

Print

Board Governance Manual

Cucorp Board Governance Master

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Chapter 1000: Administrative

We need some sort of title for this section.. . Board Administrative Policies? General Board Policies?

Also, this Chapter 1000 is a page in the manual, so we need some content here. All the other chapters have a policy at the top chapter level - we need at least some sort of introductory thing here. Perhaps the CU can list the current board members or something on this page?

Chapter 1100: Mission Statement/Statement Of Purpose

Published: 08/09

General Policy Statement:

[[1100-1]]

The Credit Union's Board of Directors is established to direct and control the activities of the Credit Union to enrich our communities and enable members to enjoy sound financial health, at a competitive cost.

Guidelines:

1. **PRIORITIES.** In order to carry out the Credit Union's mission, the Board of Directors shall ensure that the Credit Union meets the following priorities:
 - A. **Service Quality** – High levels of personal service will differentiate the Credit Union from its competitors as a not-for-profit financial service cooperative.
 - B. **Value** – Because the Credit Union operates with a not-for-profit structure and an exemption from federal and state income taxes, most products and services will be priced favorably compared to for-profit competitors.
 - C. **Service to People of Modest/Moderate Means** – The Credit Union is committed to serving members who most need the service quality and fairly priced, essential financial services.
 - D. **Support of National/International Credit Union Movement** – The Credit Union is part of a national and international credit union movement. The Credit Union will support its trade associations and cooperative efforts for the benefit of the whole credit union movement.
 - E. **Community Service** – The Credit Union will consciously and continually look for ways to strengthen the communities within which we serve our members.

Chapter 1110: Strategic Planning

Published: 08/09

General Policy Statement:

The Board recognizes that planning for the future is imperative. Understanding past performance, current conditions and future trends provide a rational approach to effective business planning.

The Credit Union shall participate in an annual planning process designed to identify and prioritize vital strategic objectives. The results of the annual process shall be summarized and adopted as the Strategic Plan for the Credit Union. Management business plans and budgets shall be formulated within the scope and intent of the Strategic Plan. The planning process shall involve all directors, key management staff and volunteers, as appropriate.

Guidelines:

1. **RESPONSIBILITY.** The Board of Directors is responsible for reviewing and approving the Strategic Plan. The [1110-1] is responsible for managing the planning process and developing the plan.
2. **PREPARATION.** Effective strategic planning requires both research and informed discussion. The Board shall design the planning process to include adequate research in critical areas. Research results shall be summarized and disseminated prior to the planning the session.
3. **STRUCTURE.** The Credit Union shall conduct a Strategic Planning Session each year. The length and structure of the session shall be based on the anticipated planning issues. The Credit Union may hold the planning session in an outside facility to minimize interruption and promote creative thinking, and may hire a facilitator to conduct the session.
4. **HORIZON AND TIME FRAME.** The Strategic Plan shall be updated annually to cover a [[1110-2]] year horizon. The updated plan shall be reviewed by the Board during the month of [[1110-3]]. Business plans and budgets for the next operating period shall be prepared within the scope and direction of the updated Strategic Plan.
5. **SCOPE.** The Strategic Plan shall address all key areas of Credit Union operations and performance. However, the plan will remain strategic in nature. At a minimum, the policy shall consider the following:
 - A. Member Services
 - B. Financial Performance
 - C. Operational Effectiveness/Regulatory Compliance
 - D. Human Resources
 - E. Technology

- F. Facilities
 - G. Security
 - H. Privacy
 - I. Disaster Planning
 - J. Investments Policy
 - K. Interest Rates
 - L. Loan Maximums
6. **STRATEGIC DIRECTION.** The Board shall establish objectives for all key areas of the Credit Union's operations and performance. The number and detail of strategic objectives shall be carefully considered to ensure they provide direction on what should be accomplished rather than details on how. The objectives shall be flexible enough to be responsive to change and events, such as economic and/or business conditions, legally mandated programs, or actions required by examiners and/or auditors. Based on needs and trends, the Board may develop specific supporting plans in critical or rapidly changing areas.
7. **COMMUNICATION.** In order to carry out the objectives and strategies of the Strategic Plan, the CEO shall communicate the Plan to all personnel. Duties shall be assigned, and job descriptions may be adjusted when necessary to achieve results.
8. **MEASUREMENT.** The CEO shall establish measurable goals in an effort to achieve the results of the Strategic Plan. These goals may change, depending on the business and/or economic climate. Regardless of whether these goals increase, decrease or remain the static throughout the term of the Strategic Plan, sufficient explanation of the goals shall be provided.
9. **PLAN REVIEW.**
- A. **Quarterly Report.** The CEO shall provide a quarterly report to the Board on the progress made in the achievement of goals and any substantive adjustments made to the Plan.
 - B. **Annual Review.** The Board shall review the Plan annually to evaluate the strategies, measure the progress of implementation and make any adjustments that may be necessary.

Chapter 1120: Organizational Structure

Published: 08/09

General Policy Statement:

The Board of Directors is responsible for hiring, evaluating and retaining a high-quality CEO. The CEO is then responsible for the organizational structure of the Credit Union, in compliance with established budget guidelines approved by the Board of Directors.

Guidelines:

1. **ALLOCATION OF RESOURCES.** The Credit Union's organizational structure shall provide for an optimum allocation of resources on activities that are consistent with the mission statement and other Board policies.
2. **STRUCTURE.** The CEO is empowered to structure the organization as deemed necessary to accomplish the Credit Union's mission and objectives. This shall be done in accordance with other Board policies and the annual operating budget. The Board shall be regularly apprised of significant changes in the organizational structure.
3. **COMMITTEES.**
 - A. The Board shall appoint the following committees to assist it:
 - i. A Supervisory Committee consisting of not less than three nor more than five members.
 - ii. Where the bylaws so provide, an Executive Committee of not less than three directors.
 - B. The Board may appoint the following committees to assist it:
 - i. Where the bylaws so provide, a Credit Committee consisting of an odd number of members of the Credit Union, but which shall not include more than one loan officer.
 - ii. An Asset/Liability Management Committee.
 - iii. An Investment Committee.
 - iv. A Nominating Committee
 - v. Such other committees as the Board deems appropriate.
4. **STAFFING CHANGES.** The CEO shall inform the Board in a timely manner regarding all newly created positions and changes that would result in a negative variance from the annual operating budget line item for personnel costs.

5. **SALARIES.** The Board is responsible for establishing a competitive salary range for the CEO. The CEO shall be responsible for establishing and regularly updating salary ranges for all staff. A balance between fiscal conservatism and salary competitiveness is to be sought both by the Board for the CEO, and by the CEO for all staff positions.

Chapter 1130: Credit Union Field Of Membership

Published: 08/09

General Policy Statement:

The Board of Directors is responsible for establishing the Credit Union's field of membership in accordance with state and/or federal regulatory requirements. The Board shall strive to establish a field of membership that serves current members' needs while also reaching out to serve segments of the population not well-served by existing credit unions and other financial services providers.

Guidelines:

1. **FIELD OF MEMBERSHIP**
[1130-1]
2. **VERIFICATION OF MEMBERSHIP ELIGIBILITY.** The CEO shall ensure that the Credit Union verifies the eligibility of prospective members seeking membership with the Credit Union.
 - A. **Occupation-Based (Select Employee Group) Eligibility.** Employees, retirees [[the SEG (s)]] volunteers, and their immediate family members and spouses of persons who died while in the field of membership, as well as organizations of such persons, are eligible for membership with the Credit Union. The Credit Union shall review [[1130-2]] to determine whether the prospective member meets the occupation-based membership eligibility.
 - B. **Education-Based Eligibility.** Employees of and students attending [[the school]], volunteers, their immediate family members and spouses of persons who died while in the field of membership are eligible for membership with the Credit Union. The Credit Union shall review [[1130-3]] to determine whether the prospective member meets the education-based membership eligibility.
 - C. **Association-Based Eligibility.** Employees and businesses of the association, as well as the association are eligible for membership in the Credit Union. The Credit Union shall review [[1130-4]] to determine whether the prospective member meets the association-based membership eligibility.
 - D. **Community-Based Eligibility.** People (including businesses) who live, work, worship or attend school in the community, as well as their immediate family members and spouses of persons who died while in the field of membership are eligible for membership with the Credit Union. The Credit Union shall review [[1130-5]] to determine whether the prospective member meets the community-based membership eligibility.
 - E. **Trade, Industry or Profession (TIP)-Based Eligibility.** Employees, independent contractors, volunteers or self-employed persons who work regularly in the licensed industry, corporations, retirees, as well as spouses of persons who died while in the field of membership, and the immediate family members within the TIP are eligible for membership with the Credit Union. The Credit Union shall review [[1130-6]] to determine whether the prospective member meets the TIP-based membership eligibility.

3. **ONCE A MEMBER, ALWAYS A MEMBER.** Once a person becomes a member of the Credit Union, such a person may remain a member of the Credit Union until the person chooses to withdraw or is expelled from the membership of the Credit Union.

Chapter 1140: Credit Union Movement Support

Published: 08/09

General Policy Statement:

The Credit Union will strive to support the state, national and international credit union movement. This includes support for state and national trade associations, local chapter activities and cooperative initiatives that either directly or indirectly benefit the Credit Union's membership. Within reasonable pricing parameters (+/- 10 percent), the Credit Union will be biased toward supporting credit union system organizations or those that are credit union-centric as opposed to other vendors.

Guidelines:

1. **ORGANIZATIONAL SUPPORT.** The Credit Union will support the following credit union movement organizations through budgeted financial contributions and other support deemed appropriate by the CEO unless modified by Board action:
 1. [1140-1].
 2. The Credit Union National Association.
 3. The Credit Union Executive Society.
 4. [[1140-2]] Corporate Credit Union.
 5. The Co-op Financial Network.
 6. CUNA Mutual Insurance Group.
 7. The World Council of Credit Unions.
 8. The Filene Research Institute.
 9. [[1140-3]]

Chapter 1150: Credit Union Partner Organizations

Published: 08/09

General Policy Statement:

The Credit Union relies on significant partner organization support for annual audits, consulting services, and other cooperative ventures. These organizations help make the Credit Union stronger and more effective. All relationships shall be managed by the CEO and care will be given to assure that these organizations are adding value for the Credit Union without any inappropriate personal benefit to the CEO, policymakers or staff.

Guidelines:

1. **PARTNERS.** The following Credit Union partner organizations are considered significant partners and the CEO will exercise great care in maximizing the benefits of these relationships:
[1150-1]
2. **CONTROLS.** The Board shall ensure that the Credit Union employs controls to ensure that the relationship is meeting expectations and the third party is meeting its responsibilities, pursuant to the Credit Union's Vendor Due Diligence and Oversight policy.
3. **NEW PARTNERSHIPS.** Prior to engaging in any new partnerships, the Board shall ensure that adequate due diligence is performed, pursuant to the Credit Union's Vendor Due Diligence and Oversight policy.

Chapter 1160: Service Pricing Philosophy And Guidelines

Published: 08/09

General Policy Statement:

The Credit Union is committed to a pricing philosophy that puts service ahead of profit. While the Credit Union will be unable to always provide the best price on a particular product or service, competitive pricing shall always be sought. As for fee practices, the Credit Union shall seek to minimize fees wherever possible, understanding that certain penalty pricing is necessary (i.e., NSF fees) as well as fees that help recover transaction costs (i.e., ATM fees).

Guidelines:

1. **RATES AND FEES.** The Credit Union Board of Directors empowers the CEO to establish interest rates and fees on a regular, periodic basis in order to keep service/product pricing competitive.
2. **PRICING CHANGES.** The CEO shall report to the Board at least quarterly regarding any major changes to pricing. The CEO shall also provide the Board with a summary that compares the Credit Union's pricing to major competitors on core products and services.
3. **CORE PRODUCTS.** "Core products" are defined as [1160-1].

Chapter 1170: CUSO Services

Published: 08/09

General Policy Statement:

The Credit Union shall seek to take advantage of legal authority to invest in and operate Credit Union Service Organizations (CUSOs) with the purpose of enhancing core services and/or reducing costs for the Credit Union and its members. At all times, this shall be done in compliance with laws and regulations pertaining to CUSO activities and in such a way that significant safety & soundness risks are avoided.

Guidelines:

1. **CURRENT INVESTMENTS.** The Credit Union currently invests in the following CUSO operations:
[[1170-1]]
2. **INVESTMENT LIMITATIONS.** The Credit Union shall adhere to the [[1170-2]] Credit Union Act with regard to the limit to which the Credit Union may invest in a CUSO.
3. **PERMISSIBLE ACTIVITIES.** The Credit Union shall adhere to the [[1170-2]] Credit Union Act with regard to the permissible activities of a CUSO in which the Credit Union wishes to invest.
4. **RISK ASSESSMENT.** Prior to investing in any CUSO, the CEO shall ensure that a risk assessment is performed in order to determine whether the investment is compatible with the Credit Union's philosophy, risk tolerance and overall strategic plan.
 - A. **Documentation.** The CEO shall document how the investment corresponds with the Credit Union's Strategic Plan, considering long-term goals, objectives and resource allocation requirements. Consistent with the Credit Union's Strategic Plan, the CEO shall design action plans to achieve objectives in support of strategic planning for new CUSO investments. The CEO shall also clearly define the nature and scope of the Credit Union's needs which will be met by the CUSO, and to what extent the CUSO will be responsible for the desired results.
 - B. **Categories of Risk.** Categories of risk to be assessed include: financial loss if the venture fails; loss of member confidence if the CUSO products or services fail to meet member expectations; and whether the potential benefit of the investment outweighs the potential risks or costs.
 - C. **Periodic.** The risk assessment shall be conducted periodically as long as the Credit Union invests in the CUSO. The risk assessment shall be shared with the Board.
5. **DUE DILIGENCE.** Prior to investment, the CEO shall ensure that the Credit Union performs due diligence on the CUSO, pursuant to the Credit Union's Vendor Diligence & Oversight policy.

6. **MONITORING AND REPORTING.** The CEO shall report to the Board of Directors at least [[1170-3]] per year on the progress of the Credit Union's investment in its CUSO activities. The emphasis should be on how the CUSO(s) is/are performing, what types of benefits the Credit Union realizes as a part of the investment and what, if any, safety & soundness risks these activities pose to the Credit Union.
7. **INDEPENDENT LEGAL ENTITY.** The Credit Union shall ensure that the CUSO operates as a separate legal entity that is independent from the operation of the Credit Union. The CUSO shall maintain a separate board of directors, maintain separate board meeting minutes, and hold a separate annual meeting.
8. **COMPENSATION.** The Board of Directors, committee members, senior management employees, and their immediate family members may not receive any salary, commission, investment income, or other income or compensation from the CUSO, directly or indirectly, or from any person being served through the CUSO. All transactions with business associates or family members of FCU officials, senior management employees, and their immediate family members, not specifically prohibited shall be conducted at arm's length and in the interest of the Credit Union.

Chapter 2000: Broad Executive Limitations Policies

Published: 08/09

General Policy Statement:

The Board of Directors shall establish Executive Limitations policies that limit the authority of the CEO in certain areas. The policies in this chapter are intended to be broad guidelines that address areas where the Board is uncomfortable delegating complete authority to the CEO.

Guidelines:

1. EXECUTIVE LIMITATIONS

- A. The CEO shall not allow any practice, activity, decision, or organizational circumstance that is either unlawful, imprudent, or in violation of commonly accepted fiscal, business, or professional ethics, or is contrary to the Credit Union's values as expressed in this policy manual.
- B. The Board of Directors shall establish Executive Limitations policies within a framework that moves from broad to specific depending on the need for more specificity.

Chapter 2100: Operational Planning

Published: 08/09

General Policy Statement:

The CEO will not make major changes to the Credit Union's strategic plan without first seeking input and approval from the Board of Directors. However, the Board recognizes the importance of the CEO being the primary catalyst for change for the strategic plan and empowers him/her to propose changes to the Board. Operational plans are the complete responsibility of the CEO.

Guidelines:

1. **OPERATIONAL PLANS.** The CEO has complete authority to create supplemental operational plans and policies that implement the Board-approved strategic plan. These operational plans do not require prior approval from the Board.
2. **STRATEGIC PLAN COMPLIANCE.** The CEO shall not make decisions that are in conflict with the Board-approved strategic plan without first seeking direction and approval from the Board of Directors.
3. **INTEGRATION WITH ANNUAL OPERATING BUDGET.** Day-to-day operational decision-making by the CEO shall also be consistent with the guidelines provided by the annual operating budget which is to be in sync with the strategic plan. Line item variances shall be explained to the Board on at least a semi-annual basis. Decisions which lead to material variances (50 percent or more) require prior approval from the Board.
4. **ORGANIZATIONAL STRUCTURE IMPLICATIONS.** The CEO shall apprise the Board of any significant organizational structure changes made by the CEO. However, these changes do not require prior approval from the Board.

Chapter 2110: Financial Planning And Budgeting

Published: 08/09

General Policy Statement:

All financial transaction conducted by or on behalf of the Credit Union shall be made in a manner and method that efficiently and effectively demonstrates good stewardship in the management of funds and resources according to established financial management practices, accounting standards and auditing requirements. The Board of Directors recognizes that the annual operating budget and other financial plans are created as guides to executive and Board decision-making.

Guidelines:

1. **PLANNING PERAMETERS.** Financial planning for any fiscal year or the remaining part of any fiscal year shall not deviate materially from the Board's priorities or risk fiscal jeopardy.
2. **VARIANCES.** Individual line item variances are to be expected and do not require prior Board approval. However, material deviations from the Board approved budget shall be reported to the Board as soon as practicable.
3. **PROHIBITIONS.** Further, without limiting the scope of the above statements by the following list, the CEO shall not allow budgeting that:
 - A. Contains too little information to enable credible projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.
 - B. Plans the expenditure in any fiscal year of more funds than are conservatively projected to be received in that period.
 - C. Reduces the net worth to assets ratio below the greater of the credit union's risk-based net worth requirement or 7% for more than six (6) consecutive months.

Chapter 2120: Financial Condition And Activities

Published: 08/09

General Policy Statement:

The Credit Union Board of Directors recognizes that the CEO has broad authority and discretion in managing the financial activities of the Credit Union. These Executive Limitations policies set direction for the limitations on that authority.

