



Xtend Fiscal Year 2024

# Board Handbook



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# To Our Current & Future Owners

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This is one of our most important documents. It serves as a foundation for our successful governance model, as well as a template from which our leadership teams can continue to build a thriving, sustainable Credit Union Service Organization.

This Board Handbook is intended for multiple audiences: our current Board of Directors to ensure that our CUSO is walking the talk as an organization; our owners as not only prospective Directors but also as stewards of their investment in Xtend; and external agencies as they analyze our CUSO and assess whether our policies and procedures are consistent, well documented and executed upon effectively. True to our cooperative nature, we have vetted this document against similar Board Handbooks within our [cuasterisk.com](http://cuasterisk.com) network, particularly CU\*Answers as the most mature firm in our network, and this 2024 edition has been expanded based on that analysis.

Over the past several years we have seen major changes within our maturing company – a shift from leased employees to Xtend payroll, benefits, 401K plan and an investment in growing our full and part-time employee bases and the corresponding facility footprint – and the Board Handbook has been expanded accordingly. This is also consistent with our goal of becoming an even more well-documented firm.

So, as you read this, I trust you will find it to be a straightforward playbook for our Board to effectively maintain its stewardship of your investment in Xtend. I welcome your thoughts on how we can make this even better in the years to come.

I wish you tremendous success in 2024 and thank you once again for your patronage in our CUSO.

*Liz Winninger*

President & CEO

# General Policies

## The Xtend Mission

The sole purpose of the Xtend (“Company”) CUSO is to help credit unions maximize both their profitability and competitiveness in the marketplace by providing high-quality products and services.

## Primary Function of the Board of Directors

The primary function of the Xtend Board of Directors is to ratify policy, plan Xtend’s course, ensure that Xtend maintains its sound financial condition, keep communication open to educate credit unions about Xtend initiatives, review the progress of the President/CEO in achieving goals and objectives, and report to owners at the Annual Stockholders Meeting.

## Board Composition

The Board of Directors in this CUSO shall consist of nine (9) members. One seat is reserved for a CU\*Answers Inc. officer (appointed by CU\*Answers), one seat is reserved for a CU\*Answers Board Director (appointed by CU\*Answers), and seven (7) seats are elected by shareholders. To qualify to serve on the Xtend Board of Directors, a candidate must be a full-time paid CEO of the entity which they represent which has Xtend ownership for at least one year as of the date of the election.

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

Three (3) Directors elected at every third annual Shareholders’ meeting and two (2) Directors are elected at all other annual Shareholders’ meetings. The normal term of a Board member shall be three (3) years, starting October 1

and ending September 30. Directors are elected according to the procedures outlined in the Xtend Board of Directors “Nominations, Elections & Orientations” (pages 15-17).

The table officers shall be Chair, Vice Chair, and Secretary/Treasurer. Officers are elected at a reorganization meeting to be held at the first Board meeting of each fiscal year (October). The table officer election process will occur immediately after the meeting is called to order. Since it is the goal of the Board to provide leadership opportunities for each Director that chooses to serve its owners, the Board has instituted a term limit policy that precludes a Director from occupying any one of the three aforementioned Officer positions for more than three (3) full years consecutively. Because of the Chair’s responsibility to cast tiebreaking votes, make key announcements, and other special duties, consideration should be given to concurrent terms for the Chair and Vice Chair. In the event, the Vice Chair would need to stand in for the Chair in situations where the Chair is the focal point of any action.

If a Board member resigns, the position will be filled according to the guidelines set forth in the Xtend Board of Directors “Nominations, Elections & Orientations” (pages 15-17).

## **Board Member Liability Insurance**

Xtend maintains direct Officer and Director Liability insurance coverage on each Director with a limit of \$1,000,000 per incident. Directors are indemnified by Xtend according to the rules set forth in the Xtend Bylaws.

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

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

## **Management Practices Document**

The board recognizes that there are certain responsibilities that will be delegated to the CEO. Those responsibilities have been outlined here, in the Xtend Board Handbook. The board reviews the Xtend Board of Directors Handbook on an annual basis, along with the Management Practices Document which contains questions clarification on questions that have been brought up throughout our evolution.

