners. This will give each candidate as much time as possible to solicit support from other owners.
- In the case where a candidate is not put forth by the Nominating Committee for the upcoming ballot, that candidate may petition to be on the ballot outside of the nomination process. For the normal annual election, to be placed on the ballot, the candidate must present to the Board of Directors at least 30 days prior to the Annual Meeting a petition signed by at least 10% of current CU\*Answers owners. For a special election to fill a vacated seat, the timeline may be shortened at the discretion of the Board. It should be clear that signatures on this petition do not constitute a vote.

### Election

- The election itself will be held at the Annual Stockholders Meeting in June.
- Votes may be cast one of three ways: (1) in person at the Annual Stockholders Meeting, (2) electronically via responding to the e-ballot, or (3) via a paper absentee ballot mailed to CU\*Answers.
- Electronic and paper absentee ballots will be accepted until the end of business on the Friday immediately preceding the June Stockholders Meeting and must be signed by the Credit Union's CEO.
- Votes at the June Stockholders Meeting must be cast by the Credit Union CEO or Chair. Other representatives of the Credit Union must have a letter of authorization signed by the Credit Union CEO and Chair attached to their ballot in order to vote on behalf of the Credit Union.
- If more than one ballot is received from the same Credit Union, the last one received will be counted and any previously-received ballot(s) will be discarded.



- No nominations from the floor will be accepted. Candidates will be introduced by the Chair of the CU\*Answers Board and will be given an opportunity to speak.
- After the Board Chairperson calls for the vote during the Stockholders meeting, a committee is assigned to adjourn and tally the votes for an official announcement later during the meeting. This group consists of the CFO or designated representative (such as the Internal Auditor), the VP of Administration or designated representative, and one or more members of the Board Nominating Committee. This committee checks all votes cast against a list of owner names to ensure that the same owner did not cast more than one vote. In the case of a tie, the nominating committee will vote and the majority wins (2/3). After votes are counted the results are announced by either a Nominating Committee representative or the Board Chairperson to all attendees before the meeting is adjourned. Ballots are retained in a secured location for at least 2 weeks following the election, then destroyed.
- No later than the end of June, a press release will be prepared announcing the new Board members. An email announcing the results should also be sent to all clients and the Elections website updated with the results.
- The term of the Board is October 1 to September 30. Newly elected Board members attend their first meeting in October.

### General Election Timeline

|                                |   |
|--------------------------------|---|
| <b>Early February</b>          | <ul style="list-style-type: none"> <li>▪ Following the January Board meeting, mail the “Call for Nominations” memo to all stockholders announcing the Nominating Committee and opening up nominations, along with a copy of the updated Board Member Handbook</li> <li>▪ Also send the same communication electronically with link to the Elections site, to familiarize owners with the site and where the Handbook is posted</li> <li>▪ Post the updated Handbook on the Elections site and prepare the site for the 2017 election</li> </ul> |
| <b>3rd Wednesday in March</b>  | <ul style="list-style-type: none"> <li>▪ (Day before the regular Board meeting) Official close of nominations</li> <li>▪ Board meeting to officially set final ballot</li> </ul>  |
| <b>First week in April</b>     | <ul style="list-style-type: none"> <li>▪ Nominating Committee reviews nominations received and chooses candidates for the ballot</li> <li>▪ Send congratulations / instructions email to all candidates; request content (picture, campaign message) for the elections website</li> </ul>   |
| <b>First week in April</b>     | <ul style="list-style-type: none"> <li>▪ Send “nominations are closed” notice (via email) to all CUs and notification about electronic voting process to CUs.</li> </ul>  |
| <b>May 1</b>                   | <ul style="list-style-type: none"> <li>▪ Refresh <a href="http://elections.cuanswers.com/">http://elections.cuanswers.com/</a> with new candidate names and resumes</li> </ul>  |
| <b>First full week in May</b>  | <ul style="list-style-type: none"> <li>▪ Send Leadership Conference invitation packet (email/mail)</li> <li>▪ Send ballot and minutes electronically to stockowners</li> </ul>  |
| <b>Second Friday in June</b>   | <ul style="list-style-type: none"> <li>▪ Deadline for all proxy votes (electronic and paper) to be received</li> </ul>  |
| <b>Third Wednesday in June</b> | <ul style="list-style-type: none"> <li>▪ Official Election and Count</li> </ul>   |
| <b>By June 30</b>              | <ul style="list-style-type: none"> <li>▪ Press release, announce new Board Members to clients</li> </ul>  |