Guidelines:

1. **GENERAL RESPONSIBILITY.** With respect to the actual, ongoing financial conditions and activities, the CEO shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from Board priorities.
2. **SPECIFIC PROHIBITIONS.** Further, without limiting the scope of the above statement by the following list, the CEO shall not:
 - A. Indebt the organization in an amount greater than [[2230-1]] times the amount of Net Capital at the time the debt is incurred.
 - B. Manage assets and liabilities without the use of a comprehensive financial modeling tool capable of analyzing a five-year future time period.
 - C. Fail to measure interest risk in a scenario of plus or minus 300 basis points (3%) over a five-year time period.
 - D. Fail to timely file required filings of the Credit Union’s financial condition to the regulatory agencies.
 - E. Allow the change in Net Interest Income based on a five-year scenario to vary from the following matrix:

Rate Change (Shock Test)	Acceptable % Change in Net Interest Income (NII) in Years 1-3	Acceptable % Change in Net Interest Income (NII) in Years 4-5
Plus 3% (300 basis points)	30% or less over any 12 month period	50% or less over any 12 month period
Minus 3% (300 basis points)	30% or less over any 12 month period	50% or less over any 12 month period

- F. Fail to settle payroll and debts in a timely manner.
- G. Allow tax payments or other government-ordered payments or filings to be overdue or

inaccurately filed.

- H. Allow the net worth to assets ratio to fall below the greater of the Credit Union's risk-based net worth requirement or 7%.
- I. Approve or allow to be approved purchases that are noncompetitive or do not meet the Credit Union's needs. For the purpose of this policy, purchases are defined broadly as capital expenditures, contracted expenses, and other expenses related to the administration of the Credit Union.
- J. Approve unbudgeted capital expenditures in excess of [[2230-2]] without advance Board approval.
- K. Fail to explain to the Board the reason for any year-to-date operating expense variance of more than [[2230-3]].
- L. Fail to aggressively pursue receivables after a reasonable grace period.

Chapter 2130: Spending Authority

Published: 08/09

General Policy Statement:

The Credit Union Board of Directors recognizes that the CEO has broad authority and discretion in managing the financial activities of the credit union. These Spending Authority policies set direction for the limitations on that authority.

Specific Guidelines:

1. **CAPITAL EXPENDITURES.** The CEO shall be authorized to make capital expenditures as defined within the capital expenditures budget for the productive use of the Credit Union. The Board will be informed of unbudgeted capital expenditures in excess of \$[[2240-1]].
2. **BOARD APPROVAL ITEMS.** The CEO shall seek Board approval for the following:
 - A. Unbudgeted capital expenditures in excess of \$[[2240-2]].
 - B. Unbudgeted sale of assets over \$[[2240-3]].
 - C. Credit union political action committee contributions over \$[[2240-4]].
 - D. Any significant reallocation of resources that deviates from the annual operating budget.
3. **LIMITATION.** The CEO shall not exercise spending authority with respect to a transaction, from which he/she or his/her relatives can personally benefit.

Chapter 2140: Personnel And Staffing

Published: 08/09

General Policy Statement:

The CEO shall develop and maintain personnel policies that administer benefits and other Credit Union personnel matters in compliance with relevant laws and regulations.

Guidelines:

1. **REQUIREMENTS.** The CEO shall do the following:
 - A. Seek Board approval for any significant changes in employee benefit programs.
 - B. Reward and discipline employees strictly on the basis of performance.
 - C. Provide for reasonable and appropriate personnel training.
 - D. Provide a safe and satisfying work environment.
2. **PROHIBITIONS.** The CEO shall not do the following:
 - A. Impede the personnel grievance process.
 - B. Discriminate against personnel in recruitment, hiring, promoting, supervising, transferring, or terminating on the basis of age, race, color, religion, sex, national origin or disability.
 - C. Change his/her own compensation and benefits.
 - D. Promise or imply permanent or guaranteed employment.
 - E. Establish current compensation or benefits for other staff that deviate materially from the geographic or professional market for the skills employed.
 - F. Create compensation obligations over a longer term than revenues can be safely projected, in no event longer than one year, and in all events subject to losses in revenue.

Chapter 2150: Nepotism

Published: 08/09

General Policy Statement:

The Credit Union adopts this nepotism policy in an effort to minimize potential problems associated with hiring related individuals. For the most part, the policy applies to “immediate family members.” “Immediate family member” means a spouse, sibling, grandparent, grandchild, parent, and children whether by blood, marriage, or adoption, in-laws, and any other member of the employee's household.

Guidelines:

1. HIRING OF FAMILY MEMBERS.

- A. **Family Members of Officials.** The Credit Union may NOT hire an immediate family member of a Credit Union official. An official is the Credit Union CEO, Executive Vice President, and credit manager, and any member of the Board of Directors or Supervisory Committee.
- B. **Family Members of Staff and Employees.** An immediate family member of a staff member or employee will be considered for employment, provided the applicant possesses all the qualifications for employment AND such employment would not do the following:
 - i. Create either a direct or indirect supervisor/subordinate relationship with a family member; or
 - ii. Create either an actual conflict of interest or the appearance of a conflict of interest.
- C. **Work Assignments for Family Members.** Close working proximity of family members is discouraged. To the greatest extent possible, family members shall be assigned to different work areas or shifts where opportunities for favoritism are not perceived to exist.

2. **CHANGE IN EMPLOYMENT STATUS.** The criteria set forth above shall also be considered when assigning, transferring, or promoting an employee or staff member.

3. **CHANGE IN FAMILY STATUS.** Employees and staff members who marry or become members of the same household may continue employment as long as there is not:

- A. A direct or indirect supervisor/subordinate relationship between such employees; or
- B. An actual conflict of interest or the appearance of a conflict of interest.

Should one of the above situations occur, the Credit Union shall attempt to find a suitable position within the Credit Union to which one of the affected employees may be transferred. If accommodations of this nature are not feasible, the employee or staff member shall be permitted to determine which of them will resign.

Chapter 2160: CEO Succession Planning

Published: 08/09

General Policy Statement:

The Credit Union's success is dependent upon placing the right people in the appropriate positions at the right time. The CEO succession plan is designed to ensure the continued effective performance of the Credit Union by planning for the ongoing development, placement, and replacement of key people, and to ensure there is sufficient organizational capacity for the competent operation of the organization to continue in the event of sudden loss of CEO services.

The CEO Succession Plan is designed to anticipate known and unknown circumstances – termination (voluntary and involuntary); retirement; death; total and permanent disability; or incompetence – which may arise that could cause the organization to replace its key executive.

Guidelines:

1. **RESPONSIBILITIES.** The Board shall be responsible for the management of the CEO Succession Plan.
2. **COMMITMENT TO PROMOTION FROM WITHIN.** The Credit Union is firmly committed to promoting from within whenever possible. The Credit Union is committed to assisting employees in developing their potential and in pursuing their career goals. However, succession shall involve an objective process that opens the competition for the position to a diverse group of qualified candidates.
3. **BOARD MEMBER ELIGIBILITY.** A member of the Board of Directors [[2160-1]] be eligible to become a candidate for the CEO position.
4. **TIMING.** Succession planning is an ongoing activity. However, the CEO shall review and update plans annually.
5. **PROCESS.** The Board shall ensure that the following process is performed:
 - A. **Identify and Define Key Positions.** Identify current and future key organizational positions. Key positions may include:
 - i. Executive positions
 - ii. Middle and first line supervisors
 - iii. Unique and difficult to fill professional or technical positions
 - B. **Forecast Future Needs.** Forecast long term (over 3 years), intermediate and immediate replacement needs for key positions.
 - C. **Analyze Key Positions.**

- i. Perform a position analysis. Identify the critical competencies of the positions. Assess skill, knowledge, experience, and personal requirements of key positions.
 - ii. Create a position profile for use in recruiting or developing key employees. Develop criteria used to evaluate quality and readiness of successors.
 - iii. Identify possible career paths.
 - iv. Determine whether positions are likely to be filled externally or internally.
- D. Implement a Review Program. Regularly assess and review success of the Succession Planning program and modify as necessary.

6. MANAGEMENT RESPONSIBILITIES.

- A. **All Managers.** Every manager has an obligation to (1) prepare employees to assume new responsibilities, (2) identify and prepare successors (3) participate in employee development plans and (4) conduct an annual HR audit of his/her employees (direct reports) to determine employee performance, readiness, potential to move to an advanced position, and the employee development needed (5) review positions, position descriptions and staffing needs and modify where necessary.
- B. **Managers Overseeing Replacement of "Key Positions."** Managers identified as being responsible for assisting in the Succession Planning for key positions are responsible for recommending potential successors and coordination of all succession planning activities.
- C. **Senior Management Review.** All succession plans and employees identified as potential candidates for "key positions" shall be reviewed annually by a senior management committee.
- D. **CEO.** Annually, the CEO shall evaluate the success of Credit Union succession plans in supporting corporate strategic plans, providing future talent and in meeting organizational needs. The CEO shall report to the Board regarding this evaluation on a [[2160-2]] basis.

- 7. **HUMAN RESOURCES AS FACILITATOR.** Managers are encouraged to confer with Human Resources at any time if they have questions or need assistance in implementing the Succession Planning process.
- 8. **NONDISCRIMINATION.** The Credit Union is committed to providing advancement opportunities and to promote all of the employees based on merit, the ability to do the job and other objective criteria. Employees shall be evaluated without regard to sex, race, religion, disability, age, national origin or other protected class. The Credit Union seeks to employ a diverse work force at all levels of the organization.
- 9. **PROCEDURES ARE SUGGESTED GUIDELINES ONLY.** The Credit Union may unilaterally change or completely rescind succession guidelines as needed. No express or implied promises or contracts are created and these guidelines may not be used in every instance. (See Employment-at-Will). While the preference is to promote from within, the Credit Union may, as business needs require, seek outside candidates.
- 10. **CONFIDENTIALITY.** Succession planning shall only be discussed within the Credit Union and

then only on a "need to know" basis. Such discussions shall only take place with managers involved in the planning process and not with potential successor candidates or other employees except as authorized by senior management or as required to implement the plan.

11. **RELATED POLICIES.** The Board shall refer to the Credit Union's Human Resource Policy Manual for information regarding hiring, performance appraisals and promotion.
12. **EMERGENCY/SUDDEN DEPARTURE OF CEO.** In the event of the sudden departure of the CEO, the Board shall, appoint an Interim CEO within 24 hours. The Interim CEO appointed by the Board may be an internal staff member, Board member, an employee from another credit union, or other qualified person to be used on a temporary basis. Until such time as the Interim CEO is appointed, the Board Chair shall act as Interim CEO.
 - A. **Communication.** In an emergency situation, the Board Chair shall be contacted immediately. In the event the Board Chair is unavailable or cannot otherwise be contacted, the second point of contact shall be the Vice Chair; the third point of contact shall be the Secretary. The Board Chair shall be responsible for all internal and external communication related to the appointment of a successor CEO.
 - B. **Written Statement.** The Board will present a written statement of authority level, employment status and salary terms to the interim CEO.
 - C. **Communication with Employees and Support.** The Board shall inform employees of the situation and, depending on the circumstances, provide staff with counseling services. (for example: in the case of the manager's sudden death, counseling might be needed to help employees cope with the loss)
 - D. **Communication with Regulators.** The Board or Interim Manager/CEO will immediately notify regulatory and other appropriate agencies such as NCUA, the Federal Reserve, Corporate Credit Union, Credit Union League, and the Credit Union's bond carrier.
 - E. **Authority.** The Board will transfer operating tools, such as check signing and security to the Interim Manager/CEO.
 - F. **Records.** The Board will secure any necessary records, especially in the event of an untimely death or a performance-related termination.

Chapter 2170: Asset Protection And Risk Management

Published: 08/09

General Policy Statement:

The Board of Directors shall not allow the Credit Union's assets to be unprotected, inadequately maintained, or unnecessarily risked. The CEO shall ensure that the Credit Union's assets shall not be unprotected, inadequately maintained or unnecessarily risked.

Guidelines:

1. The CEO shall ensure that the following guidelines, without exception, are observed:
 - A. Credit Union funds or assets shall not be spent or used for illegal goods or services, or for any goods or services that could potentially harm the reputation of the Credit Union.
 - B. Credit Union property shall not be used or removed from the premises without prior approval from the CEO or an employee's immediate supervisor for a valid business reason. All such approvals will be documented and monitored.
 - C. Anyone spending Credit Union money or personal money which will be reimbursed, shall make sure the appropriate guidelines are observed.
 - D. Anyone approving or certifying the correctness of an invoice, expense report, voucher or bill, must have reasonable knowledge that the purchase and amounts are correct and within the approved guidelines.
 - E. The CEO shall insure against theft and casualty losses to at least 80% of replacement value and against liability losses to Board members, staff, and the organization itself in an amount median or better than comparable organizations.
 - F. The CEO shall not allow un-bonded personnel access to material amounts of funds.
 - G. The CEO shall not subject equipment to improper wear and tear or insufficient maintenance.
 - H. The CEO shall not unnecessarily expose the organization, its Board, or staff to claims of liability.
 - I. The CEO shall ensure that there is appropriate protection to the Credit Union's intellectual property (or that is licensed for the Credit Union's use by a third party), information, and files from loss or significant damage.
 - J. The CEO shall not receive, process, or disburse funds under controls that are insufficient to meet commonly accepted business practices.
 - K. The CEO shall ensure that all computer software used at the Credit Union is properly

licensed and registered, whether for trial or permanent use, and shall ensure that a list of the standard software installed on Credit Union computers is properly maintained.

Chapter 2180: Fraud Management

Published: 08/09

General Policy Statement:

The Credit Union does not tolerate fraud by its officials or employees. Fraud is grounds for termination or suspension. Credit union employees are expected to carry out their respective duties in a lawful and professional manner. In an effort to prevent and combat internal fraud, the Board shall ensure, and the CEO shall enact, the internal controls outlined herein.

Guidelines:

1. **UNACCEPTABLE ACTS.** Fraud or dishonesty by a Credit Union director, committee member, officer, or employee is unacceptable and will not be tolerated. Acts considered fraudulent include but are not limited to the following:
 - A. Manipulation of loan accounts, documents, computer records, share or share draft accounts, or any other type of accounts.
 - B. Establishing undisclosed funds or accounts for any purpose.
 - C. Dishonesty, including falsification of the Credit Union's records or altering time reports.
 - D. Theft of any kind, including stealing from members accounts; over-payment of dividends; creating fictitious loans; or theft of property of employees, members or the Credit Union.
 - E. Check/share draft kiting or any similar activity (often referred to as "playing the float") including but not limited to: artificially inflating account balances by deposits of negotiable instruments for which sufficient funds are not available, "empty envelope" automatic teller machine (ATM) deposits, knowingly depositing checks which are not supported by sufficient funds, or knowingly negotiating checks on accounts when the account has insufficient funds to cover the check.
 - F. Forgeries of any kind.
 - G. Unauthorized or unapproved salary advances or overtime reimbursement for yourself or another.
 - H. Intentional violation of the Credit Union's rules, internal controls, security procedures, regulations or procedures.
 - I. Acting as an agent for or conducting any organized lottery, pool or other gambling transaction.
 - J. Intentionally failing to secure collateral, to properly record a security interest in collateral, or pledging a member's shares as collateral without the member's permission.

- K. Granting or requesting preferential treatment for anyone.
- L. Alteration or misrepresentation of time/attendance records or expenses for which reimbursement is requested.
- M. Alteration of any document presented by a member or to the Credit Union for the purpose of a transaction
- N. Making any intentional and material misrepresentation to a member or any third party or Credit Union employee regarding any transaction performed or requested.
- O. Committing any act that results, or could result, in the cancellation of bond coverage or the requirement of a condition for bonding.
- P. Performing any activity, including maintenance and transactions on an employee's own account or on any account of the employee's family. Family is considered to be any relative of an employee.
- Q. Intentionally accessing or releasing confidential account information to individuals or outside parties for profit or personal gain. This includes information regarding coworkers, members, the Credit Union, and its finances or other sensitive information regarding the organization.

2. DETERRENCE.

- A. **Internal Controls.** The Board of Directors is responsible to institute internal controls to deter fraud. The [[2180-1]] shall periodically examine the internal controls for sufficiency and effectiveness. Internal controls will include the following measures:
 - i. Surprise teller cash counts and loan reviews.
 - ii. Dual control of all operations involving vault funds, keys and combinations, wire transfer duties, ATM balancing, night depository duties, and management of all non-cash items (i.e., stamps, money orders, and theme park tickets).
 - iii. Segregating loan approval and disbursement duties; check signatory and posting duties; and cash handling and reconciliation duties.
 - iv. Prohibiting employees from accessing and performing transactions on their own accounts or those of their family members, or from approving their own loans or those of their family members.
 - v. Limiting access to nonpublic personal member information.
 - vi. Maintaining security of signature cards, ledger cards, canceled checks, deposit tickets, pre-numbered unissued certificates of deposit, check-signing machines and stamps.
 - vii. Reconcile all general ledger accounts promptly each month, to be performed by those who do not handle cash or the accounting records.
 - viii. Notifying the corporates and banks the Credit Union uses when an authorized account

individual is no longer authorized or employed by the Credit Union.

- ix. Regular reviews of loan exception reports.
- x. Ensuring repossessed collateral is not used by employees while on the Credit Union's premises.

B. **Employee Agreement.** All Credit Union employees shall sign an agreement defining acts considered fraudulent and acknowledging that fraud of any type will not be tolerated. A Sample Agreement appears at the end of this policy.

3. INVESTIGATION.

A. **Confidentiality.** Suspected fraud should be kept strictly confidential, and shall not be discussed with anyone not responsible for investigating it.

B. **Investigation by Supervisory Committee.** Suspected fraud must be reported immediately to the Supervisory Committee, who shall immediately investigate. To the extent necessary, the Committee may involve additional persons to assist it, such as:

- i. The Credit Union's internal auditor or outside CPA firm.
- ii. Security personnel of the Credit Union's sponsor.
- iii. The state or federal agency that regulates the Credit Union.
- iv. The Credit Union's bond and/or insurance carrier
- v. Law enforcement with the filing of a Suspicious Activity Report or otherwise.

C. **Coordination with Rules of Credit Union Sponsor.** If the Credit Union's sponsor has rules governing fraud investigations, the Supervisory Committee shall coordinate its investigation with those rules.