## **Approval of New Owners**

The board delegates to management the responsibility of approving new owners if they meet all requirements outlined in Xtend's bylaws, and only if they are a natural person credit union. Any future owner that is not a credit union would need to be approved by the Xtend Board of Directors. Management is then responsible for asking the board to ratify the owner at the next board meeting.

## **CEO Discretionary Expenditure Limit**

The board delegates to Management the ability to make discretionary expenditures up to and including \$8,000, or 10% of budgeted net income, whichever is greater.

## **Selection of an Auditor**

The board delegates to Management the responsibility to assess and contract any and all auditor(s) needed for the firm's compliance and audit work. The final approval and authority must be provided by the board.

## **Review & Assessment of Real Estate Leases**

The board delegates to Management the responsibility and authority to review and assess any real estate leases or acquisitions. Any changes in real estate leases or acquisitions must be presented to the board.

## Offers to Purchase Assessment

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

## Reporting on Litigation

Management is required to report all actual lawsuits to the Board of Directors. The President/CEO will report to the Chair at the earliest opportunity. Management will research and report findings to the Board within fourteen (14) days of receipt.

## Purchasing Certificates of Deposit

The Board delegates the responsibility and authority to purchase certificates of deposit (CD) to management provided the CD is less than \$250,000 and purchased from a credit union that is part of the cuasterisk.com network.

## Confidentiality

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

1. No Director shall use Confidential Information for personal benefit or to benefit persons or entities outside the Company.
2. No Director shall disclose Confidential Information to a party or parties adverse to Xtend or where such disclosure would harm of the interests of Xtend; and
3. No Director shall disclose Confidential Information outside the Company, either during or after service as a Director of the Xtend, except with the authorization of the Board of Directors or as may be otherwise required by law or duty.

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

- Non-public information about Xtend financial condition, prospects or plans, its marketing and sales programs, and research and development information, as well as information relating to mergers and acquisitions, stock splits, and divestitures.
- Non-public information concerning possible transactions with other companies or information about the Company’s customers, suppliers, or joint venture partners, which Xtend is under an obligation to maintain as confidential; and

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

# Duties of the Board as a Governing Body

1. Work with the President/CEO to develop the objectives and goals of the CUSO.
2. Ensure the CUSO adheres to pertinent laws, regulations, and sound business practices. Review and request, as needed, changes in the charter and non-standard bylaw amendments.
3. Ensure the CUSO maintains sound financial condition and that the CUSO's assets are protected against unauthorized or illegal acts. Designate depositories to authorize borrowing and investing, and provide for bonding and other security factors, including internal control procedures.
4. Establish policies, or ensure they are established, and then approve them for all CUSO programs and activities.
5. Ensure new products and services are developed as needed.
6. Approve the CUSO budget.
7. Manage and plan for CUSO equity:
  - a. Establish the par value of Stockholder shares.
  - b. Declare annual Stockholder dividends (if any)
  - c. Set the going ownership stock price for the open market.
8. Review and acknowledge (annually at a minimum):
  - a. CPA Audit
  - b. HR Employee Resource Report
9. Review and acknowledge (approximately every eighteen (18) months):
  - a. Miscellaneous Security Audits
  - b. Employee Handbook
  - c. Policy Manuals
10. Hire the President/CEO, define the scope of his/her job, and review progress in attaining goals and objectives.
11. Attend Board meetings according to the policies set forth in the Xtend Board of Directors "Attendance and Reimbursement Procedures" (page 13), exercise judgment independently from the President/CEO and report to the owners at the Annual Stockholders Meeting.
12. Appoint a Nominating Committee to fill vacancies on the Board of Directors and present a slate of Directors up for election at the Annual Stockholders' Meeting.
13. Set the date for the Annual Stockholders Meeting.
14. Set the annual calendar for Board Meetings.