### **Appointing Directors to Fill Unexpired Terms**

If a Board member resigns from the CU\*Answers Board in the middle of a term, if the remaining term is longer than twelve (12) months, the following guidelines will apply:

- The CU\*Answers Board of Directors must officially accept the Board member's resignation and select the date for the final Board meeting to be attended by the resigning Board member. The acceptance and selected date should be noted in the Board meeting minutes. The 12-month period begins as of the final Board attended meeting.
- The Board of Directors will decide when the election for the vacated seat will be held, either as part of the next normal election at the Annual Stockholders meeting, or choose a date for a special election. For example, if someone resigned in August, just two months after the annual meeting, the Board may decide not to wait another year to fill the vacant seat. If the person resigned in March and there was sufficient time for the nomination process, the Board may opt to add another seat to the June election.
- The Nominating Committee will announce the Board member's resignation to all CU\*Answers owners within ten (10) business days of the Board member's final Board meeting. This announcement will include the date of the election to fill the vacant seat and indicate that the Committee is open to receiving nominations from the ownership. The period for accepting nominations, to be specified in the announcement, will be not less than 30 nor more than 60 days.
- From this point forward the nomination and election process will be handled the same as in a normal election (see previous section).

In the case where the remaining term is less than twelve (12) months, the Board of Directors may choose to directly appoint an interim director to fill the remainder of the term or leave the seat empty until the next regular election. If the decision is made to fill the seat with an interim Director:

- The Chairperson will solicit from the Board members and CEO a list of potential candidates to fill the vacant seat.
- The Board will review the list of potential candidates and prioritize the candidates according to the order in which they should be contacted. Each candidate is contacted in order until a candidate accepts the appointment. After a candidate accepts, the remaining candidates are not contacted.
- The Board will announce the change in the composition of the Board, including adjustments to web pages and related documentation, within 30 days of the appointment being made.

### **Board Member Orientation**

- Board members elected at the June Annual Meeting to fill new terms will attend their first meeting beginning with the October Board meeting (the beginning of the new fiscal year).
- Board members who are filling an unexpired term will be considered voting Board members immediately after the election/selection, and will attend the next regularly scheduled Board meeting (based on availability). The new Board member may elect to audit a Board meeting prior to their active participation.
- New Board members will participate in a Board orientation presented by the CEO prior to their first meeting as a Director. In preparation, the CEO will send the following materials to the new Director:
  - The last 3 Board packets (booklet 1) and most recent Team Reports (booklet 2).
  - The previous and current year Business Plan and Budget and most recent Budget Revision
  - The current Employee Share policy



- The most recent Employee Resource Plan
- Materials from the most recent Board Strategic Planning Session
- It is preferred that the Board orientation be held in person at either the Board member's office or at CU\*Answers, but should that not be possible, a phone conference is acceptable. After the orientation, the new Board member will be encouraged to contact other Board members in an effort to confirm any areas that are unclear.

**Special considerations to be noted during the orientation:**

- Currently the Board of Directors chooses to address CEO performance through the contract negotiation process. This method is preferred by both the current CEO and current Board of Directors in lieu of any formal annual review procedure. (More information in the "Primary Duties of the Chairperson" section.)
- Thoroughly review the Employee Share program and the history of the program since its inception. Key to this program are two tenets: 1) This program is reviewed annually by the Board and CEO and is adjusted for ongoing changes in the CUSO's operations and strategic plan. 2) While changes can be made, the program is part of the current CEO's contract and must remain in place until the current contract with the CEO expires.
- As part of the current CEO's contract negotiations, the issue of whether or not the CEO was part of the Board was discussed. These negotiations came down to the way the Board would handle Board Executive Sessions (meetings in which only the Board members participate and non-Board members are excused). It was decided that there was no need for the current CEO to be on the Board as long as the Board agreed that all Executive Sessions would include the CEO. It is the expectation of the Board and CEO that this will be the case as long as the current CEO's contract is in place.



# Distributing Returns to Owners

## Marketing the Value of Our Board Design

Nothing could be more important as a Board contribution than making sure that our cooperative model creates a competitive advantage for our firm and its owners. Beyond that, they must make sure the owners' best interests are embedded in our design and guarded by the Board's actions in everything we do.

When the Board is challenged, it is important that we do not defend people, but rather defend the design and the collective action of our Board. Defending people is defending a candidate, not the institution of our Board of Directors. Like building a succession plan vision for our employees, where we say our design is sustainable no matter who is executing it, we need to say that the importance of our Board is also sustainable based on its design.