- i. **Union Contract.** If an employee is covered by a union contract, the Committee's investigation shall not violate that contract.
- ii. **Union Representative.** The presence of a union representative may be required during questioning of a union employee.

4. RESPONSE.

A. **Initial Response: Remove Opportunity for Additional Fraud.** When the Credit Union learns that an employee or official has committed fraud, the Credit Union shall immediately remove any opportunity for commission of additional fraud. This initial response may require that the employee or official be transferred, relieved of his/her duties, or suspended with or without pay.

B. **Final Response: Termination or Suspension.** The Credit Union's final response may be termination or suspension. In determining the appropriate response, factors to consider include:

- i. Nature of the offense.
 - ii. Dollar amount involved.
 - iii. Effect on bond coverage.
 - iv. Internal employment policies.
 - v. Federal or state employment laws and regulations.
 - vi. Union rules.
5. **NOTIFICATION.** When a fraud has been committed by an employee, the Credit Union shall notify the Financial Crimes Enforcement Network (FinCEN) and NCUA, through the filing of a Suspicious Activity Report (SAR), as well as law enforcement, in accordance with the terms of the Credit Union's bonding/insurance policies.
6. **RECORDKEEPING.** The CEO shall keep and provide, where required, all records of fraudulent, criminal or dishonest activity reports and investigations.

SAMPLE EMPLOYEE AGREEMENT REGARDING THE CREDIT UNION'S FRAUD POLICY

The undersigned employee of the Credit Union acknowledges that the Credit Union does not tolerate any form of fraud, and that fraud is grounds for immediate termination or suspension. The undersigned further acknowledges that acts considered fraudulent include, but are not limited to, the following:

- Manipulation of loan accounts, documents, computer records, share or share draft accounts, or any other type of accounts.
- Dishonesty, including falsification of credit union records or altering time reports.
- Theft of any kind, including stealing from members' accounts, over-payment of dividends and creating fictitious loans or theft of property of employees, members or the credit union.
- Check/share draft kiting or any similar activity (often referred to as "playing the float") including but not limited to artificially inflating account balances by deposits of negotiable instruments for which sufficient funds are not available, "empty envelope" automatic teller machine deposits, knowingly depositing checks which are not supported by sufficient funds, knowingly negotiating checks on accounts when the account has insufficient funds to cover the check.
- Forgeries of any kind.
- Unauthorized or unapproved salary advances or overtime reimbursement for yourself or another.
- Intentional violation of credit union rules, internal controls, security procedures, regulations or procedures.
- Acting as an agent for or conducting any organized lottery, pool or other gambling transaction.
- Intentionally failing to secure collateral, to properly record a security interest in collateral, or pledging a member's shares as collateral without the member's permission.
- Granting or requesting preferential treatment for anyone.
- Alteration or misrepresentation of time/attendance records or expenses for which reimbursement is requested.
- Alteration of any document presented by a member or to the credit union for the purpose of a transaction
- Making any intentional and material misrepresentation to a member or any third party or credit union employee regarding any transaction performed or requested.
- Committing any act which does or could result in the cancellation of bond coverage or the requirement of a condition for bonding.
- Performing any activity, including maintenance and transactions on an employee's own account or on any account of the employee's family. Family is considered to be any relative of an

employee.

- Intentionally accessing or releasing confidential account information to individuals or outside parties for profit or personal gain. This includes information regarding coworkers, members, the credit union, and its finances or other sensitive information regarding the organization.

If the undersigned suspects a Credit Union official or another Credit Union employee of committing fraud, the undersigned agrees to keep his/her suspicion strictly confidential; to not discuss it with any other Credit Union personnel; and to report the suspicion immediately to one of the following members of the Credit Union's Supervisory Committee:

The undersigned has read and understands the foregoing fraud policy and will not engage in fraudulent acts of any kind while employed by the Credit Union.

Dated this _____ day of _____, _____.

Witness: _____ Employee: _____

Chapter 2190: Gifts, Bribes, Or Kickbacks

Published: 08/09

General Policy Statement:

Bribes and kickbacks are illegal and may be criminal offenses. No person associated with the Credit Union in any capacity shall do anyone a favor or receive a favor for personal gain or receive a gift if it may be perceived to influence judgment in any way. In dealing with suppliers, clients, members or employees, prudent judgment shall be exercised if a gift is offered -- if there is the slightest doubt about the morality of the action, the Credit Union shall seek the advice of its legal counsel.

Guidelines:

1. **SOLICITATION.** The CEO shall not allow any employee or member to solicit or distribute literature for any purpose at the Credit Union. Employees may, however, leave order forms, donation forms, or other fund raising matters in the employee break room, but only with prior management approval and only for a specified period of time. Employees shall not actively solicit funds or donations other than as noted above.
2. **GIFTS.** Board members and employees are not permitted to accept any gifts or gratuities from any vendor, supplier, or member for personal use. However, nominal holiday gifts such as candy, flowers, cookies etc. with a value of \$25 or less may be accepted as a gift to all employees of the Credit Union and shall be shared or displayed within the Credit Union for the enjoyment of all employees.
 - A. **Raffles and Prizes.** Generally, raffles and prizes that are part of an outside business activity are not considered gifts.
 - B. **Awards.** Tokens or gifts provided to employees as recognition for a business achievement or as part of Credit Union-sponsored events are not considered gifts for the purposes of this policy but, depending on the size of the gift, may be subject to all applicable federal, state and local tax requirements.
3. **BRIBES/KICKBACKS.** Any employee who is approached or receives something of value from another party for the purpose of influencing the Credit Union's decision to hire or contract with a person or entity shall report the attempt to management immediately. The CEO shall notify the Board regarding all bribe/kickback attempts.

Chapter 2200: Political Contributions

Published: 08/09

General Policy Statement:

Federal and State law prohibit the use of Credit Union funds for the support of political parties, candidates or issues except as specifically authorized by law, and then only when approved in advance. While the Credit Union encourages personal, voluntary contributions to candidates, parties or issues of the participant's choice, the Credit Union seeks to support candidates who recognize the value and importance of the credit union industry.

Guidelines:

1. **POLITICAL ACTIVITIES.** The Credit Union encourages employees to be active participants in public affairs during non-work time, and to support the party and candidates of their choice, provided that the laws on corporate contributions are followed, employees do not present themselves as representing the Credit Union, and the activities do not interfere with the employee's ability to perform his or her Credit Union responsibilities.
2. **POLITICAL CONTRIBUTIONS.** The Credit Union shall not inquire into, require or recommend any political contributions by employees, directors, committee members or officers. No reimbursements shall be made, either directly or indirectly, by the Credit Union for an individual's political contributions.
3. **POLITICAL ACTION COMMITTEES.** The Credit Union shall support credit union political action committees by donating funds and/or participating in fundraising activities. The CEO shall be authorized to make expenditures to credit union political action committees pursuant to the Credit Union's Spending Authority policy (Section 2130).

Chapter 2210: Communication and Support to the Board

Published: 08/09

General Policy Statement:

It is the CEOs duty and responsibility to keep the Board informed and to support the work of the Board.

Guidelines:

1. The CEO shall do the following in order to ensure proper communication and support to the Board:
 - A. Provide adequate information to the Board in order to support informed Board choices, including the following
 - i. Relevant environmental scanning data;
 - ii. A representative range of staff and external points of view; and
 - iii. Significant issues or changes within the external environment which may have a bearing on existing Board policies, along with alternative choices and their respective implications.
 - B. Submit monitoring data required by the Board in a timely, accurate and understandable fashion, including explicit CEO interpretations and evidence of compliance with the Board policies being monitored, pursuant to the Credit Union’s Monitoring CEO Performance policy (Section 3130).
 - C. Keep the Board informed of anticipated adverse media coverage, material external and internal changes.
 - D. Provide the board with incidental reports, such as the following:

Report Name	Frequency
Budget Summary Presentation	Annual – January

- E. Advise the Board if, in the CEO’s opinion, the Board is not in compliance with its own policies on Governance Process and Board-CEO Linkage, particularly in the case of Board behavior that is detrimental to the work relationship between the Board and the CEO.
- F. Report in a timely manner any actual or anticipated non-compliance with any policy of the Board.
- G. Present information in an easily understandable form, using plain English whenever

possible.

- H. Provide a mechanism for official Board, officer, or committee communications (such as e-mail and the Internet).
- I. Deal and work with the Board as a whole except when:
 - i. Fulfilling individual requests for information; or
 - ii. Responding to officers or committees duly charged by the Board.
- J. Supply for the consent agenda all items delegated to the CEO, yet required by law or regulation, to be Board-approved, along with the monitoring assurance pertaining thereto.
- K. Support the Board by ensuring timely payment of authorized expenses, including Board expenses, which are clearly authorized by Board policy, or Board/Executive Committee approval.
- L. Provide individual Board members with a corporate credit card with a maximum limit of \$[2210-1] upon request.
- M. Provide reasonable notification to individual Board members regarding expenses that are not authorized.
- N. Notify the Board of any personal expenses incurred by individual Board members, but not reimbursed to the Credit Union, within 60 days.

Chapter 2220: Investments

Published: 08/09

General Policy Statement:

The Credit Union's investment policy establishes appropriate parameters within which the CEO can pursue earnings and growth objectives. Specifically, the policy strives to facilitate key asset/liability management goals such as generating optimum levels of quality earnings and maintaining adequate liquidity to meet both predicted and unexpected cash needs.

Guidelines:

1. **INVESTMENT AUTHORITY.** The Board of Directors delegates investment authority to the CEO, or may delegate these duties to one or more qualified investment officers. The Board shall continue to supervise the Credit Union's investment portfolio notwithstanding this delegation. Investment responsibilities include the following:
 - A. Determining investable funds;
 - B. Selecting appropriate investments;
 - C. Computing legal reserve requirements;
 - D. Managing liquidity;
 - E. Investigating broker-dealers;
 - F. Authorizing payment for purchases;
 - G. Maintaining investment records;
 - H. Performing risk monitoring;
 - I. Accounting for investments, receipts and disbursements;
 - J. Reviewing all transactions for compliance with the Credit Union's investment policies, as well as all regulations, rules and laws; and
 - K. Ensuring that all investments stay within the prescribed limits (See section (5)).
2. **INVESTMENT OFFICER APPOINTMENT.**
 - A. The Board may appoint one or more investment officers within thirty days after the Credit Union's Annual Meeting. In the absence of such appointments, the CEO and Vice President shall serve as investment officers.
 - B. Individuals selected as investment officers must be professionally qualified by education

and/or experience to:

- i. Exercise their authority in a prudent manner; and
 - ii. Fully comprehend and assess the risk characteristics (such as interest rate, liquidity, credit, and concentration risk) of investments and investment transactions made under their authority.
 - C. Only Credit Union officials and employees may be voting members of the Investment Committee.
3. **AUTHORIZED ACTIVITIES.** Investment officers may purchase authorized securities at the market price. All investments must be held to maturity or held available for sale; investment officers may not purchase investments for trading purposes. The Board anticipates a minimum holding period of [2220-1] months. However, investment officers may sell securities whenever prudent funds management so warrants.
4. **CONFLICTS OF INTEREST.** Board members, committee members, senior management employees, and their immediate family members may not receive anything of value in connection with the Credit Union's investment transactions. This prohibition includes gifts, gratuities, and travel expenses, but excludes compensation as a Credit Union employee.
 - A. **Definitions.**
 - i. Senior management employees are the CEO and Vice President, the manager and assistant managers, the treasurer and assistant treasurers, and the comptroller.
 - ii. Immediate family members are spouses and other family members living in the same household.
 - B. **Other Employees.** The prohibition stated above also applies to any other employee, such as an investment officer, if the employee is directly involved in investments, unless the Board determines that the employee's involvement does not present a conflict of interest. For example, investment officers may not engage in personal securities transactions with those firms with whom the Credit Union purchases and sells securities.
 - C. **Other Transactions Must Be Arms-Length.** All transactions with business associates or family members that are not specifically prohibited above must be conducted at arm's length and in the Credit Union's best interest.
5. **APPROVING ISSUERS.** The Credit Union understands that there can be a significant lag time between credit deterioration and the credit downgrade. However, the Credit Union shall use one or more of the following in approving specific issuers:
 - A. Financial measures of the issuer's risk and performance using call reports or other financial information;
 - B. Rating agency minimum ratings - AAA and AA only; and
 - C. Ratio and peer institution analysis.

6. NON-CONFORMING INVESTMENTS.

- A. **Notice to Board.** If an investment officer or other Credit Union employee becomes aware of an investment that fails to conform with either the Board's written investment policy or the NCUA investment requirements, that officer or employee must notify the Board of the non-conforming investment as soon as possible, but no later than the Board's next regularly scheduled meeting.
- B. **Risk Evaluation Analysis.** The investment officer shall perform a risk evaluation analysis to assist the Board in determining whether to hold or sell an investment.
- C. **Action by Board.** The Board shall document its action regarding the investment in the minutes of its meeting. This documentation must include a detailed explanation of any decision to not sell an investment that has failed the NCUA investment requirements.
- D. **Monitoring.** The investment officer shall continue to monitor the investments that are held. New evaluations shall be made every [[2220-2]] as to whether to continue holding the investment(s).
- E. **Notice to Regional Director.** Within five (5) days after the Board's meeting, the CEO shall notify the appropriate regional officer of an investment that has failed the NCUA investment requirements.

7. DISCRETIONARY CONTROL. Except as set forth below, the Credit Union must retain discretionary control over the purchase and sale of all investments.

- A. **What Constitutes "Delegation" of Discretionary Control.** If the Credit Union is required to authorize a recommended purchase or sale transaction prior to its execution and, in practice, actually reviews such recommendations and authorizes such transactions, then the Credit Union is not deemed to have delegated discretionary control.
- B. **Exception for Certain Investment Advisers.** The CEO may delegate discretionary control over the purchase and sale of investments, within established parameters, to a person other than a Credit Union official or employee, provided that the person is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 (15 U.S.C. section 80b), and subject to the following criteria:
 - i. In determining whether to transact business with an investment adviser, the CEO shall ensure that the adviser's background and information available from state or federal securities regulators is reviewed, including any enforcement actions against the adviser or associated personnel.
 - ii. The Credit Union may not compensate such an adviser on a per transaction basis or based on capital gains, capital appreciation, net income, performance relative to an index, or any other incentive basis.
 - iii. The Credit Union cannot direct the holdings under that person's control. Therefore, the Credit Union shall classify such holdings as Available-for-Sale. (This policy does not permit investments to be held as Trading Securities.)
 - iv. The CEO shall ensure that the Credit Union obtains a report from its investment

adviser, at least monthly, that details the Credit Union's investments under the adviser's control and how those investments are performing.

- v. The Credit Union's aggregate delegation of discretionary control over the purchase and sale of investments to such investment advisers is limited to 100% of net worth at the time of delegation.
 1. The Credit Union shall adjust the amount of funds held in discretionary control to comply with the 100% net worth cap.
 2. The Board shall be notified as soon as possible, but no later than its next regularly scheduled board meeting, of the amount exceeding the net worth cap. The CEO shall also notify the regional director within 5 days after the board meeting.
 3. When the amount exceeds the net worth cap, the CEO shall develop a plan to comply with the cap within a reasonable period of time.

Chapter 2230: Loans to Members

Published: 08/09

General Policy Statement:

The loan portfolio is typically the largest asset and the most predominant source of income. As such, it is one of the greatest sources of risk. Lax credit standards, poor portfolio risk management, or poor internal controls can expose the Credit Union to excessive loss. Effective management of the loan portfolio and the credit function is fundamental to the Credit Union's safety and soundness.

The Credit Union's lending policy strives to serve the legitimate credit needs of Credit Union members while safeguarding the investments of members. The policy promotes prudent underwriting, fair treatment of applicants, sound loan management, and compliance with all applicable federal and state laws and regulations.

The Credit Union shall provide all members with complete information and base credit decisions on a careful evaluation of facts. The Credit Union is an equal opportunity lender. The Credit Union will not allow discrimination on the basis of race, color, national origin, religion, sex, marital or familial status, age (providing applicant has capacity to contract), income derived from public assistance, exercise of consumer rights, disability or any other prohibited basis.

Guidelines:

1. **CEO DUTIES.** Without limiting the scope of the above statement by the following list, the CEO shall ensure the following:
 - A. **Staffing.** A determination is made, in writing, regarding which internal positions have lending authority and at what level.
 - B. **Staff Qualifications.** Individuals granted lending authority have appropriate qualifications (i.e., adequate experience and/or education).
 - C. **Member Business Lending Experience.** Personnel or third parties approving, making and administering member business loans have the requisite two years experience in this area.
 - D. **Board Authorization.** Board authorization is obtained prior to the approval or allowance of secured loans in excess of \$1,000,000 on the same collateral or unsecured loans in excess of \$50,000 for the same member/business.
 - E. **Loan Maturities.** Loan maturity limits are met:
 - i. First mortgage loans are not in excess of 40 years.
 - ii. Second mortgages or mobile home loans are not in excess of 20 years.
 - iii. Other loan types to be offered are not in excess of 15 years.

- F. **Loan Limits.** No member or group of associated members is indebted to the Credit Union in an aggregated amount exceeding 15% of the Credit Union's net worth.
- G. **Loans to CEO/Officials.**
- i. Loans to the CEO and/or officials (directors/committee members) are approved in compliance with all relevant laws and regulations.
 - ii. Loans to the CEO and/or officials are acted upon with a determination based on a vote of the (disinterested) majority of the Board.
 - iii. Information supporting a CEO or official's loan request is not provided to any individual director outside of the following: loan amount, loan type, description of collateral, loan to value ratio, the aggregate loans to the official and his/her business interests.
 - iv. Member business loans are not granted to the CEO, Vice Presidents or other persons prohibited by NCUA Part 723.
 - v. Approval of loan charge-offs or non-loan losses in any amount for the CEO him/her self, or the CEO's immediate family or business, or for officials or their respective businesses, will be made by disinterested parties.
- H. **Fair Lending.** The risk-based lending and pricing system does not discriminate on the basis of race, color, religion, national origin, sex, marital status, age (legal), receipt of public assistance income, or the exercise in good faith of any right under the consumer credit protection act, familial status, handicapped status or any other prohibited basis.
- I. **Concentration Risk.** Risk-based loan tiers will not go below the base tier to exceed 30% of the Credit Union's total consumer loan portfolio.
- J. **Guidelines and Monitoring.** Lending services will be offered with written guidelines that include underwriting, servicing, collecting and, for business loans, monitoring.
- K. **Reposessed Collateral.** Employees and officials purchasing any reposessed collateral directly from the Credit Union shall not receive a loan in an amount less than the fair market value of the collateral.
- L. **Member Business Loans.**
- i. **Types.** The Credit Union will allow the following member business loans:
 1. Fixed term loans and lines of credit secured by real property, marketable securities, accounts receivable, inventory, or equipment.
 2. Fixed term loans secured by a motor vehicle.
 3. Credit card loans.
 4. Construction or development loans for residential or commercial purposes.