## **Duties of the Chairperson**

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

- Chair meetings of the Board. See that it functions effectively, interacts with management optimally, and fulfills all of its duties. With the President/CEO, develop agendas.
- Consult with management and the entire Board on the need for Board Committees. Oversee the Board's annual reorganization and lead the Board in filling Committee seats.
- When appropriate, assist the President/CEO in recruiting Board and other talent for whatever voluntary assignments are needed.
- Communicate any concerns management has in regard to the role of the Board of Directors or individual Board members to the Board for possible action.
- Communicate to the President/CEO the concerns of the Board of Directors and CUSO owners.
- Annually assess the Board's satisfaction with their role in the CUSO as the governing body. Ensure the Board Member Handbook Committee has completed its work and that the Handbook reflects the current responsibilities, interactions, and day-to-day realities of how the Board functions. (See also "Primary Duties of Standing and Special Committees.")
- Serve as an alternate spokesperson for the CUSO in the general marketplace. Represent the Board of Directors and management as an advocate of the CUSO, whether dealing directly with a customer of the CUSO or the general credit union industry.
- When applicable, take an active role in preparing a Report to Owners. Act as facilitator/host for the Annual Stockholders Meeting.
- Fulfill such other assignments as the Chairperson and President/CEO agree are appropriate and desirable for the Chairperson to perform.
- During the first Board meeting of each new fiscal year the Chairperson of the exiting Nominating Committee will chair the process and lead the Board through the vote.

## **Duties of the Vice Chairperson**

The Vice Chairperson of the Board shall perform the duties of the Chairperson in the event of death, resignation, absence, or inability of the Chairperson to carry out such duties.

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

The Secretary/Treasurer is responsible for ensuring that complete and regular financial statements are prepared and submitted to Stockholders. Ensure that the activities of the CUSO serve the best interest of all Stockholders.

- Approve escalated board expense reports.
- Cause to be maintained minutes of all meetings of the Board and of the Stockholders and keep a record of all votes at such meetings.



- Give, or see to the giving of notice of all meetings of the Stockholders and the Board of Directors and perform the duties as may be prescribed by the Board of Directors.
- Review the financial statements prepared by the staff showing the CUSO's condition, assuring their completeness and timeliness.
- Present prior year annual meeting minutes at Annual Stockholders Meetings.

## Duties of the Individual Members

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

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

## Potential Board Member Candidates

When the Directors review potential Board Director candidates for the Xtend Board, current Directors shall ensure that each candidate meets the qualifications to be an Xtend Director as provided by the bylaws and/or Articles of Incorporation. Should such officer meet the qualifications as provided for in the bylaws and/or Articles of Incorporation, the Xtend Directors shall determine as to whether the potential candidate has the requisite experience and independent judgment to make decisions as a Board member of Xtend. Subject to the bylaws, Articles of Incorporation, and the non-discrimination limitations below, sole discretion as to whether a potential Director candidate meets the qualifications to be an Xtend Director rests with the current members of the Xtend Board.

Potential candidates may be required to interview or submit evidence of relevant experience as required by the Board, prior to approval or rejection of the potential officer's candidacy.

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

# Duties of Standing & Special Committees

During the reorganization meeting of the Xtend Board of Directors (October), immediately after the meeting is called to order and the board table officers have been elected (see Nominating Committee section below), the Nominating Committee Chairperson will present a slate of committee appointments for the board to approve. At this time, the Chairperson may elect, with the Board of Directors, to set any additional special committees to function for the upcoming annual, or the Board can decide to do away with committees.

## Nominating Committee

This committee is a full-time standing committee consisting of not less than two (2) Directors with the longest remaining terms at the time of the reorganization meeting (October) and the Xtend President/CEO.

- Accept nominations from owners for service on the Xtend Board of Directors from the January Board meeting until March 31.
- Review all applications and vote on all candidates to be placed on the ballot.
- Present candidates to the Board at least sixty (60) days prior to the Annual Stockholders Meeting.
- Collect ballots and count them during the Annual Stockholders Meeting. In the case of a tie, the Nominating Committee will vote and the majority wins (2/3). (See *Nominations, Elections & Orientations* on pages 14-16).
- Announce any resignations and propose for Board approval new candidate(s) to fill an unexpired term according to the procedures outlined on page 13.
- Lead the Board through the Board Officer election and Committee appointment processes as follows: After the Annual Meeting and Election of Board members, and sixty (60) days prior to the end of the Fiscal year, the current Chairperson of the Nominating Committee will initiate the Board Officer Reorganization process by proactively polling and encouraging Board members to nominate Board members for the new year reorganization meeting in October.

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

## Board Handbook Committee

This committee is responsible for updating the *Board Member Handbook* on an annual basis. The Board of Directors will select at least two (2) Board Members and the Xtend President/CEO to sit on this Committee.