## Our Design for Managing Ownership Returns

- The Board needs to **maximize the current-year distributions** to owners whenever possible. This happens through two distributions:
  - **Patronage Dividends:** Pre-tax dividends. (The major concern here is the marketing effect of Patronage Dividends and the appearance of Patronage Dividends trending up, down, or staying the same. What does that mean to the market and the confidence of our clients and owners?)
  - **Stock Dividends:** Post-tax dividends which reduce the equity effect of net income from the current year.
- The Board needs to **maximize the current stockholder value** so that Credit Unions who bought in and paid an ownership premium to participate as owners can eventually cover that difference with equity growth. Equity growth comes from two sources:
  - The sales of ownership positions to Credit Unions who pay the book value plus an opportunity cost through the Board setting the purchase price.
  - The net income after Patronage Dividends and taxes, less stock owner dividend distributions, that is added to retained earnings.

## Other Considerations in Representing Our Ownership: Maximizing Their Returns

The Board must also be diligent in helping us maximize the value of our cooperative model. They do this based on a deep understanding of the basic tenets of our CUSO. When working properly, these tenets benefit our customer/owners through expected ownership returns that give us a competitive advantage over for-profit firms. These tenets include:

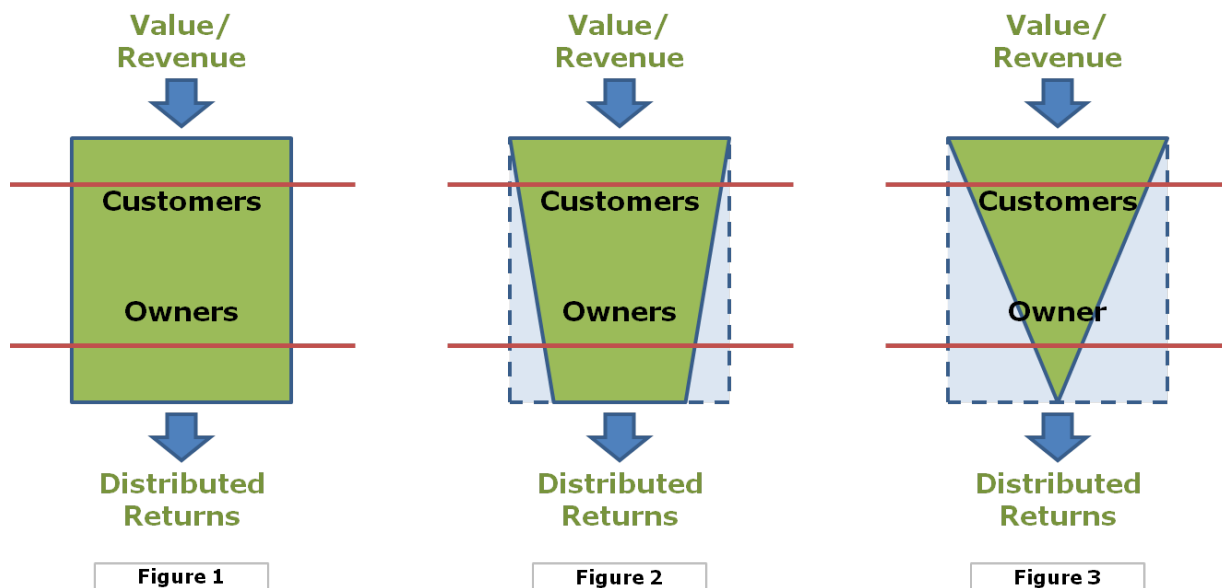
- Our pricing and our value exchange with our customers are designed to be ownership dividends themselves. There is no advantage in our cooperative model to overcharging our customer/owners in order to transfer income to third-party stockholders. We lower prices whenever possible to distribute ownership value. Therefore, we charge when we have to, not just when we can.
- Owners are part of our innovative process and are rewarded for this. First, owner customers should have a greater input into and response from our firm in developing solutions. This should be embedded in our design. Second,



owner customers can choose to fund the investment and, based on our pricing; we can distribute an ownership dividend that is pre-tax and consistent with the operational intent of our Credit Union owners.

- The Board will guard owner returns through the tenet that we are more focused on our current customer owners and their needs versus the at-risk investment and promises for potential clients through our cost-of-sales investment. Third-party firms are typically more worried about marketplace expansion first, given that they redistribute income from clients to themselves.
- The Board approves Executive Management to have full authority when allowing new stockowners to buy shares. The Board does not need to approve each new stockowner, but relinquishes the due diligence process to Executive Management.