5. Secured and unsecured letters of credit.
- ii. **Trade Area.** The Credit Union will not allow business loans outside of its trade area which is defined as [[2230-1]] for originated loans and the United States for participation loans originated elsewhere.
- iii. **Participation Loans.** The Credit Union's loan purchase participation limit shall be set at no more than [[2230-2]] % of the Credit Union's total originated loan amount.
- iv. **Maximum Amount.** The Credit Union's maximum amount of assets invested in business loans must not exceed the lesser of 1.75 times net worth or 12.25% of the Credit Union's assets.
- v. **Maximum Loan-to-Value.** The maximum loan-to-value for business loans may be no more than 75% for the construction or development of commercial property or 80% for the construction or development of a single family residence. The total amount of business loans for construction or development must not exceed 15% of the Credit Union's net worth.
- vi. **Member's Ability to Repay.** Business loans will not be approved without documenting the borrower's ability to repay the loan.
- vii. **Documentation.** Business loans will not be approved without sufficient applicable documentation to support the request, such as:
 1. Financial statements.
 2. Credit reports.
 3. History and experience.
 4. Cash flow analysis.
 5. Tax data.
 6. Environmental impact assessment.
 7. Comparison with industry averages.
- viii. **Secured Member Business Loan Documentation.** Allow a secured business loan without documenting:
 1. Loan-to-value ratios.
 2. Determination of value.
 3. Determination of ownership.
 4. Steps to secure collateral.
 5. How often the Credit Union will reevaluate the value and marketability of the

collateral.

- ix. **Interest Rates and Maturities.** A process shall be in place for setting member business lending interest rates and maturities.
- x. **Monitoring.** Financials will be monitored at least annually for unsecured business loans over \$15,000 and for secured business loans over \$250,000.

Chapter 2240: Service Pricing Limitations

Published: 08/09

General Policy Statement:

Pricing and terms of share and loans are coordinated through asset liability management to match rate-sensitive assets with rate-sensitive liabilities. Pricing decisions are based on market/competitive information and are subject to frequent management review.

The Credit Union is firmly committed to the principles of fair lending. Pricing and terms of loans shall be determined based strictly on non-discriminatory guidelines.

The CEO shall not allow pricing, including but not limited to, fees, share dividends or lending rates to be offered that are in violation of NCUA regulations or law, or not within a reasonable competitive range.

Guidelines:

1. Without limiting the scope of the above statement by the following list, the CEO shall do the following:
 - A. Appoint an Asset Liability Committee (ALCO) in accordance with federal regulations.
 - B. Develop internal pricing policy with involvement of the ALCO.
 - C. Prohibit share or loan rates to be changed by more than 200 basis points between monthly Board meetings.
 - D. Ensure Board members and committee members receive pricing that is inconsistent with what the membership is offered.
 - E. Ensure employees are not offered fee discounts, loan rate discounts, or share rate premiums that are not reasonably available to all members.

Chapter 2250: Regulatory Compliance

Published: 08/09

General Policy Statement:

As highly-regulated entities, credit unions must be sensitive to the need for regulatory compliance in the interest of safeguarding member assets held by the credit union and protecting the reputation of the credit union.

The CEO shall not allow the Credit Union to operate with any activity that would be non-compliant with state and federal laws and regulations pertaining to credit unions. The CEO is empowered to allocate the necessary resources to accomplish a high-level of compliance with these requirements.

Guidelines:

1. RESPONSIBILITY.

- A. While the Board of Directors is responsible for the overall performance of the Credit Union, authority to design and administer the compliance program shall be granted to the CEO.
- B. The CEO shall be assigned the role of Compliance Officer, unless this role is formally assigned by the CEO to another member of the management team.

2. **COMPLIANCE EXPERTISE.** The CEO is responsible to schedule and execute activities designed to build the compliance expertise of the Credit Union. Authorized activities include internal staff training, attendance at compliance schools and seminars, subscription to compliance update services, etc. Funding for such compliance activities that exceeds the CEO's spending authority must be approved as part of the annual budget or through separate action by the Board.

3. **ANNUAL COMPLIANCE REVIEW.** The Compliance Officer shall annually undertake a written review of the level of compliance of the Credit Union. The scope of this review is broad and should include federal laws and regulations, state laws and regulations, and key management practices related to compliance.

4. **REPORTING.** The CEO, or Compliance Officer under the direction of the CEO, shall present the results of the annual compliance review to the Board of Directors. The report will at a minimum include: the level of compliance with each item, prioritized actions recommended to improve compliance, and projected time frames to complete recommended actions. A copy of the annual compliance review will be maintained until completion of the regulatory examination next following the compliance review and until all corrective actions have been completed, and then as long thereafter as deemed necessary by the CEO.

5. **TRAINING.** The CEO, or the Compliance Officer under the direction of the CEO, shall develop and execute a plan to systematically train the Credit Union staff in all of the laws and regulations relevant to their respective positions. The frequency and depth of training shall be determined by the needs of the staff and the importance of the law or regulation.

6. **CONFIDENTIALITY.** All documents and work papers used in the compliance review, including the compliance report, shall be confidential and may only be shared and reviewed with legal counsel and as such shall be privileged documents. No compliance review documents or reports shall be disclosed to any member, third party or regulatory agency, except legal counsel.
7. **PROHIBITIONS.** The CEO is prohibited from engaging in any practice that would do the following:
 - A. Present the Credit Union with risk of losing its tax exempt status or the payment of unbudgeted unrelated business income taxes (UBIT).
 - B. Result in regulatory examination findings that would cause the Credit Union's composite CAMEL rating to drop to 3 or lower.
 - C. Expose the Credit Union to enforcement action, fines or penalties imposed by state or federal regulatory agencies.
 - D. Expose the Credit Union and/or its officials to the risk of lawsuits or other personal liability stemming from inappropriately risky activities.

Chapter 2260: Legal Counsel

Published: 08/09

General Policy Statement:

The Credit Union has established a relationship with outside legal counsel who advises the Credit Union when legal questions arise. Senior management has primary responsibility for reviewing all legal matters and keeping the Board of Directors fully informed of the Credit Union's position and potential litigation risk.

Guidelines:

1. **SENIOR MANAGEMENT.** "Senior management" includes the CEO and Vice Presidents of the Credit Union and any other officer so designated.
2. **APPROVAL.** All requests for legal assistance must be communicated to senior management, who will determine whether to retain counsel. Senior management will thoroughly review the facts and circumstances of each matter, evaluate claims and assess potential risk exposure. All matters involving substantial litigation risk will be reported to the Board immediately.
3. **RESPONSIBILITIES OF SENIOR MANAGEMENT.** With regard to legal matters, senior management is responsible for the following:
 - A. Informing the Board regarding any legal matter that may impact the Credit Union. This includes service of process, summons, complaints, subpoenas, depositions, notice of bankruptcy, or notice of default and sale.
 - B. Following-up promptly on any request made by legal counsel.
 - C. Keeping legal counsel apprised of any new developments pertaining to any legal matter, which has been referred to legal counsel.

Chapter 3000: Board/CEO Delegation

Published: 08/09

General Policy Statement:

This section contains information regarding the mutual expectations and relationships of the Board of Directors and the CEO.

Guidelines:

1. **Policies.** The CEO is empowered to establish operational policies and procedures which will support Board policies. The Board shall approve these policies and review them at least annually or when amended, as necessary. The CEO is empowered to make technical corrections and changes to existing policies without so long as the intent and substance of policies is not altered.
2. **Ultimate Authority.** The Board by majority vote has authority over the actions of the CEO. Information requests by Directors, other than those in their capacity as members of the Supervisory Committee, which are determined by the CEO to materially affect the progress of programs or personnel time may be referred to the Board Chair for examination as to the prudence and feasibility of the request.
3. **Board Duties Delegated to the CEO.** The following duties of the Board shall be delegated to the CEO:
 - A. [[2500-1]]
4. **Board Duties Retained By the Board.** The following duties may not be delegated to anyone:
 - A. **CEO Succession Planning.** The Board shall be solely responsible for managing the CEO Succession Planning, pursuant to the Credit Union's CEO Succession Planning policy (**Section 2160**).
 - B. [[2500-2]]

Chapter 3100: Mutual Expectations

Published: 08/09

General Policy Statement:

The Board of Directors and CEO have mutual expectations in their important relationship. The Board and CEO have a shared obligation to understand these expectations and to strive to establish and maintain a harmonious and productive relationship.

Guidelines:

1. CEO'S EXPECTATIONS OF THE BOARD OF DIRECTORS.

- A. Develop/approve policies that set direction for the Credit Union.
- B. Define the parameters of the authority of the CEO.
- C. Stay informed as to state and national credit union issues.
- D. Support the consensus and majority decisions of the Board.
- E. Provide for continuity and direction in Credit Union activities.
- F. Perform a meaningful formal evaluation of the CEO annually.
- G. Support the initiatives of the credit union industry.
- H. Avoid becoming too involved in the day-to-day decision-making of the CEO or operations of the Credit Union.

2. BOARD'S EXPECTATIONS OF THE CEO.

- A. Fashion decisions within, and adhere to, the policies and Strategic Plan of the Credit Union.
- B. Recognize, hire, develop and retain qualified employees.
- C. Stay informed and vigilant as to developing national and local Credit Union legislative and regulatory issues.
- D. Develop periodic communications to inform the Board, employees and members.
- E. Develop a forum/method to facilitate the policymaking process of the Board that lays out options for a course of action and makes recommendations as well as suggesting alternatives.
- F. Develop creative programs and business units that benefit members.

- G. Form partnerships and relationships that enhance the products and services offered to members.
- H. Participate in the Board Succession Plan's development and implementation, as outlined in the Credit Union's Governance Succession Guidelines (**Section 4320**).
- I. Ensure the continued safety and soundness of the Credit Union.

Chapter 3110: Unity of Control

Published: 08/09

General Policy Statement:

Only decisions of the Board acting as a whole shall binding on the CEO. No individual Board member, including the Chair, should attempt to supervise the CEO. The Chair is empowered to communicate with the CEO as a spokesperson of the Board.

Guidelines:

1. Decisions or instructions of individual Board members, officers, or committees shall not be binding on the CEO, except in rare circumstances when the Board has specifically authorized such exercise of authority.
2. In the case of Board members or committees requesting information or assistance without Board authorization, the CEO may refuse such requests that require, in the CEO's opinion, is inappropriate or would require a material amount of funds or staff time.
3. The CEO shall at all times be respectful of individual board member input and guidance. However, both the Board and the CEO will attempt to understand Board consensus as a guide to CEO decision-making.

Chapter 3120: CEO Accountability

Published: 08/09

General Policy Statement:

The CEO is the Board's only link to operational achievement and conduct, so that all authority and accountability of staff members, as far as the Board is concerned, is considered the authority and accountability of the CEO.

Guidelines:

1. **Personnel Management.** The CEO shall be responsible and accountable for directing the management of Credit Union personnel. The Board shall never give instructions to persons who report directly or indirectly to the CEO.
2. **Evaluations.** The CEO shall be responsible and accountable for the performance and direction of staff performance evaluations. The Board will refrain from evaluating either formally or informally, any staff member other than the CEO.
3. **Delegated Duties.** The CEO shall be responsible and accountable for all duties delegated to him/her by the Board, pursuant to the Credit Union's Board/CEO Delegation policy (**Section 3000**).
4. **Day-To-Day Activities.** The CEO shall be responsible for the day-to-day operations and decision-making at the Credit Union. The Board, while ultimately responsible for the direction and condition of the Credit Union, shall not interfere with the day-to-day activities that do not rise to the level of requiring Board involvement.

Chapter 3130: Monitoring CEO Performance

Published: 08/09

General Policy Statement:

Monitoring CEO performance is conducted or the sole reason of determining the degree to which Board policies are being met. Data that does not do this will not be considered to be monitoring data.

Guidelines:

1. The Board will acquire monitoring data by one or more of three methods:
 - A. By internal report, in which the CEO discloses information to the Board,
 - B. By external report, in which an external, disinterested third party selected by the Board assesses compliance with Board policies, and
 - C. By direct inspection, in which a designated member or members of the Board assess compliance with the appropriate policy criteria.
2. In every case, the standard for compliance shall be any reasonable CEO interpretation of the Board policy being monitored.
3. Incidental reports are for the Board's information only and will not be used to monitor the CEO's performance.
4. All policies that instruct the CEO shall be monitored at a frequency and by a method chosen by the Board. The Board can monitor any policy at any time by any method but will ordinarily depend on a routine schedule.
5. Monitoring reports will be reviewed by the Board in accordance with the Board work calendar.

MONITORING REPORTS

	Monitoring Period	Board Meeting Date(s)	Proposed Inspection Method
CEO Succession Policy	Annual	January	Internal
Treatment of Members Policy	Annual	January	Direct
Treatment of Staff Policy	Annual	January	Direct
Investments Policy	Annual	March	Internal
Loans to Members Policy	Semi Annual	May/November	External – May and Direct – November
Financial Condition & Activities Policy	Semi Annual	April/October	Internal
Executive Limitations Policy	Annual	April	Internal
Service Pricing Limitations Policy	Annual	May	Internal
Financial Planning & Budgeting Policy	Annual	December	Internal
Compensation and Benefits Policy	Annual	July	Internal
Communication and Support to the Board Policy	Annual	July	Internal
Asset Protection and Risk Management Policy	Annual	September	Internal
Credit Union Industry Support Policy	Annual	December	Internal

Chapter 3140: Annual CEO Performance Evaluation

Published: 08/09

General Policy Statement:

The Board, in consultation with the CEO, shall develop an annual performance evaluation plan and conduct a review of such plan not less frequently than annually.

Guidelines:

1. **Objectives.** The Board of Directors, or as delegated to the Executive Committee or other authorized committee, shall develop an annual CEO performance evaluation process that achieves the following objectives:
 - A. Works with the CEO to identify annual weighted/prioritized goals.
 - B. Allows for individual Board member evaluation of goal attainment along with supporting comments.
 - C. Aggregates Board input so that the Board as a whole can adequately assess performance for purposes of considering annual salary adjustments and/or performance bonuses.
 - D. Updates the CEO salary range.
 - E. Assesses the information obtained in during the course of the ongoing monitoring of CEO performance, pursuant to the Credit Union's Monitoring CEO Performance policy (**Section 3130**), and allow the Board to perform its evaluation using this information.
 - F. Allows the Board to perform its CEO evaluation based on pre-work support and recommendations by either the Executive Committee or other Board-appointed committee (s) established for this purpose.

Chapter 4000: Board Process

Published: 08/09

General Policy Statement:

The Board of Directors is responsible for its own effectiveness. The CEO can and should play a role to help the Board be effective. Likewise, the Board should do the same regarding CEO effectiveness. Board Process policies establish guidelines for how the Board should function, self-evaluate and fulfill its basic functions.

Guidelines:

1. **Process.** The overall Board process shall operate to achieve the following objectives:
 - A. **Ends.** The organizational products, effects, benefits, outcomes, recipients, and their cost or relative worth.
 - B. **Executive Limitations.** The constraints on executive authority that establish the prudence and ethic boundaries within which all executive activity and decisions must take place.
 - C. **Governance Process.** The specifications of how the Board conceives, carries out, and monitors its own work.
 - D. **Board-CEO Linkage.** How power is delegated and its proper use monitored; authority and accountability of the CEO role.

Chapter 4100: Board Governing Style

Published: 08/09

General Policy Statement:

The Board will govern with an emphasis on (1) outward vision rather than internal preoccupation, (2) encouragement of diversity in viewpoints, (3) strategic leadership more than administrative detail, (4) clear distinction of Board and chief executive roles, (5) collective rather than individual decisions, (6) future rather than past or present, and (7) pro-activity rather than reactivity.

Guidelines:

1. The Board shall do the following:
 - A. Cultivate a sense of group responsibility. The Board shall deliberate and listen to all voices, but shall govern as one.
 - B. Assume sole responsibility for excellence in governing.
 - C. Be the initiator of policy.
 - D. Use the expertise of individual members rather than to substitute individual judgments for the Board's values.
 - E. Ensure that it does not allow any officer, individual, or committee of the Board to hinder or be an excuse for not fulfilling Board commitments.
 - F. Direct, control, and inspire the Credit Union through the careful establishment of broad written policies reflecting the Board's values and perspectives about ends to be achieved and means to be avoided. The Board's major policy focus will be on the intended long-term effects outside the organization, not on the administrative or programmatic means of attaining those effects.
 - G. Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, preparation, policy-making principles, respect for roles, and ensuring continuance of governance capability.
 - H. Continually take advantage of educational and Board development opportunities that include orientation of new Board members in the Board's governance process and periodic Board discussion of process improvement.
 - I. Monitor and discuss the Board's process and performance at each meeting. Self-monitoring will include comparison of Board activity and discipline to policies in the Governance Process and Board-CEO Linkage categories.

Chapter 4110: Board Organization

Published: 08/09

General Policy Statement:

The Credit Union is managed by a Board of Directors assisted by committees as set forth in the Credit Union's Bylaws.

Guidelines:

1. BOARD OF DIRECTORS.

- A. The Board of Directors consists of an odd number of directors, at least [4110-1] in number, who are elected by the Credit Union members.
- B. The Board shall elect from their number the Board Officers specified in the Bylaws, and also shall elect from their number a financial officer.
- C. Committees may be appointed. However, the Board is ultimately responsible for all the operations of the Credit Union.