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

## Shared Branching Committee

This Committee is responsible for the administration of a collective Shared Branching Agreement between consenting credit unions. The Board of Directors will select a minimum of two (2) Board Members and one (1) staff member to sit on this Committee.

- Maintain the Xtend Shared Branching Policies and Procedures document.
- Attend Shared Branching Advisory Council meetings.
- Make recommendations to the Shared Branching Advisory Council as appropriate.
- Submit all recommended Policy changes to the Xtend Board for approval.

## HR Committee

The HR Committee is appointed and ratified by the Xtend Board of Directors as needed as part of the annual Board reorganization. The Board of Directors will select a minimum of two (2) Board Members to join the Board Chair on this Committee.

Duties as assigned.

## Investment Committee

The Investment Committee is appointed and ratified by the Xtend Board of Directors each year as part of the annual Board reorganization. The Board of Directors will select a minimum of two (2) Board Members and one (1) staff member to sit on this Committee. Additionally, the Board will have the ability to appoint executive team members from owner institutions to sit on this committee.

The Committee will have the authority to delegate any of its responsibilities to subcommittees as the Committee may deem appropriate in its sole discretion.

The Committee will have the authority to consult such outside legal, accounting, and other advisors as the Committee may deem

appropriate in its sole discretion, subject to the authority of the Board to approve related fees.

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

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

### Purpose

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

### Responsibilities

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

# Attendance & Reimbursement

During the annual reorganization Board meeting, the Xtend Board adopts a calendar and set of rules relating to the attendance of the Xtend Board Meetings for the upcoming annual. The rules are set recognizing the demands that serving on the Xtend Board of Directors will place on the potential candidates. The following are the current rules in place for the 2023 business year:

Board members are expected to attend all Board meetings annually. The attended (face-to-face meetings or via Phone Conference) are based upon the approved calendar.

- For the 2024 fiscal year, Board meetings will be held in November, December (financial call), January, March, April, June, July, and September. See “Summary of Key Dates for Xtend Owners” for meeting themes.
- Board meetings are typically held on the fourth (4th) Thursday of the month unless otherwise noted. Meetings usually begin at 9:30 a.m. ET. Each Board member is strongly encouraged to attend the Board Workshops that follow the Board meetings periodically throughout the year.

The typical “board day” format	
Meeting	9:30am to noon ET
Group Lunch	Noon to 1:00pm ET
Workshop	1:00pm to 3:00pm ET

- Beyond the scheduled Board meetings, each Board member is encouraged to participate in the annual calendar of CUSO events. Refer to the “Summary of Key Dates” section.
- Reimbursement will be made to the credit union, not to the individual Director. Reimbursement of direct travel expenses for special events shall be at the discretion of the President/CEO.
- Please reference the Board Member Reimbursement Guidelines for details regarding board member reimbursement and travel.

- Board members who miss two consecutive unexcused regularly scheduled Board meetings, and/or greater than half of the meetings scheduled for the year are subject to a Board review and may be expelled or removed by the Board of Directors based on a majority vote. In a situation where the Chair of the Board has missed three consecutive meetings, the Vice Chair will cast the deciding vote. An excused absence is one in which the board member has informed the CEO prior to the official start of the board meeting.

# Nominations, Elections & Orientations

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## Annual Election of Directors

The Nominating Committee will solicit and accept nominations from owners for service on the Xtend Board of Directors from the January Board meeting until March 31.

The Nominating Committee will present candidates to the Board at least sixty (60) days prior to the Annual Meeting. After the Board Meeting where candidates are presented, a notice will be sent to all owners with a sample ballot to be used at the Annual Meeting. The following are guidelines for the nomination and election process:

## Applications for Nomination

Any interested candidates should submit a letter of intent along with a professional resume to Xtend, Inc., Attn: Nominating Committee.