### DEFENDING OUR COOPERATIVE CUSTOMER/OWNERSHIP MODEL



In the perfect cooperative, where every single customer is an owner, at every level of design, you are ensuring that all owners are represented. There is no model of distribution of income from one client to another: all clients enjoy the same pricing, all clients enjoy the same interactions, and all clients share the returns evenly. Effectively, this model is exactly what you have when you consolidate everyone into one firm. Based on the fact that our CUSO grows both from customers and owners, how do we get as close to this model as possible?

- In **Figure 1**, the value recognized and the returns generated are equally distributed to all, since all owners are customers; everyone has an equitable distribution of all that is available.
- In **Figure 2**, when there is an option to be an owner or a design that limits the number of owners, there is potential for a less-than-equitable distribution of all that it is available. It is the Board's oversight that balances these distributions and ensures the success of both the customers and the owners.



- In **Figure 3**, where the earned returns are all focused on a single owner, there is a greater potential for the owner not to be as concerned about customer value exchanges that are equitable to the amount the owner receives in yield. In other words, “who cares what we charge them, as long as we get what we want?”

Our model, and the way the Board governs the decisions we make in regards to our customers/owners, should maximize the returns for all stakeholders in the most equitable way possible.

This not to say that for-profit firms with different ownership models don’t have to balance their returns against their desire to expand their market, keep customers, and see themselves as ethical business people. We just run a different kind of business, and hopefully our customers see the value in the protection of our design and having a Board with parallel interests as customers and owners themselves.

The very idea that we chose this business charter (a cooperative) sets the stage for a very important Board responsibility: maximize the return from our charter. This highlights another responsibility of the Board: maintaining a proper balance between the revenues generated from customers in relationship to the number of owners. The Board is responsible for working with all of the owners to set a number for the maximum number of owners, and to set the ownership price in a way that protects current owner equity and allows the firm to add new owners on goal.

Note: figure 1 is one of the greatest advantages credit unions have. By design, all customers are owners, and all customers are supposed to have an equal share of distributed returns, pushed forward to future owners. The model is perverted whenever the management team or board assumes an ownership perspective and starts to focus the returns more on themselves than the customers/owners as large. Every credit union board needs to understand the responsibility not to do that.

### Using Ownership Distribution Targets Throughout the Year

When it comes to planning, and executing on the distribution of net income to its owners, CU\*Answers has three key annual events:

1. August – Approving the Budget for the next year (August 2017: set 2018 budget)

At this time of year, the Board evaluates the targets against the projected net income of the next year’s budget and uses the targets as a gut-check to make sure the owners’ priorities for income distributions are considered.

April – Approving the Mid-Year Budget Recast (April 2017: assess mid-year performance for the 2017 business year)

At this time of year, the Board evaluates the progress towards the ownership distribution targets and directs management to adjust its operations or budget accordingly. For example, the Board might anticipate that targets will be easily met and allow management to move forward to additional investments, or direct management to increase the targeted levels. Based on our rolling 18-month budget process, the Board can see all the way to end of the next year and how targets might be unfolding based on the projections.



2. June – Thinking about the current budget work for the next calendar year (June 2017: set targets for the 2018 budget)

As part of the June Board meeting, and in preparation for Management creating the budget for the next business year, the Board will undergo a discussion with Management as to the targets that are the foundation for the upcoming year's budget and business plan. One more review before the team gets busy on the budget.

3. October – Evaluating targets and our performance for the previous year and setting the final distribution of income (October 2017: set 2017 distribution amounts based on Sept. 30 year-end closing financials)

At this time of year, the Board evaluates its ability to distribute income against its targets, and may actually declare additional distributions to either current-year payments or improvements in equity. In some years, it may actually say it missed the targets and would distribute income that was lower than the original intent. One additional action at this time is to consider whether the current target formulas are still relevant or whether they should be changed and documented as to why. For example, in a year where you paid well in excess of your targeted Patronage Dividends, should you continue on with the plan for a similar annual increase every year?

The ultimate goal here is a system that always has the owner in mind and that is well balanced against the other needs of the firm. The Board has a design for doing so, the Board documents how it is using the design, and the Board evolves the design every year to maintain a healthy firm, confident owners and a positive marketplace persona.