2. COMMITTEES.

- A. The Board shall appoint the following committees to assist it:
 - i. A Supervisory Committee consisting of not less than [[4110-2]] nor more than [[4110-3]] members.
 - ii. Where the bylaws so provide, an Executive Committee of not less than [[4110-4]] directors.
- B. The Board may appoint the following committees to assist it:
 - i. Where the bylaws so provide, a Credit Committee consisting of an odd number of members of the Credit Union, but which shall not include more than one loan officer.
 - ii. An Asset/Liability Management Committee.
 - iii. An Investment Committee.
 - iv. A Nominating Committee.
 - v. Such other committees as the Board deems appropriate.

Chapter 4120: Compensation, Reimbursement & Indemnification

Published: 08/09

General Policy Statement:

No member of the Board or of any committee may be compensated for performing their duties or responsibilities as a Board or committee member except as permitted by applicable law and as authorized by the Credit Union's Bylaws. Employees and volunteers may be reimbursed for normal and customary expenses, as outlined in the Conference and Travel Guidelines policy (section 4270) incurred in the performance of their Credit Union duties.

The Board or the Executive Committee of the Board, if applicable, shall establish the compensation of the CEO. The CEO shall be responsible for establishing and administering the compensation and benefits of the Credit Union employees, in accordance with this policy.

Guidelines:

1. COMPENSATION.

- A. **Employees.** The President/CEO shall be responsible for administering the compensation and benefits for the Credit Union employees within the budget guidelines and these policy guidelines.
- B. **Volunteers/Board of Directors.** No member of the Board or of any committee may be compensated for performing their duties or responsibilities as a Board or committee member except as permitted by applicable law and as authorized by the Credit Union's Bylaws. Compensation does not include the following:
 - i. **Insurance.** Compensation does not include reasonable health, accident, or similar insurance protection supplied to Board members or committee members at Credit Union expense. Such insurance, however, must:
 - 1. Exclude life insurance;
 - 2. Be limited to areas of risk, including accidental death and dismemberment, to which a Credit Union official is exposed by reason of carrying out the duties of the official's position; and
 - 3. Cease immediately upon the insured's leaving office, without providing residual benefits other than from pending claims, if any except that the Credit Union will comply with federal and state laws providing departing officials the right to maintain health insurance coverage at their own expense.
 - ii. **Indemnification and Related Insurance.** Consistent with the information below, such indemnification is not considered to be compensation.

2. **REIMBURSEMENT.** The reimbursement of reasonable and proper expenses incurred in the execution of the duties of the Board or committee member's position. Each such reimbursement, however, must:
 - A. Be for an expense determined by the Board to be necessary or appropriate to carry out the official business of the Credit Union.
 - B. Must be in accordance with the written policies and procedures, including documentation requirements, established by the Board.
3. **INDEMNIFICATION.** Officials and current and former employees may be indemnified for expenses reasonably incurred in connection with judicial or administrative proceedings to which they are or may become parties by reason of the performance of their official duties.
 - A. The Credit Union will purchase and maintain insurance on behalf of its officials and employees against any liability asserted against them and expenses incurred by them in their official capacities and arising out of the performance of their official duties to the extent permitted by law.
4. **TAX IMPLICATIONS.** Where appropriate, the Credit Union will issue an IRS Form 1099 or other applicable tax form for travel reimbursement purposes. The Credit Union will consult with its tax expert to ensure compliance with IRS requirements.

Chapter 4130: Education & Volunteer Training Guidelines

Published: 08/09

GENERAL POLICY STATEMENT:

The Credit Union recognizes the importance of obtaining ongoing education in order to more effectively serve the membership. The Credit Union encourages staff and Board attendance at education sessions aimed to assist in this endeavor.

The following conferences, seminars and courses have been identified as valuable opportunities for volunteers and employees. Attendance or participation must be authorized through the regular budgeting process or through separate Board approval.

GUIDELINES:

1. **VOLUNTEERS.** Expenses associated with the following education and training activities will normally be approved:
 - A. League Annual Meeting.
 - B. League Chapter Meetings.
 - C. CUNA's Volunteer Achievement Program (VAP).
 - D. CUNA's Volunteer Lending Program (VLP).
 - E. Annual Bank Secrecy Act/Anti-Money Laundering (BSA/AML) training.
2. **EMPLOYEES.** Expenses associated with the following education and training activities will normally be approved:
 - A. League Annual Meeting.
 - B. League educational programs.
 - C. CUNA's Staff Training and Recognition Program (STAR).
 - D. CUNA's Management Enrichment Training Program (MERIT).
 - E. CUNA's Certified Credit Union Executive Program (CCUE) (Management employees only).
 - F. CUES Membership (Management employees only).
3. **ATTENDANCE.** The purpose of sending Credit Union representatives to conferences, seminars and courses is to strengthen the Credit Union by improving the knowledge and experience of the attendees. Representatives are required to attend scheduled classes and meetings. Failure to do so

constitutes a violation of trust and improper use of Credit Union resources.

- A. Employees who fail to attend scheduled classes or meetings may be subject to disciplinary action, up to and including termination.
- B. Volunteers who fail to attend scheduled classes or meetings may not be eligible for full expense reimbursement.

Chapter 4140: Bond And Insurance Coverage

Published: 08/09

General Policy Statement:

The Board recognizes the risks associated with doing business in today's financial industry and acknowledges its responsibility to protect the assets of the Credit Union. It is the policy of this Credit Union to regularly review the risks, analyze the potential for loss, and provide insurance coverage that appropriately covers the risk of loss. Such insurance coverage will meet the minimum regulatory requirements applicable to the Credit Union.

Guidelines:

1. **RESPONSIBILITY.** The Board of Directors is responsible to review and approve the insurance coverage of the Credit Union at least annually. The CEO is responsible to conduct an annual review of insurance coverage and deliver a report to the Board as part of the annual review.
2. **COVERAGES.** The type and amount of specific coverage will be determined by the Board as a result of its annual insurance review and will meet the minimum regulatory requirements applicable to the Credit Union. While additional coverage may be approved by the Board, it is the policy of the Credit Union to provide coverage in at least the following areas:
 - A. **Bond Coverage.** The Credit Union will provide bond coverage, if available, for all operational areas where significant loss potential exists. The bond will cover the performance of all employees and all officers having custody of or handling Credit Union funds. The specific coverage and amounts will be determined annually based on current operations and risks.
 - B. **Director, Volunteer & Employee Coverage.** The Credit Union will provide insurance to protect the Directors, volunteers and employees from liability in the performance of their Credit Union duties.
 - C. **Employment Practices Liability Coverage.** The Credit Union will provide coverage against claims arising from its employment practices.
 - D. **Casualty Coverage.** Where the cost of the premium is appropriate for the coverage provided, the Credit Union will provide insurance to protect the assets of the Credit Union. Such assets will include loan collateral, physical facilities, equipment, etc.
 - E. **Business Continuity Coverage.** The Credit Union will estimate the expenses of continuing operations in the event its primary facilities and equipment are lost. It will obtain insurance to cover these expenses.
 - F. **Workers' Compensation Insurance.** The Credit Union will provide workers' compensation insurance in accordance with the law.
3. **DOCUMENTATION.** The Credit Union will establish a method for recording the content and

results of its insurance review. All documentation will be retained until all audits and regulatory examinations have been completed for the period in which the insurance review was valid, or longer if deemed appropriate by management.

4. **REGULATORY COMPLIANCE.** The Credit Union will work with all appropriate regulatory agencies to ensure that the bond insurance coverage provided meets the minimum regulatory requirements.

Chapter 4150: Board Job Description

Published: 08/09

General Policy Statement:

The overall job of the Board is to determine the strategic direction and organizational performance of the Credit Union in an effort to ensure its continued safety and soundness. Each Board member has a fiduciary responsibility to the members of the Credit Union.

The Board of Directors is the governing body of the Credit Union with the major responsibility for developing and promoting the mission, programs and image of the Credit Union. It has the ultimate authority in determining the direction of the Credit Union, in that it is accountable for the fiscal well being of the Credit Union and responsible for the selecting the CEO and for evaluating his/her performance in administering the Credit Union.

The Board must also ensure compliance with the laws, rules and regulations governing the operations of the Credit Union and provide the policy framework for strategic planning, fundraising and administration.

The Board also must be accountable to the membership it represents by assessing organizational effectiveness, regularly evaluating its own performance, and ensuring its own replacement over time.

Guidelines:

1. **BOARD OF DIRECTORS' RESPONSIBILITIES.** Each member of the Credit Union's Board of Directors is responsible for the following responsibilities:
 - A. **Meeting Attendance.** Regularly attend board meetings and important related meetings. When unable to attend, Board members shall notify the Board Chair in advance of the meeting.
 - B. **Financial Management.** Adopt the annual budget and oversee the management of it.
 - C. **Committee Work.** Make a serious commitment to participate actively in committee work.
 - D. **Assignments.** Volunteer for and willingly accept assignments, completing them thoroughly and on time.
 - E. **Keeping Informed.** Stay informed about Credit Union and credit union industry matters.
 - F. **Meeting Preparation.** Prepare him/herself well for meetings, to include preparing agendas, as well as reviewing and commenting on minutes and reports.
 - G. **Consensus-Building.** Build and maintain a collegial working relationship that contributes to consensus.
 - H. **Planning.** Actively participate in the Board's planning efforts and evaluation, as well as the

Credit Union's Strategic Plan.

- I. **CEO Evaluation.** Actively participate in the annual evaluation of the CEO.
- J. **Eligibility.** Maintain eligibility to serve on the Board.
- K. **Continuing Education.** Continue to obtain education on volunteer as well as credit union industry-related matters by attending credit union- or trade association-sponsored education and training events.
- L. **Policy Development and Approval.** Produce and approve written governing and operational policies that address each category of organizational decision and ensure compliance with the laws, rules and regulations governing the operations of the Credit Union.
- M. **Staff Development.** Ensure Credit Union staff receives the required training to fulfill their respective job duties, as well as the education and training to foster their professional development.
- N. **CEO Succession Plan.** Develop and oversee the CEO Succession Plan.
- O. **Board Succession Plan.** Develop and oversee the Board Succession Plan.
- P. **Business Continuity Plan.** Participate in the planning and oversight of the Credit Union's Business Continuity Plan.
- Q. **Conflicts of Interest.** Avoid all appearances of impropriety with regard to any decisions made related to Credit Union operations and relationships. In the event there is a conflict of interest, Board members shall recuse themselves from such decision-making process and voting.

Chapter 4160: Officers' Job Descriptions

Published: 08/09

General Policy Statement:

The Board of Directors shall elect a slate of Officers to carry out the duties and responsibilities of the Board that are outlined in the Board Job Description policy (**Section 4150**). The Officers shall consist of the members of the Board of Directors.

The Board Officers shall consist of a Chair, Vice Chair, Secretary and Treasurer. The duties and responsibilities of each are outlined more specifically herein.

Guidelines:

1. **RESPONSIBILITIES OF THE BOARD CHAIR.** In addition to the responsibilities assigned to the Board of Directors, the Board Chair shall have the following responsibilities:
 - A. Serve as a partner with the CEO in achieving the Credit Union's mission and Strategic Plan.
 - B. Provide leadership to the Board.
 - C. Chair meetings of the Board after developing the agenda with the CEO, and ensure that meetings function effectively.
 - D. Call special meetings of the Board when necessary.
 - E. Oversee all duties assigned to the Board, pursuant to the Credit Union's Board/CEO Delegation policy (**Section 3000**).
 - F. Serve as ex-officio member of all committees.
 - G. Assist the CEO in conducting new Board member orientation.
 - H. Appoint the chairpersons of committees, in consultation with other Board members.
 - I. Discuss issues confronting the Credit Union with the CEO.
 - J. Help guide and mediate Board actions with respect to Credit Union priorities and governance concerns.
 - K. Review with the CEO any issues of concern to the Board.
 - L. Monitor financial planning and financial reports.
 - M. Formally evaluate the performance of the Chief Executive and informally evaluate the effectiveness of the Board members.

- N. Evaluate annually the performance of the Credit Union in achieving its mission.
 - O. Act as an alternate spokesperson for the Credit Union.
 - P. Be responsible for carrying out the CEO Succession Plan.
 - i. Appoint, when necessary, an Interim CEO.
 - ii. Oversee the search and selection of the new CEO.
 - Q. Develop and oversee the Board Succession Plan.
 - i. Work with the Nominating Committee to recruit new Board members.
 - R. Perform other responsibilities assigned by the Board.
2. **RESPONSIBILITIES OF THE VICE CHAIR.** In addition to the responsibilities assigned to the Board of Directors, the Vice Chair shall have the following responsibilities:
- A. Perform responsibilities of the Chair when the Chair cannot be available (see above).
 - B. Report to the Board Chair.
 - C. Work closely with the Chair and other Officers and Credit Union management.
 - D. Participate closely with the Chair to develop and oversee the CEO and Board Succession Plans.
 - E. Perform other responsibilities as assigned by the Board.
3. **RESPONSIBILITIES OF THE SECRETARY.** In addition to the responsibilities assigned to the Board of Directors, the Secretary shall have the following responsibilities:
- A. Keep the records of Board actions, including the taking of minutes at all Board meetings.
 - B. Send out meeting announcements.
 - C. Distribute copies of minutes and the agenda to each Board member.
 - D. Ensure corporate records are maintained.
 - E. Perform responsibilities of the Chair when the Chair and Vice Chair cannot be available (see above).
 - F. Keep Board member attendance records.
 - G. Maintain current contact information of all Board members.
4. **RESPONSIBILITIES OF THE TREASURER.** In addition to the responsibilities assigned to the Board of Directors, the Treasurer shall have the following responsibilities:

- A. Provide a financial report to the Board at each Board meeting.
- B. Assist in the preparation of the Credit Union's budget and present the budget to the Board for approval.
- C. Manage, with the board's review, the actions related to the Board's financial responsibilities.
- D. Work with the CEO the chief financial officer (CFO) to ensure that appropriate financial reports are made available to the Board and regulatory authorities on a timely basis.
- E. Review the annual audit and answers board members' questions about the audit.
- F. Keep accurate financial records for the corporation.
- G. Perform other duties prescribed by the Board.
- H. Reviews the annual audit and answers board directors' questions about the audit.

Chapter 4170: Code of Conduct/Ethics

Published: 08/09

General Policy Statement:

The Board commits itself and its members to ethical, businesslike, and lawful conduct, including proper use of authority and appropriate decorum when acting as Board members. The Board understands that the Credit Union's reputation for integrity and trust is determined by the conduct of its insiders. In order to protect that reputation, the Board has adopted this policy to ensure the Credit Union remains a trusted entity in this community.

This policy is not comprehensive in that it does not address every possible situation that may arise. It provides guidance for carrying out Board responsibilities on behalf of the Credit Union and observing the highest standards of ethical conduct. Board members are responsible for exercising good judgment, applying ethical principles, and raising questions when in doubt.

Guidelines:

1. Board members must represent un-conflicted loyalty to the interests of the Credit Union. This accountability supersedes any conflicting loyalty such as that to advocacy or interest groups and membership on other Boards or staffs. It also supersedes the personal interest of any Board member acting as a consumer of the Credit Union's services.
2. Board members shall strictly comply with the Credit Union's Bylaws, as well as all laws and regulations governing the Credit Union. Any behavior that acts in contravention of these governing laws and regulations shall not be tolerated, and may result in disciplinary action up to and including discharge or removal from the Board.
3. Board members shall strive to uphold the highest ethical standards at all times.
4. Each Board member shall maintain his/her eligibility status to serve on the Credit Union's Board, as established by law. At any time a Board member shall become ineligible to serve, the Board member shall notify the Board of such ineligibility and tender his/her resignation from service.
5. Board members may not attempt to exercise individual authority over the organization except as explicitly set forth in Board policies.
 - A. Board members' interaction with the CEO or with staff must recognize the lack of authority vested in individuals, except when explicitly Board-authorized.
 - B. Board members' interaction with public, press, or other entities must recognize the same limitations and the inability of any Board member to speak for the Board, except to repeat explicitly stated Board decisions.
 - C. Board members shall give no consideration or voice to individual judgments about the CEO's performance.

6. Board members shall respect the confidentiality appropriate to issues of a sensitive nature, pursuant to the Credit Union's Confidentiality policy (**Section 4190**).
7. Board members may issue a cease and desist order in the following circumstances:
 - A. When a Director has determined from competent and substantial evidence that the Credit Union or Credit Union employee is engaged in or has engaged in an unsafe or unsound practice, or is violating or has violated a material provision of any law, rule, regulation, or any condition imposed in writing by the Board; or
 - B. When a Director has reasonable cause to believe the Credit Union is about to engage in an unsafe or unsound practice or is violating or has violated a material provision of any law, rule, regulation, or any condition imposed in writing by the Board, or a Director has reasonable cause to believe the Credit Union is about to violate a material provision of any law, rule, regulation, or any condition imposed in writing by Board.
8. Board members shall deal fairly with each other, staff members, as well as any third party with whom the Credit Union transacts business.
9. Any violation of this policy may result in disciplinary action up to and including discharge or removal from employment or the Board/committee.

Chapter 4180: Conflict of Interest

Published: 08/09

General Policy Statement:

A conflict of interest arises when an individual's position or responsibility presents an opportunity for personal gain apart and beyond normal rewards of employment. Conflicts also arise when an individual's personal interests are inconsistent with those of this Credit Union and create conflicting loyalties. Conflicting loyalties can cause an employee to give preference to personal interests over the interests of the Credit Union. The mere appearance of a conflict of interest should be avoided at any cost.

It is essential to the continued success of the Credit Union that each Board member, committee member and employee conducts business in a manner that avoids actual, or the appearance of, a conflict of interest.

Conflicts of interest arise when an employee, Board or committee member attempts to influence a decision using "insider information" of the Credit Union that may result in personal gain for that employee, Board or committee member or a relative resulting from the business of the Credit Union.

"Insider information" is information learned through association with the Credit Union that can be used for personal advantage. This information cannot be used by a Credit Union officer or employee, or by a friend of or relative of an officer or employee, to enhance his/her financial position. Premature disclosure of any information that affects Credit Union business should be avoided and may be illegal.

Relative means any person related by blood or marriage or a similar relation (such as life partner or adopted or foster child).

Personal gain means that an employee, Board or committee member (or relative) has a significant interest in an outside business or firm with which the Credit Union does business and receives a kickback, bribe, substantial gift, special consideration or financial benefit as a result of his/her employment or Board or committee membership at the Credit Union.

Guidelines:

1. Any proposed Credit Union dealings, other than normal Credit Union responsibilities with individual directors, officers or employees (or their relatives), requires official approval. Such dealings may include, but are not limited to purchase of supplies, consulting or other services, sale of goods, services or any transaction not in the normal conduct of business.
2. If there is the slightest doubt about the morality or legality of a business transaction between the Credit Union and a Board member, committee member or employee (or their relatives), the Credit Union shall seek the advice of its legal counsel.
3. If an employee, Board or committee member has a relationship with, or an investment in, an outside firm or business that is owned or managed by, or employs a friend or family member that may influence transactions involving purchases, contracts or leases with such firm, the Credit

Union employee must advise the Credit Union manager, and any Board or committee member must advise the Board of Directors of the relationship so that any actual or potential conflict of interest can be avoided for the protection of all parties.

- A. All transactions with outside firms, friends or family members that are disclosed and deemed not to present a conflict of interest must be conducted at arm's length and in the best interest of the Credit Union.
4. No employee, Board or committee member (or relative thereof) may receive any compensation or benefit, directly or indirectly, in connection with your engagement in an activity deemed to present a conflict of interest, unless permitted below.
 - A. Permissible payments.
 - i. Salaries paid to employees;
 - ii. Incentives or bonuses paid to employees based on the Credit Union's overall financial performance; and
 - iii. Payment, by the Credit Union, of an incentive or bonus to an employee, other than a senior management employee or paid official, in connection with an authorized activity deemed not to present a conflict of interest.
 5. Any and all gifts received by an employee, Board or committee member from an outside firm must be disclosed immediately. Said gifts that are in violation of the Credit Union's Gifts, Bribes, or Kickbacks policy (**Section 2190**) shall be returned to the sender.
 6. Use of Credit Union letterhead or position for personal purposes, or to commit the Credit Union, without the authority to do so, is a conflict of interest and is prohibited.
 7. As a reminder of the importance of disclosure, Board and committee members shall sign an annual Conflict of Interest Statement. Failure to do so may result in removal from the Board or committee.
 8. Any violation of this policy may result in disciplinary action up to and including discharge or removal from employment or the Board/committee.

SAMPLE CONFLICT OF INTEREST DISCLOSURE FORM & CERTIFICATION

Board and committee members must complete the following questionnaire to disclose any direct conflict and/or potential conflict between the Board and committee members of the Credit Union and any firm or organization that has, or may have in the coming year, a relationship with the Credit Union. For all “yes” answers, please attach additional sheets for explanation, if necessary.

1. Do you, your spouse or any other relative, have a business and/or professional relationship with any firm or organization that presently has, or may have in the coming year, business dealings with the Credit Union? **Yes** **No**

If “Yes”, please list: _____

2. Do you, your spouse or any other relative have a financial interest, direct or indirect, in any firm or organization that presently has business dealings with the Credit Union, or which might be reasonably expected to have business dealings with the Credit Union in the coming year? **Yes** **No**

If “Yes”, please list: _____

3. Have you, your spouse or any relative accepted gifts, gratuities, lodging, dining or entertainment in excess of \$25.00 per occasion that might reasonably appear to influence your judgment or decisions concerning the business or direction of the Credit Union? **Yes** **No**

If “Yes”, please list: _____

4. Are there any affiliations (other than those identified above) for which you believe you might have a conflict of interest or the public may construed to be a conflict of interest with the Credit Union? **Yes** **No**

If “Yes”, please list: _____

CERTIFICATION

I hereby certify that, to the best of my knowledge, the information disclosed is accurate. I also hereby certify the following:

1. I will immediately inform the Credit Union Board of Directors and Chief Executive Officer of any situation constituting a conflict of interest, or which could give rise to a conflict of interest. I recognize that I have the obligation to abstain from any participation in the matter until the Credit Union can determine (a) whether a conflict actually exists, and (b) how that conflict is to be resolved.
2. I have not granted and will not grant, have not sought and will not seek, have not attempted and will not attempt to obtain, and have not accepted and will not accept, any advantage, whether financial or in kind, to or from any party, constituting an illegal act or one that could be reasonably construed to present a conflict of interest, directly or indirectly, as an incentive or reward relating to a business relationship with the Credit Union.
3. I have read the Credit Union’s Conflict of Interest policy, as approved by the Board of Directors.
4. I understand that as a Director or committee member, it is my obligation to act in a manner that promotes the best interests of the Credit Union, and to avoid conflicts of interest when making decisions and taking actions on behalf of the Credit Union.
5. I understand that this information may be accessed by and/or released to external parties, including when required by federal, state or local laws and regulations.

Name: _____ Title: _____

Signature: _____ Date: _____

Chapter 4190: Confidentiality

Published: 08/09

General Policy Statement:

The purpose of this policy is to guide the actions of the Board of Directors and such committee members and staff who may serve the Credit Union regarding the confidentiality of information which they access in the conduct of their Credit Union roles and responsibilities. The nature of these roles and responsibilities results in the acquisition of extensive information that is considered to be privileged.

Much information is shared with the Credit Union because of its reputation for trust and credibility. To safeguard the Credit Union's reputation and integrity, as well as its ability to fully carry out its important services to members and the community, the Credit Union subscribes to the principals related to confidentiality set forth below.

The Credit Union is committed to safeguarding the security of confidential business information of the Credit Union and personal, non-public personal information of its members.

Guidelines:

1. **Confidential Information.** Confidential information includes any information regarding members' non-public personal information and account information, including the fact that an individual is a member of the Credit Union; all computer transactions; and all non-public personal information of Credit Union staff, Board and committee members. Any such information or transactions must remain confidential unless disclosure is authorized by the member or required by law. All employees and officials shall protect the privacy of member information and shall strictly adhere to the Credit Union's Privacy Policy and practices and all applicable law.
2. **Proprietary Information.** Proprietary information includes any reports, plans, member lists, data, databases, documents, writings, samples, know how, marketing strategies and internal marketing information, business operations and business systems, operations of the Credit Union, development of new services, and all similar information related to the business of the Credit Union. Such information shall not be disclosed to any third party unless authorized by the Board or Credit Union management.
3. **Authorized Disclosure.** Board members shall be authorized to release to any person any material other than confidential material obtained in the course of their service as a Board member where such release is in accordance with the requirements of any applicable law or regulation.
4. **Credit Union Documents.** The Board shall decide from time to time whether any or all of its agendas, minutes, or papers, or those of its committees (not otherwise required by legislation, regulation, or its rules to be made public) shall be made public. Where no express decision has been recorded the assumption shall be that the material is not confidential.
 - A. On those occasions and for those matters that the board elects not to make public, Board members shall respect the confidentiality of those documents and of any deliberations of the Board on those matters.

5. Prohibitions. In particular, Board members shall not do the following:
 - A. Disclose to any member of the public any confidential information acquired by virtue of their position as a Board member;
 - B. Use any confidential information acquired by virtue of their position on the Board for their personal financial or other benefit or for that of any other person;
 - C. Disclose to any member of the public any confidential information related to the interests of individuals, groups or organizations acquired by virtue of their position on the Board;
 - D. Permit any unauthorized person to inspect or have access to any confidential documents or other information.
6. **Duty to Protect Information After Termination of Board Service.** The obligation to protect such confidential matters from disclosure continues even after the individual Board member is no longer serving on the Board.
7. **Redacting Information.**
 - A. Where appropriate, information identifying individuals may be removed by the Board Chair from material before its consideration by the Board.
 - B. The CEO or Credit Union BSA Compliance Officer may remove information identifying individuals when presenting Suspicious Activity Report (SAR) information to the Board when filed (pursuant to the Bank Secrecy Act).
8. **Violations.** Any violation of this policy may result in disciplinary action up to and including discharge or removal from employment or the Board/committee.

Chapter 4200: Privacy

Published: 08/09

General Policy Statement:

The Credit Union recognizes its responsibility to protect the privacy of member nonpublic personal information. The purpose of this policy is to set forth the guidelines under which such information may be shared with third parties. It is the intent of the Credit Union and any of its affiliates to abide by all applicable laws and regulations governing the privacy of nonpublic personal information including NCUA Privacy of Consumer Financial Information rule (Part 716) and the FTC Privacy rule (Part 313) for affiliates, issued to implement the provisions of the Gramm-Leach-Bliley Act and the Right to Financial Privacy Act.

Guidelines:

1. **DEFINITIONS.** For the purpose of this privacy policy, the following definitions shall apply.
 - A. **Affiliate.** To be considered an affiliate, the Credit Union must have the ownership, control or power to vote 25% of the shares; control election of a majority of the directors, trustees and partners; the power to exercise a controlling influence over the company's management or policies, or have any ownership interest in a company that is 67% owned by credit unions.
 - B. **Consumer.** A consumer is an individual, or such individual's legal representative or personal representative (§716.2; §3401), who has obtained a financial product or service from the Credit Union for personal, family or household purposes or for whom the Credit Union is acting as fiduciary (§3401). A consumer is not necessarily a member of the Credit Union.
 - C. **Member.** A member is a consumer with whom the Credit Union has, or has had in the past, a continuing relationship where the Credit Union has provided one or more financial products or services for personal, family or household purposes. (Examples: a joint account held by a member and a nonmember spouse, or a former member).
 - D. **Nonpublic Personal Information.** Personally identifiable financial information provided by a consumer to a Credit Union, resulting from a transaction with the consumer or any service performed for the consumer, or otherwise obtained by the Credit Union. Nonpublic personal information does not include publicly available information (§6809).
2. **COLLECTION OF INFORMATION.** In the course of delivering products and services, the Credit Union obtains nonpublic personal information, either directly from the member or from outside sources. This nonpublic personal information is used to comply with federal and state laws and regulations, to provide effective member service and to inform members of products and services which may be of interest to the member.
3. **MAINTENANCE OF ACCURATE INFORMATION.** The Credit Union will exercise reasonable caution in the gathering and maintenance of information to ensure its accuracy. When

inaccurate information is discovered, it will be corrected as promptly as possible.

4. **DISCLOSING INFORMATION TO THIRD PARTIES.** The Credit Union will not disclose personal nonpublic information to third parties without first providing the consumer a clear and conspicuous notice that accurately reflects the Credit Union's privacy policies and practices and providing the consumer a reasonable opportunity to opt out of such disclosure (§716.14). The Credit Union may share nonpublic personal information with its affiliate, if applicable. The Credit Union also may share its experience information about the member with credit bureaus. The Credit Union's reporting to credit bureaus is governed by the Fair Credit Reporting Act, which affords the member the right to make sure that its credit bureau reports are accurate. The requirement for the Credit Union to provide notice and a reasonable opportunity to opt out does not apply if the Credit Union's disclosure of nonpublic personal information is necessary to effect, administer, or enforce a transaction that a consumer requests or authorizes, or in connection with any of the following (§716.14):
- A. Servicing or processing a financial product or service that a consumer requests or authorizes (§716.14).
 - B. Maintaining or servicing the consumer's account with the Credit Union, or with another entity as part of a private label credit card program or other extension of credit on behalf of such entity (§716.14).
 - C. A proposed or actual securitization, secondary market sale (including sales of servicing rights) or similar transactions related to a transaction of the consumer (§716.14).
 - D. With the written consent or direction of the consumer (§6802).
 - E. To protect the confidentiality or security of the Credit Union's records pertaining to the consumer, the service or product, or the transaction; to protect against or prevent actual or potential fraud, unauthorized transactions, claims, or other liability; for required institutional risk control, or for resolving customer disputes or inquires; to persons holding a legal or beneficial interest relating to the consumer; or, to the extent specifically permitted or required under other provisions of law and in accordance with the Right to Financial Privacy Act, to law enforcement agencies, self-regulatory organizations, or for an investigation on a matter related to public safety (§6802(e)).
 - F. To provide information to insurance rate advisory organizations, guaranty funds or agencies, applicable rating agencies of the Credit Union, persons assessing the Credit Union's compliance with industry standards, and the institution's attorneys, accounts, and auditors (§6802(e)).
 - G. To a credit reporting agency in accordance with FCRA (§6802(e)).
 - H. In connection with a proposed or actual sale, merger, transfer, or exchange of all or a portion of a business or operating unit if the disclosure of nonpublic personal information concerns solely consumers of such business or unit (§6802(e)).
 - I. To comply with Federal, State, or local laws, rules, and other applicable legal requirements, to comply with a properly authorized civil, criminal, or regulatory investigation or subpoena or summons by Federal, State or local authorities having jurisdiction over the financial institution for examination, compliance, or other purposes as authorized by law (§6802(e)).

- J. Disclosure (i) in response to an administrative subpoena; (ii) in response to a search warrant; (iii) in response to a judicial subpoena; or (iv) in response to a formal written request by a proper governmental authority (§3402).
5. **RESPONSIBILITY OF SERVICE PROVIDERS.** The Credit Union will only approve service providers with established policies of privacy similar to those of the Credit Union. The Credit Union will require contractual agreements from nonaffiliated third parties that will include confidentiality of member information disclosed by the Credit Union and prohibit the service provider from disclosure and reuse of nonpublic personal information for any reason other than the intended purpose. All contracts entered into after July 1, 2006 shall be in compliance with the provisions of NCUA §716.13 (§716.18(c)).
6. **CONFIDENTIALITY AND SECURITY SAFEGUARDS.** The Credit Union maintains strict policies and security controls to assure that nonpublic personal information in the Credit Union's computer systems and files is protected.
- A. Credit Union employees and certain contractors are permitted access to nonpublic personal information that they may need to perform their jobs and to provide service to the members.
 - B. Credit Union employees and contractors shall have access to such nonpublic personal information only as necessary to conduct a transaction or respond to a member's inquiries.
 - C. All Credit Union employees and contractors shall be required to respect member privacy through confidentiality and information security provisions included in the Credit Union's employee policy manual and service agreements with the contractors.
 - D. No one except Credit Union employees and authorized contractors will have regular access to the Credit Union computer system and records storage. The Credit Union has established internal security controls, including physical, electronic and procedural safeguards to protect the member nonpublic personal information provided to the Credit Union and the information the Credit Union collects about the member. The Credit Union shall continue to review its internal security controls to safeguard member nonpublic personal information as the Credit Union employs new technology in the future.
7. **PRIVACY OF ELECTRONIC TRANSACTIONS.**
- A. **Encryption.** Electronic interfaces with members (such as Internet transactions) will be encrypted using Secure Socket Layer (SSL) 128-bit encryption.
 - B. **Account Access.** Member account information and transactions will be protected by a password that must be used in conjunction with a username or account number. Members must apply for this capability and be registered with the Credit Union for authentication purposes.
 - C. **"Cookies."** The Credit Union may use "cookies" as part of its web site interface. A "cookie" is a small file that is placed on the user's computer. While it contains no member information, it identifies the member's computer and allows the Credit Union to measure usage of the web site and customize the web site experience.

- D. **Links.** The Credit Union may link to other sites on its Web site as a convenience to our members. The Credit Union shall seek to link with other sites that adhere to similar privacy standards. However, the Credit Union is not responsible, and shall disclose that it is not responsible, for the availability and content of linked sites, or for their policies on the collection of member information.
- E. **Online Privacy of Children's Information.** The Credit Union shall not collect, use or disclose online information received from children under age 13 without prior parental notification and consent, which will include an opportunity for the parent to prevent use of information and participation in the activity. Online information shall only be used to respond directly to the child's request and shall not be used for other purposes without prior parental consent.
- i. The Credit Union shall not distribute to third parties, other than its affiliate, personally identifiable information without prior parental consent.
 - ii. The Credit Union shall not post or otherwise distribute personally identifiable information without prior parental consent.
 - iii. The Credit Union shall not entice by the prospect of a special game, prize or other activity, to divulge more information than is needed to participate in the activity.
 - iv. Personally identifiable information collected online from children may be reviewed by a parent or guardian upon written request. The parent or guardian has the right to have information deleted and instruct the Credit Union to cease collecting further information from their child.
8. **DISCLOSURE OF PRIVACY POLICY.** The Credit Union will disclose its privacy policy as required by law.
- A. **Privacy Policy May Be Combined With or In Other Documents.** The Credit Union's privacy policy may be printed in a document containing other information, so long as the privacy policy is set apart from the other content by using graphics, a different type style, or any other method to set it apart. The Credit Union and its CUSO affiliate may combine their policy disclosures in a single form (provided the applicable disclosure requirements are satisfied).
 - B. **New Member/Customer Privacy Policy.** The Credit Union and CUSO shall deliver a privacy policy to each new member/consumer who establishes a relationship. The privacy policy shall be provided at or before an establishment of a member relationship, i.e. before the member/consumer signs the account card or other applicable document. A new privacy policy need not be given for each subsequent account opening, if the privacy policy provided for the one-time mailing to existing members or the policy at new account opening has not changed from the previously provided privacy policy.
 - C. **Annual Mailing.** The Credit Union and CUSO shall provide a privacy policy to all members/consumers at least annually (once during any 12 consecutive months). The Credit Union need not provide an annual notice to members or consumers who no longer have a relationship with the Credit Union or CUSO.
9. **MEMBERS' RIGHT TO "OPT OUT."** Privacy regulations allow members to "opt out" of

having their information disclosed to third parties in certain situations. Before the Credit Union discloses any member information to a nonaffiliated third party that is not otherwise covered by a disclosure exception under Part 716, the Credit Union shall properly inform members of their right to "opt out" and to record and honor "opt out" requests which notice shall include the address and toll-free telephone number of the appropriate notification system used for processing of notices of opt out and will be presented in a format acceptable to the National Credit Union Administration/Federal Trade commission.

10. **PRIVACY COMPLIANCE.** The Credit Union and any of its affiliates shall comply with all applicable laws and regulations governing the privacy, confidentiality, security, and integrity of nonpublic personal information including the NCUA privacy rule (Part 716), the FTC privacy rule (Part 313) for affiliates, and all other applicable state and federal privacy laws and regulations as amended.