## Proposed Target Formulas

### Maximizing Current-Year Distributions

- **Target 1: Patronage Dividend**

*Set a target for the change in Patronage Dividends. For example, if the previous year Patronage Dividends were \$800,000, what is the goal for the next year – increase, decrease, or stay the same? Remember our marketing concerns: what do Patronage Dividends mean to the market and to the confidence of our clients and owners?*

*NOTE: Keep in mind that a bonus Patronage Dividend can also be paid on top of the core based on a positive variance in our execution to budget.*

- **Target 2: Stock Dividend**

*Set a target for the change in Stock dividend distributions. For example, if we paid out xx.xx% in stock dividends in the previous year, what should the trend be, moving forward? Do we want an ever-increasing stock dividend percentage, a consistent percentage, or should it start trending downward? As patronage dividends provide a pre-tax deduction, owners will receive a bigger distribution if we hold stock dividends and enhance patronage dividends.*

### Maximizing Stockholder Value

- **Target 3: New Owners**

*Set a goal for attracting new owners and increasing equity through additional paid-in capital. For example, in 2017, we may have set a goal to add 5 new owners, representing roughly 20% of the proposed new clients that are anticipated to convert during that fiscal year. Using \$225,000 as the share price paid, the CFO would be able to anticipate the effect of 5 new owners on the equity for 2017.*

- **Target 4: Per-Share Value**

*Increase the value per share by a growth percentage over the previous year-end, yielding a targeted net equity increase at the end of the upcoming year. For example, in 2017, we might have set the goal for per-share value to increase by 10%. This would allow the CFO to calculate the actual net increase for the end of the year. The budget could get to this number via two tactics: selling new owners, or earning net income. Therefore, the formula is new equity equals additional paid-in capital plus retained earnings from the year.*



**Sample Illustration**

|   |               |
|---|---------------|
| 9/30/16 Ending Equity                           | \$12,936,549  |
| No. of Shares Outstanding                       | 24,800        |
| Value Per Share                                 | \$521.64      |
| 2016 Stock Sales (Net)                          | \$1,201,346   |
| Estimated Net Income before Taxes and Dividends | \$5,145,240   |
| Less: Stock Dividends (4%)                      | \$597,198     |
| Less: Patronage Dividends                       | \$1,500,000   |
| Less: Bonus Patronage Dividends                 | \$2,000,000   |
| 9/30/17 Projected Equity                        | \$ 14,619,382 |
| No. of Shares Outstanding                       | 25,600        |
| Value Per Share                                 | \$571.07      |
| % Increase                                      | 9.48%         |





# Summary of Key Dates for CU\*Answers Owners

The CU\*Answers current fiscal calendar begins on October 1 and ends September 30. This is an example of a board calendar of events and is subject to change. The Board of Directors sets the calendar at the beginning of each year to make planning schedules easier.

## October

- Reorganization meeting
- Election of Chair, Vice Chair and Secretary/Treasurer
- Appointment of Nominating Committee
- Appointment of HR Committee
- Appointment of Investment Committee
- Appointment of Handbook Committee – publish revisions in time to be included with the opening of nominations
- Approval of Annual Calendar
- Annual Review of E&O Insurance coverage
- Task 4 in the Ownership Distribution annual cycle (see Page 23): Evaluate targets related to ownership distributions and performance for the previous year and set final distribution of income (for example, in October 2017 set 2017 distribution amounts based on Sept. 30th closing financials).

## November

- Review of Audit procedures and reports

## January

- Distribution of Annual Report, Audited Financials, and Board Member Handbook to all CU\*Answers stockholders
- Distribution of Patronage Dividends
- Distribution of Stock Dividends
- Business Continuity Plan
- Nominating Committee begins open acceptance of applications for Board election


At the Board's discretion dividends may be sent in December.

## March 31

- Nominating Committee closes acceptance of applications for Board election
- Nominating Committee reviews applications and present candidates, with notification to stockholders of ballot after the board meeting
- Nominating Committee considers petitions for additional candidates to be added to the ballot; any amendments to the ballot will be communicated to stockholders.

## April

- Mid-year Budget Revision
- Annual Employee Resource Outlook report

- 
- Task 2 in the Ownership Distribution annual cycle (see Page 23): Assess mid-year performance for the current business year as it relates to ownership distributions.
  - Review Executive Traveler Policy (review every 2 years)

#### June

- Leadership Conference
- Annual Stockholders Meeting and Election of Officers
- Golf Outing
- Task 3 in the Ownership Distribution annual cycle (see Page 23): Set targets related to ownership distributions for the next business year's budget (for example, in June 2017 set targets for the 2018 budget).

#### July

- Business Continuity Plan
- Annual Planning Session
- Approve upcoming year's Business Plan

#### August

- Approve upcoming year Budget
- Approve Compensation Budget
- Task 1 in the Ownership Distribution annual cycle (see Page 23): Evaluate targets related to ownership distributions against the projected net income of the next year's budget; ensure owners' priorities for income distributions are considered (for example, in August 2017 set 2018 budget).
- Nominating Committee initiates the Board Reorganization process.



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