11. **ADMINISTRATION AND AMENDMENTS.**

- A. Protecting member privacy is an ongoing process and the Credit Union shall continue to evaluate and review the measures taken to safeguard member information.
- B. The Credit Union shall provide training to employees on how to recognize and control risk to nonpublic personal information of members, how to handle this information, and how to report unauthorized or fraudulent attempts to gain access to nonpublic personal information of members.
- C. The Credit Union shall create controls and procedures whereby any new product, service, or delivery method shall be reviewed and modified to insure that it conforms to existing Credit Union privacy policies with regards to nonpublic personal information of members.
- D. If nonpublic personal information of members is shared with vendors for a business purposes, all contracts and agreements between the vendors and the Credit Union shall include a guarantee that the vendor will safeguard such information.
- E. Since no policy can address every possible contingency and circumstances, Credit Union management shall use its good faith business judgment in administering this privacy policy and expects that all officers, volunteers and employees will use good faith in their actions to protect the privacy of Credit Union members.
- F. The Credit Union reserves the right to amend this privacy policy in any respect with regard to the disclosure of member information as required by law.

Chapter 4220: Committee Principles

Published: 08/09

General Policy Statement:

Board committees, when used, will be assigned so as to reinforce the wholeness of the Board's job and so as to never interfere with delegation from the Board to CEO.

Guidelines:

1. Board committees are to help the Board do its job, never to help or advise the staff. Committees shall ordinarily assist the Board by preparing policy alternatives and implications for Board deliberation. In keeping with the Board's broader focus, Board committees will not generally have dealings with current staff operations.
2. Board committees may not speak or act for the Board except when formally given such authority for specific and time limited purposes. Expectations and authority shall be carefully stated in order not to conflict with authority delegated to the CEO.
3. Board committees cannot exercise authority over staff. Because the CEO works for the full Board, he/she shall not be required to obtain the approval of a Board committee before an executive action.
4. Board committees are to avoid over-identification with organizational parts rather than the whole. Therefore a Board committee that has helped the Board create policy on some topic shall not be used to monitor organizational performance on the same topic.
5. Committees shall be used sparingly and ordinarily in an ad hoc capacity.
6. This policy applies to any group that is formed by Board action, whether or not it is called a committee and regardless whether the group includes Board members. It does not apply to committees formed under the authority of the CEO.
7. Committees shall abide by the same Code of Ethics that governs the Board.

Chapter 4230: Executive Committee Guidelines

Published: 08/09

General Policy Statement:

The Board shall appoint an Executive Committee to assist in carrying out its duties. This committee shall not take the place of the full Board. All decisions of the Executive Committee must be ratified by the full Board.

Guidelines:

1. **COMPOSITION.**

- A. The committee shall be comprised of the Board officers.
- B. The Chairman of the Board shall serve as the chairman.

2. **DUTIES.** The Executive Committee shall be given the following duties:

- A. Approve Board expenses.
- B. Prepare Board meeting agendas consistently with the criteria in Board policies.
- C. Provide minutes of the Executive Committee meetings to the full Board within [[4230-1]] of each meeting.
- D. Monitor the Board's compliance with its governance policies.
- E. [[4230-2]]

3. **AUTHORITY.**

- A. The Committee has no authority to change or contravene Board policies or resolutions.
- B. The Committee has authority to spend funds required for travel to meetings if meetings are required, but no authority to spend or commit other organization funds.
- C. The Committee has authority to use staff resource time for administrative support for meetings.
- D. The Committee does not have authority to instruct the CEO or any other staff member, other than to request information required in the conduct of its duties.

Chapter 4240: Supervisory Committee Guidelines

Published: 08/09

General Policy Statement:

The Supervisory Committee is responsible for ensuring the accuracy and fairness of the Credit Union's financial statements and the safety of the members' assets. To this end, the Supervisory Committee will make or cause to be made an annual audit; will cause the members' accounts to be verified at least once every two years; and will determine whether proper internal controls are being maintained.

Guidelines:

1. **COMPOSITION.** The Board shall appoint [[4240-1]] members in good standing to serve on the Supervisory Committee. The Committee shall select from among their number a chair and a secretary, which may be the same person.
2. **ELIGIBILITY.**
 - A. **Requirements.** Supervisory Committee members must:
 - i. Be a member of the Credit Union.
 - ii. Be bondable by the Credit Union's surety bond company.
 - iii. Have some experience in bookkeeping, accounting or auditing.
 - B. **Prohibitions.** The following individuals shall be prohibited from serving on the Supervisory Committee:
 - i. Loan officers.
 - ii. Membership officers.
 - iii. Treasurer and Assistant treasurer.
 - iv. Board Chair and Vice Chair.
 - v. Board Secretary.
3. **TERM OF SERVICE.** Members of the Supervisory Committee shall serve for [[4240-2]] years. In order to provide continuity, terms shall be staggered so that one position will be up for appointment each year. Regular terms shall expire after the first regular board meeting following the Credit Union's annual meeting.
4. **DUTIES.** The Supervisory Committee shall have the following responsibilities:
 - A. Conduct or hire an external auditor to conduct an annual audit to determine whether

corporate records are prepared accurately, and whether internal controls, policies, and procedures are maintained and followed in accordance with Board-established policies.

- B. Conduct an annual verification of members' accounts.
- C. Establish and maintain effective internal controls to achieve the Credit Union's financial reporting objectives, and safeguard against error, carelessness, conflicts of interest, self-dealing and fraud.
- D. Promptly prepare accounting records and financial reports to accurately reflect operations and results.
- E. Review examination and audit findings and follow-up to ensure that management takes the necessary corrective action. The action taken must be adequate to correct the findings.
- F. Meet with the examiner as the Board or the examiner may request.
- G. Research member complaints.
- H. Complete other recommended procedures assigned to it pursuant to the Credit Union's Bylaws.
- I. Report to the Board on a quarterly basis on the activities of the Committee.
- J. Suspend, by unanimous vote, any Board member, executive officer or committee member. The Committee may call a special meeting of the members, by a majority vote, to consider any violation of law, regulation, the Credit Union's Charter, the Credit Union's Bylaws, or any action/practice considered unsafe or unsound. The special meeting must be held within 7 to 14 days after the suspension.

5. ANNUAL AUDIT.

- A. **Auditing Standards.** The person or persons who perform the annual audit must:
 - i. Have adequate training and experience as an auditor, taking into account the size and complexity of the Credit Union.
 - ii. Exercise reasonable care in performing the audit and preparing the audit report.
 - iii. Adequately plan the audit. If assistants are used, they must be properly supervised.
 - iv. Obtain sufficient evidence for the items under audit.
- B. **Auditing Scope.** The person or persons performing the annual audit shall:
 - i. First, understand the Credit Union's internal control structure.
 - 1. The Credit Union's internal control structure includes its control environment, accounting system, and control procedures. Examples of control procedures include daily reconciliations of all loans, deposit, and related interest trial balances with the general ledger; daily balancing of tellers' and vault cash; and

dual controls over such items as vault cash, consigned items, dormant account information, and investment records.

2. The internal control structure must be understood sufficiently to plan the audit and to determine the nature, timing, and extent of tests to be performed.

ii. Second, assess the level of control risk.

1. Control risk may be assessed at the maximum level if the Credit Union's policies and procedures are unlikely to be effective or because evaluating their effectiveness would be inefficient.
2. A lower level of control risk may be assessed based on evidence of the effectiveness of both the design and operation of a specific policy or procedure.

C. **Ways to Satisfy the Audit Requirement.** Subject to the foregoing auditing standards and scope, the Supervisory Committee can satisfy the annual audit requirement as set forth in the following section.

- i. Federal or state chartered Credit Union with Asset Size of \$500 Million or More. An annual audit of the Credit Union's financial statements must be performed ("opinion audit") in accordance with GAAS by and independent person who is licensed to so by the State of jurisdiction in which the Credit union is located
- ii. State Chartered Credit Union with Less than \$500 million. An annual Supervisory Committee audit or an audit as prescribed by the State of jurisdiction in which the Credit Union is located is required, whichever is more stringent.
- iii. Federal Chartered Credit Union with less than \$500 million. The Supervisory Committee may:
 1. Perform the audit itself.
 2. Have the Credit Union's independent, internal auditor perform the audit.
 3. Recruit a member or volunteer who is not in the business of performing compensated audits for credit unions to perform the audit.
 4. Contract with an independent, licensed CPA to perform an "opinion audit" of the Credit Union's financial statements in accordance with Generally Accepted Auditing Standards (GAAS).
 - a. GAAS is promulgated by the American Institute of Certified Public Accountants (AICPA).
 - b. Copies of GAAS may be obtained from the AICPA, Order Department, Harborside Financial Center, 201 Plaza Three, Jersey City, New Jersey, 07311-3881.
- iv. Contract with an independent, licensed CPA or an independent, compensated auditor to perform specified procedures. If performed by a CPA, such an arrangement must

be an "agreed-upon procedures engagement." A "compensated auditor" means an accounting or auditing professional who performs more than one compensated supervisory committee audit per year.

1. The specified procedures must, either by themselves or in combination with procedures performed by the Supervisory Committee, meet the auditing scope stated above.
2. If the specified procedures are concerned with:
 - a. Internal controls.
 - b. Cash.
 - c. Loans.
 - d. Investments.
 - e. Related party transactions.
 - i. Then in addition to satisfying the auditing scope stated above, the scope of the audit also must satisfy GAAS for expressing an opinion on the financial statements taken as a whole.

D. **Report.** If the audit is performed by the Supervisory Committee or its designated, uncompensated representative, the Supervisory Committee shall prepare a written report of the audit. If the audit is performed by a CPA or compensated auditor, then the CPA or auditor must prepare the report and deliver it directly to the Supervisory Committee. The Supervisory Committee shall provide the audit report to the Board of Directors. For credit unions with assets of \$10 million or more, all reports and statements filed with the NCUA Board must follow GAAP.

- E. **Engagement Letter.** If the Supervisory Committee contracts with a CPA or compensated auditor, then the CPA or auditor must sign an engagement letter similar to the sample engagement letter attached to this policy. At a minimum, the engagement letter must:
- i. Specify the terms, conditions, and objectives of the engagement.
 - ii. Identify the basis of the accounting to be used (for example, Generally Accepted Accounting Principles (GAAP) for credit unions with assets of \$10 million or more or Regulatory Accounting Practices (RAP)).
 - iii. If the audit is not an opinion audit, include an appendix setting forth the procedures to be performed.
 - iv. Specify the rate of, or total, compensation to be paid for the audit.
 - v. Provide that the CPA or auditor shall, upon completion of the engagement, deliver to the Supervisory Committee a written report of the audit. The report must include:
 1. Any internal control reportable conditions; and

2. Any irregularities or illegal acts that come to the auditor's attention during the normal course of the audit.
 - vi. Specify a target date for delivery of the written report.
 - vii. Certify that the examiner(s) will be provided unconditional access to the auditor's complete set of original working papers at the Credit Union.
 - viii. Acknowledge that the auditor will retain the working papers for at least three years after the auditor's written report.
 - ix. Either certify that the audit satisfies the requirements of a complete supervisory committee audit or, if it excludes any financial statement elements, accounts, or items required to fulfill the scope of a supervisory committee audit, then:
 1. Identify the elements, accounts, or items and attributes excluded from the audit.
 2. State that, because of the exclusions, the resulting audit will not, by itself, fulfill the complete scope of a supervisory committee audit.
 3. Caution that the Supervisory Committee will remain responsible for fulfilling the scope of a supervisory committee audit with respect to the excluded elements, accounts, or items and attributes.
6. **VERIFICATION OF MEMBERS' ACCOUNTS.** At least once every two years, the Supervisory Committee shall cause to be verified, under controlled conditions, all passbooks and members' accounts. The verification shall be made using any of the following methods:
- A. A controlled verification of 100% of members' share and loan accounts.
 - B. A random sampling of members' accounts.
 - i. The method used should provide a sample that represents the population from which the sample was selected. It should also provide each dollar in the population an equal chance of being selected.
 - ii. The size of the sample should be sufficiently large in both number and scope to provide assurance that the General Ledger Accounts are fairly stated in relation to the financial statements taken as a whole.
 - iii. If the evidence provided by confirmations alone is not sufficient, additional procedures should be performed.
 - C. If the auditor is an independent, licensed CPA, the auditor may use non-statistical sampling methods consistent with applicable generally accepted auditing standards.
 - i. The sample size should be sufficiently large in both number and scope to provide assurance that the General Ledger Accounts are fairly stated in relation to the financial statements taken as a whole.

- ii. If the evidence provided by confirmations alone is not sufficient, additional procedures should be performed.
 - iii. The auditor must document the sampling procedures and provide evidence to NCUA, if requested, that the method used is consistent with applicable generally accepted auditing standards.
- 7. **MONTHLY VAULT COUNTS.** Management must oversee, and the Supervisory Committee shall verify, at least one vault cash count each month. The cash count must be completed under dual control by the branch manager or assistant manager and another Credit Union employee. A different employee shall be selected each month to perform the audit with the branch manager or assistant manager.
- 8. **SURPRISE CASH COUNTS.** The Supervisory Committee shall direct management to perform regular surprise cash counts of all teller and vault cash supplies to ensure proper control, determine compliance with Board policies on excess cash and bait money, and detect any missing funds.
- 9. **SUPERVISORY COMMITTEE EXAMINATIONS.** The Supervisory Committee shall oversee periodic examinations of the Credit Union's operations to ensure safety and soundness of policies, procedures, and practices, including examination of:
 - A. Competency and effectiveness of management;
 - B. Compliance with applicable laws, regulations, and rulings and the Credit Union's Charter and By-laws;
 - C. Accuracy of accounting methods and financial reporting;
 - D. Strength of internal control structure; and
 - E. Compliance with Board policy, especially policies regarding:
 - i. Operations.
 - ii. Administration.
 - iii. Accounting.
 - iv. Asset/liability management.
 - v. Investments.
 - vi. Lending.
 - vii. Other real estate owned (OREO).
 - viii. Non-deposit investments.
 - ix. Security.

- x. Conflicts of interest.
- xi. Fraud.

Sample Engagement Letter

For a Specified Procedures Audit

This sample letter is intended for use with a specified procedures audit (including an "agreed upon procedures engagement"). It can be adapted for use with an opinion audit.

Instructions:

1. *Blanks to be completed are in italics surrounded by curly brackets. Example: {Date of Letter}*
2. *Instructions are in all capitals and bolded. Example: IF THE ENGAGEMENT IS INTENDED TO FULFILL ...*
3. *Alternative language is in regular text surrounded by curly brackets, separated by OR. Example: {specified procedures} OR {agreed-upon procedures}*

{Date of Letter}

Supervisory Committee
ABC Credit Union

This letter will confirm our understanding of the terms, conditions, and objectives of our engagement to provide auditing services for ABC Credit Union for the year ending {audit year}.

We will apply {specified procedures} **OR** {agreed-upon procedures} to certain elements, accounts, or items of the financial statements of the credit union. The procedures to be performed are set forth on an appendix to this letter.

{We certify that the procedures to be performed by us fulfill the scope of a complete supervisory committee audit, as that term is defined in NCUA Rules and Regulations § 701.12(c)(3) & (c)(4).} **OR** {The following elements, accounts, and/or items and attributes are excluded from this engagement:

{List excluded elements, accounts, and/or items and attributes}

Because of the foregoing exclusions, this engagement will not, by itself, fulfill the scope of a complete supervisory committee audit, as that term is defined in NCUA Rules and Regulations § 701.12(c)(3) & (c)(4). We caution you that the supervisory committee will remain responsible for fulfilling the scope of a supervisory committee audit with respect to the excluded elements, accounts, and/or items and attributes.}

The procedures to be performed will not constitute an audit made in compliance with generally accepted auditing standards (GAAS). Consequently, we will not express an opinion as to the items set forth on the appendix or as to the financial statements of the credit union taken as a whole. In addition, we will not express an opinion as to the effectiveness of the credit union's internal controls in assuring reliable financial reporting or safeguarding credit union assets. **IF THE ENGAGEMENT IS INTENDED TO FULFILL THE SCOPE OF A COMPLETE SUPERVISORY COMMITTEE AUDIT, INSERT THE FOLLOWING:** Notwithstanding the foregoing, insofar as the items to be audited include internal controls, cash, loans and interest thereon, investments and interest thereon, shares and dividends and interest thereon, or related party transactions, the audit will satisfy GAAS with respect to audit scope (but not with respect to reporting) for expressing an opinion on the financial statements of the credit

union taken as a whole.}

The basis of the accounting to be used is {generally accepted accounting principles (GAAP)} **OR** {regulatory accounting practices (RAP)} **OR** {the standards established by the American Institute of Certified Public Accountants} **OR** {other type of accounting standard}.

Management should note that it is responsible to properly record transactions in the credit union's accounting records and to prepare financial statements in compliance with generally accepted accounting principles.

Upon completion of the engagement, we will deliver to you a written report of the audit. The target date for that report is {*target date*}. Because we are performing only specified procedures, our report is only to be used by the credit union's supervisory committee, credit union management, the NCUA, and other government agencies, which regulate the credit union {*or other specified parties*}. The report is not to be used by any other parties.

Our report will include a summary of the elements, accounts, and/or items subject to our audit and the procedures performed. It will also contain a paragraph indicating that had we performed additional procedures, we may have become aware of other matters that we would have reported to you.

This engagement will not entail a detailed examination of all transactions and cannot be relied upon to identify internal control reportable conditions, irregularities, or illegal acts. If any such matters, however, come to our attention during the normal course of the audit, we will notify you in writing of such matters either as part of the audit report or separately. If no such matters come to our attention, then no additional duty is imposed on us nor are any additional written communications required of us beyond the written audit report.

{Our total charge to you for providing the foregoing services will be \$_____} **OR** {Our fee to you for providing the foregoing services is based on the number of hours spent by the individuals assigned to the engagement in rendering the services. The hourly rate for those individuals is \$_____ per hour. We estimate _____ hours to complete the foregoing services. In addition to our fee for services, we charge for direct expenses. We will submit interim billings as services are rendered and expenses are incurred.}

We agree to retain the working papers of this engagement for at least three years from the date of our report. Our working papers belong to us and are confidential. We certify, however, that the staff of the National Credit Union Administration (NCUA) or its designated representative will be provided unconditional access, for purposes of inspection, to the complete set of our working papers either at the credit union or at a mutually agreeable location. Upon request, we may provide photocopies of all or a portion of our working papers to the NCUA, which may decide to distribute such papers to other governmental agencies.

Respectfully,

{Auditor's Signature}

Acknowledged:

{Name of Credit Union}

{Signature of Credit Union Director}

Chapter 4250: Nominating Committee Guidelines

Published: 08/09

General Policy Statement:

A Nominating Committee will be appointed to identify and solicit the best qualified member candidates for the leadership positions of the Credit Union Board of Directors, as well as to oversee annual Board elections.

Guidelines:

1. **COMPOSITION.** The Board will appoint a Nominating Committee, comprised of [[4250-1]] members, as specified in the Credit Union's Bylaws.
2. **ELIGIBILITY.** To be a member of the Nominating Committee, an individual must:
 - A. Be a member of the Credit Union in good standing at the time of nomination;
 - B. Understand the Board's approach to governance and agree to abide by all Board policies;
 - C. Accept the requirements for attendance, participating in ongoing training, and maintaining confidentiality of member information;
 - D. Be willing to commit time to Board functions, such as off-site Board sessions, committee work, and training conferences;
 - E. Be willing to stand behind policies and actions of the Board regardless of personal stands taken prior to the vote; and
 - F. Be willing to support the CEO when he or she has acted in compliance with Board policies.
3. **DUTIES.**
 - A. Nominate a slate of candidates. The Board may direct the Nominating Committee to seek out candidates in such a manner as to maintain or expand the diversity of the Board in such areas as age, gender, communities served or lived in, or business skills. The Board understands that the nominating committee has no control over members who are nominated by petition. The Board may also direct the nominating Committee to select a specific number of candidates as long as that number is consistent with the Bylaws.
 - B. Provide a list of candidates to the Board no later than one week after the deadline for members to submit their resumes to the Nominating Committee.
 - C. Validate any petitions received from the general membership by the required due date. All petitioners submitting petitions deemed to be valid will be automatically placed on the ballot.

D. Oversee the election process.

- i. The Nominating Committee shall choose at least one more Board candidate than there are positions up for election and submit those candidates to the full Board.
- ii. The Committee Chair shall receive notification of the election results from the designated staff member election coordinator and immediately notify the Board Chair and the CEO.
- iii. The Committee Chair or his/her designee shall announce the election results at the Credit Union Annual Meeting.

4. **AUTHORITY.**

- A. The committee has no authority to change or contravene Board policies.
- B. The committee has authority to spend funds required for travel to meetings if meetings are required. The committee has no authority to spend or commit other organization funds.
- C. The Committee has authority to use staff resource time normal for administrative support for meetings.
- D. The Committee does not have authority to instruct the CEO or any other staff member, other than to request information required in the conduct of its duties.

5. **TERM.** This is an ad hoc committee and shall be dissolved at such time as election results have been announced at the Annual Meeting.

Chapter 4260: Cost of Governance and Authorized Expense Guidelines

Published: 08/09

General Policy Statement:

Because poor governance costs more than learning to govern well, the Board will invest in its governance capacity.

Guidelines:

1. **TRAINING.** Board skills, methods, and supports will be sufficient to assure governing with excellence. Training and retraining will be used to orient new Board members, as well as to maintain and increase existing Board member skills and understandings.
2. **PERFORMANCE MONITORING.**
 - A. Under the leadership of the chairperson, at least annually the Board will conduct a self-evaluation. As a result of this evaluation, the Board will establish a governance action plan with specific goals and objectives for improvement of identified areas.
 - B. Outside monitoring assistance may be arranged so that the Board can exercise confident control over organizational performance. This includes but is not limited to fiscal review.
3. **ANNUAL BUDGET.** The Board will establish and be accountable for an annual budget for its own governance functions which shall include, in addition to the costs of Board and Board Committee Meetings, funds for:
 - A. Board member attendance at conferences and conventions.
 - B. Improvement of its governance function.
 - C. Costs of fiscal audit and any other outside monitoring assistance required.
 - D. Costs of methods such as focus groups and surveys to ensure the Board's ability to listen to owner viewpoints and values.
4. **ALLOCATIONS.** Costs will be prudently incurred, though not at the expense of endangering the development and maintenance of superior capability. Allocations shall be made for the following activities for each fiscal year:
 - A. Up to \$[[4260-1]] for Board training, including publications.
 - B. Up to \$[[4260-2]] for Board member travel/reimbursements (attendance at conferences, workshops, etc.).
 - C. Up to \$[[4260-3]] for audit and other third-party monitoring of organizational performance.

- D. Up to \$[[4260-4]] for surveys, focus groups and opinion analyses.
 - E. Up to \$[[4260-5]] for Board-hosted outreach events.
 - F. Up to \$[[4260-6]] for Board meeting and retreat costs.
 - G. Up to \$[[4260-7]] for Board committee functions.
5. **ESTABLISHING BUDGETS.** The Board will establish its governance budget for the next fiscal year each year during the month of November.
6. **FISCAL RESPONSIBILITY.** The Board shall be mindful of expenses related to the allocations cited herein.

Chapter 4270: Conference And Travel Guidelines

Published: 08/09

General Policy Statement:

In the interest of providing the ownership of the Credit Union with the best possible governance, the Board of Directors and committee members are encouraged to avail themselves of the educational opportunities that are offered for credit union volunteers. For the purpose of this policy, the term “conference” is used broadly and represents all off-site functions related to credit union business. They include, but are not limited to, seminars, workshops, conferences, board or Supervisory Committee meetings held at remote sites, or any other off-site meetings related to credit union business or educational programs.

Guidelines:

1. CONFERENCES.

- A. Directors are expected to complete certain educational courses in the Volunteer Achievement Program developed by Credit Union National Association (CUNA), as well as the Carver Policy Governance Institute.
 - i. Such courses may generally be taken either in person (at a conference organized for such purpose), by e-mail or on-line. Directors are advised that some of the content of the CUNA VAP courses is not consistent with the governance model used by the Board of Directors at the Credit Union.
- B. A Director may appeal to the Board Chairperson (who may consult the Executive Committee) for exemption from these expectations.
- C. If a non-exempt Director does not fulfill these expectations and has not been granted an exemption from them and seeks election to another term, the Board Chair shall inform the Nominating Committee that the Director has not fulfilled these Board expectations.
- D. Given the Board’s use of the Carver Policy Governance Model, Directors are expected to select conferences that are designed, in whole or in part, to enhance their understanding, use and furtherance of the model, their Board Committee assignments, and the credit union industry’s legislative initiatives.

2. CONFERENCE APPROVAL.

- A. Directors must obtain the approval of the Board Chair to attend a conference other than those prescribed as “basic education.” To do this, the Director must submit his/ her request in writing, via email, to the Chair, with a copy to the CEO, and must permit the Chair one week to respond.
- B. If the Chair does not respond within one week, the request shall be deemed approved and the Director may proceed with registration and travel arrangements. If the Chair denies the

request, the Director may appeal to the Executive Committee and/or the full Board.

3. EXPENSES.

- A. The maximum amount of total conference and travel expense for out-of-state educational opportunities is \$[[4270-1]] per Director and Supervisory Committee member during any calendar year. For the purpose of invoking the expense limit each calendar year, conference and travel expenses shall be recorded as of the date of the conference. In other words, even if the expenses are paid in a year other than the year in which the conference takes place, such expenses will be recorded in the year of the conference for the purpose of determining whether or not the annual limit has been exceeded.
- B. The Credit Union will pay for the following expenses for Directors and Supervisory Committee members, as well as, the guests who accompany them to these functions (the term “guest” is defined as the spouse or adult partner of the Director living in the same household):
 - i. All fees required for attendance at the conference, including registration fees, guest program fees, fees for conference material, etc.
 - ii. The cost of transportation to and from a conference based on the lesser of coach class airfare (21 day notice), first class train fare (21 day notice), or personal car mileage reimbursement (including lodging).
 - iii. All expenses incurred for local transportation at the site of the conference. These include bus, cab, shuttle services, and rental cars. When the use of a rental car is required, the collision damage waiver option (CDW) should be selected.
 - iv. Expenses for all meals and lodging incurred for travel, to be reimbursed at reasonable and customary rates. Lodging will consist of a single room or unit for the director or Supervisory Committee member and guest. Lodging costs will be covered only for the days necessary to travel to conferences, attend conferences, and return home during reasonable hours of the day (8a.m. – 6p.m.)
 - v. Expenses incurred to attend social functions or events sponsored by the meeting attended.
 - vi. Other incidental expenses that may be incurred while attending a conference. Included are expenses for items such as phone charges, parking fees, tolls, newspapers, tips, or other incidentals.
- C. Social functions, which are not sponsored by the meeting involving a Director or Supervisory Committee member, are permitted within limitations. The cost shall not exceed \$[[4270-2]]/trip or \$[[4270-3]]/day with appropriate receipts. Social events sponsored by a Political Action Committee (PAC) can only be paid with personal funds, not Credit Union funds.
- D. Directors and Supervisory Committee members incurring expenses have the following obligations:
 - i. Directors and Supervisory Committee members are individually responsible for being

familiar with this policy and ensuring they are in compliance.

- ii. Directors and Supervisory committee members must notify the Chair and CEO at least 45 days prior to attending an out-of-town conference. Notification can take place by Directors and Supervisory committee members requesting the CEO register the director for a conference event or other travel arrangements.
 - iii. Directors and Supervisory committee members should select only those conferences that will be beneficial in enhancing their performance as credit union director or committee member.
 - iv. Directors and Supervisory committee members will be expected to provide a written report to the Board on the content of the out-of-town conferences they attended within 60 days of the date the expense was incurred.
 - v. Directors and Supervisory committee members must submit a travel expense report to the CEO for reimbursement of expenses within 60 days of the date the expense was incurred. Expense reports will be provided by the CEO upon request.
- E. If any expenses were billed to the Credit Union that are not authorized (children's expenses, personal expenses, etc.), these expenses must be noted and reimbursed to the Credit Union within 60 days of the date the expense was incurred.

Chapter 4280: Board Charitable Contributions

Published: 08/09

General Policy Statement:

To recognize the contributions made by Directors who serve without compensation and to benefit the communities served by the Credit Union, contributions may be made to a charity or charities on behalf of a Director by the Credit Union. Additionally, this donation will allow Directors to reflect the types of organizations they personally wish to support independent of the Credit Union's charitable practices.

Guidelines:

1. Each director has the opportunity to select a charity or charities of their choice to receive a \$[[4280-1]] contribution at the end of their first term on the Board and at the end of each subsequent [[4280-2]]-year term. Directors completing a term of no less than twelve months may donate \$[[4280-3]] to the charity of their choice.
2. The charitable organization(s) that receives the funds must be located in Credit Union's field of membership area.
3. No charitable organization may be selected that would benefit a Director or his/her family.
4. Churches and political organizations may not be selected as a charity, except the Salvation Army is allowed.

Chapter 4290: Board Planning and Working Session Guidelines

Published: 08/09

General Policy Statement:

To accomplish its job products with a governance style consistent with Board policies, the Board will follow an annual agenda which (a) completes a re-exploration of policies annually and (b) continually improves Board performance through Board education and enriched input and deliberation.

Guidelines:

1. The Board shall maintain control of its own agenda by developing an annual schedule which includes, but is not limited to:
 - A. Considered review of policies in a timely fashion which allows the CEO to build a budget.
 - B. Consultations with selected groups in the ownership, or other methods of gaining ownership input, prior to the above review.
 - C. Scheduled time for education (for example, presentations relating to the external environment, demographic information, presentations by advocacy groups and staff).
 - D. Scheduled time for monitoring of the Board's own compliance with its Governance Process policies, and for review of the policies themselves.
 - E. Scheduled time for confirming monitoring compliance by the CEO with the policies, and for review of the policies themselves. Monitoring reports will be provided and read in advance of the Board meeting, and discussion will occur only if reports show policy violations, if reports do not provide sufficient information for the Board to make a determination regarding compliance, or if policy criteria are to be debated.
 - F. Scheduled time for education about the process of governance.
2. Based on the outline of the annual schedule, the Board delegates to the Chair the authority to fill in the details of the meeting content. The detailed agenda shall be prepared jointly by the Board Chair and the CEO. Potential agenda items shall be carefully screened to ensure that they relate to the Board's job description, rather than simply reviewing staff activities. Screening questions shall include the following:
 - A. Clarification as to whether the issue clearly belongs to the Board or the CEO.
 - B. Identification of what policy category an issue relates to.
 - C. Review of what the Board has already said in this category, and how the current issue is related.

3. Throughout the year, the Board will attend to Consent Agenda items as expeditiously as possible. When an item is brought to the Board via the Consent Agenda, provided that compliance with all of the criteria in Executive Limitations has been demonstrated, the Board will not discuss the item prior to approval. An exception will be made only if a majority of the Board votes to remove the item from the Consent Agenda for discussion.

Chapter 4300: Ownership Linkage

Published: 08/09

General Policy Statement:

The “owners” of the Credit Union are defined as existing and potential members in the communities in which we are chartered. The Board shall be accountable for the organization to its owners *as a whole*. The Board shall act on behalf of the owners as a whole, rather than being advocates for specific geographic areas or interest groups.

Guidelines:

1. When making governance decisions, Board members shall maintain a distinction between their personal interests as “customers” of the organization’s services, and their obligation to speak for others as a representative of the “owners” as a whole. As the agent of the owners, the Board is obligated to identify and know what the owners want and need.
2. The Board shall gather data in a way that reflects the diversity of the ownership. It shall meet with, gather input from, and otherwise interact with the broad base of owners, and acknowledge diversity. It shall recognize that diversity assures a broad base of wisdom, and shall seek to make decisions considering that input.
3. Collection of input from the ownership may be accomplished through a variety of methods, including, but not limited to, meetings with the ownership, surveys, and advisory committees.

Chapter 4310: Board Self-Evaluation

Published: 08/09

General Policy Statement:

Self-evaluation can help show a board where its strengths lie as well as where improvement may be needed. Self-evaluation shall become a recurring process with a formal assessment performed at least once a year. The Board shall review the goals, mission statement and strategic plan of the Credit Union prior to beginning the self-evaluation.

The Board shall be prepared to take a hard look at its past performance, and based on what is determined, be prepared to take steps to change its policies, procedures, and/or practices to improve performance.

Guidelines:

1. The Board of Directors will, at least annually, conduct a process of self-evaluation to determine its own effectiveness and to make necessary improvements in the way that board duties are carried out. The CEO may be asked to assist with this process, with outside consulting assistance if necessary.
 - A. The Board shall assess ratings regarding the members' confidence related to the following types of issues:
 - i. The Board ensures the Credit Union's legal compliance with state and federal laws and regulations.
 - ii. The Board effectively monitors financial performance and projections on a regular basis.
 - iii. The Board has a strategic vision for the Credit Union.
 - iv. The Board has adopted an effective income strategy to ensure adequate resources.
 - v. The Board has adopted an effective conflict of interest policy that is discussed regularly, with a clear reporting process for instances where a (potential) conflict exists.
 - vi. The Board is comprised of members with an appropriate range of expertise and diversity to make it an effective governing body.
 - vii. Board members understand the mission and purpose of the Credit Union.
 - viii. Board members are adequately knowledgeable about the Credit Union's programs?
 - ix. Board members act as positive ambassadors to the community on behalf of the Credit Union and its membership.

- x. Board members follow through on commitments they have made.
 - xi. Board members understand their role as volunteers.
- B. The Board shall also solicit comments on how to improve the policies, procedures and/or practices of the Board.
2. The Board shall establish governance process policies that will serve as measurable standards against which the Board's performance can be evaluated.
 3. The Board will monitor its adherence to its own Governance Process policies regularly. Upon the choice of the Board, any policy can be monitored at any time. However, at minimum, the Board will both review the policies, and monitor its own adherence to them, according to the following schedule:

[4310-1]

Chapter 4320: Governance Succession Guidelines

Published: 08/09

General Policy Statement:

To ensure that the Credit Union's volunteer leadership capacity is replenished as experienced Board members and officers leave or retire, the Board must plan for identifying and training qualified potential new Board members to succeed the Board's departing members, as well as to prepare its existing Board members for leadership positions on the Board.

Guidelines:

1. **PERSONAL CHARACTERISTICS OF BOARD MEMBERS.** The Board shall develop an inventory of characteristics that candidates should possess in order to enable them to govern, not to manage, the organization. These characteristics include, but are not limited to, the following:
 - A. An understanding regarding the structure of Credit Union ownership.
 - B. Ability to think in terms of systems and context — to see the big picture.
 - C. Interest in and capability to discuss the values underlying the actions taken in the organization, and to govern through the broader formulations of these values.
 - D. Understanding that the job of a Director is not to provide professional or technical assistance to the CEO and willingness to delegate the operational detail to others.
 - E. Ability and willingness to deal with vision and the long term, rather than day-to-day details.
 - F. Ability and willingness to engage in independent thinking and participate assertively in deliberation, while respecting the opinions of others.
 - G. Willingness to stand behind policies and actions of the Board regardless of personal stands taken prior to the vote.
 - H. Willingness to support the CEO when he/she has acted in compliance with Board policies.
 - I. Commitment not to make judgments in the absence of previously stated criteria.
 - J. Acceptance of the requirements for attendance, participating in ongoing training, and maintaining confidentiality of member information.
 - K. Willingness to commit time to Board functions, such as off-site Board sessions, committee work, and training conferences.
2. **SUCCESSION PLAN.** The Board and CEO shall develop and maintain a Board Succession Plan that includes the following criteria:

- A. Developing and maintaining a list of eligible Board members.
 - B. Interviewing, or otherwise reaching out to, potential candidates.
 - C. Recommending candidates to the full Board.
 - D. Ensuring each new Board member completes Board orientation.
3. **BOARD ORIENTATION PROCESS.** The Board has established an orientation process for new members so that they can quickly acclimate to the Board's governing style and become a productive member of the Board. Additionally, the Board expects existing members to be familiar with the board's policies.
- A. All new members are required to attend an orientation session within their first thirty days after being appointed or elected to the Board.
 - B. The orientation session will include a review of the Board's governance structure, individual policies, Board meeting process, regulatory environment, and an overview of the operating organization.
 - C. The Chair and CEO will jointly schedule orientation sessions to accommodate the needs of members.
 - D. Existing members are welcome to attend any orientation session for review purposes.