- To qualify to serve on the Xtend Board of Directors, a candidate must be a full-time paid CEO of the entity they represent which has Xtend ownership for at least one year as of the date of the election.
- All applications must be received no later than March 31 (or another specified date, in the case of a special election to fill a vacated seat).
- The Nominating Committee will review all applications and vote on all candidates to be placed on the ballot. All candidates with a majority vote (2/3) will be placed on the ballot.
- Once the ballot is reviewed by the Board at the April Board Meeting (or specified meeting in the case of a special election to fill a vacated seat) the ballot will be presented to all owners. This will give each candidate as much time as possible to solicit support from other owners.
- In the case where a candidate is not put forth by the Nominating Committee for the upcoming ballot, that candidate may petition to be on the ballot outside of the nomination process. For the normal election at the Annual Stockholders Meeting, to be placed on the ballot, the candidate must present to the Board of Directors at least thirty (30) days prior to the Annual Meeting a petition signed by at least 10% of current Xtend owners. For a special election to fill a vacant seat, the timeline may be shortened at the discretion of the Board. It should be clear that signatures on this petition do not constitute a vote.



## Elections

The election itself will be held at the Annual Stockholders Meeting in June.

- Absentee ballots will be accepted until the Friday before the election and must be signed or submitted electronically by the CEO and Chairperson of the owning entity.
- Votes at the June Stockholders Meeting must be cast by the CEO or Chairperson of the owning entity. Other representatives of the owning entity must have a letter of authorization signed by the CEO and Chairperson attached to their ballot in order to vote on behalf of the owning entity.
- No nominations from the floor will be accepted. Candidates will be introduced by the Chair of the Xtend Board and will be given an opportunity to speak.
- Once the votes are cast, they will be collected by the Nominating Committee and counted during the meeting. In the case of a tie, the Nominating Committee will vote and the majority wins (2/3). The Chair of the Xtend Board will announce the winners prior to the end of the meeting. In the case where the Chair of the Board is up for election, the current Vice Chair or other designated Board member will announce the winners.
- The term of the Board is October 1 to September 30. Newly elected Board Members attend their first meeting in October.

## Appointing Directors to Fill Unexpired Terms

If a Board member resigns from the Xtend Board in the middle of a term, if the remaining term is longer than six (6) months, the Nominating Committee will propose for Board approval a new candidate(s) to fill the unexpired term according to the following rules:

- The Nominating Committee will announce the Board member's resignation to all Xtend owners within seven (7) business days of the Board meeting at which the resignation was submitted. Any interested and qualified candidates should submit a letter of intent along with a professional resume to Xtend Inc., Attn: Nominating Committee. Letters of intent must be received within fifteen (15) days of the notification. The Nominating Committee will submit the candidate's name to the Board of Directors at the next regular Board meeting following this response period. Depending on the timing of the resignation, the Chair may request a Special Board Meeting. This Special Meeting is typically held via conference call.
- The Board will then discuss each candidate. When these discussions are completed, the Board will cast a private ballot for one of the candidates. Any/all Board Directors attending the meeting electronically will cast their ballot via an email to the Board Chair. Depending on the number of seats being filled, the number of standing voting Board members may present a situation where a tie is possible. As always in the case of a tie, the acting Chair is responsible for casting the deciding vote.
- The Nominating Committee will be responsible for communicating to all candidates the results of the selection within seven (7) business days of the decision.

- The Board will announce the change in the composition of the Board, including adjustments to web pages and related documentation, within fifteen (15) days of the appointment being made.

In the case where the remaining term is less than six (6) months, the Board of Directors may choose to directly appoint an interim Director or leave the seat empty until the next regular election.

## Board Member Orientation

Board Members elected at the June Annual Meeting to fill new terms will attend their first meeting beginning with the October Board Meeting (the beginning of the new fiscal year).

Board Members who are filling an unexpired term will be considered voting Board Members immediately after the election/selection and will attend the next regularly scheduled Board Meeting (based on availability). The new Board Member may elect to audit a Board Meeting prior to their active participation.

New Board Members will participate in a Board orientation presented by the President/CEO prior to their first meeting as a Director. If possible, this meeting should be done face-to-face. In preparation for the orientation, the President/CEO will send the following materials to the new Director:

- The last three (3) Board packets.
- The previous and current year Business Plan and Budget and most recent Budget Revision.
- The most recent Employee Resource Plan.
- Materials from the most recent Board Strategic Planning Session.

# Distributing Returns to Owners

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## Understanding the Framework and Boundaries of Returns

Xtend is organized and governed as a Michigan Class C Corp (C Corp) and as a Credit Union Service Organization (CUSO). Although like Xtend, CU\*Answers is also a C Corp and a CUSO, CU\*Answers is also a cooperative under Michigan law. The financial advantage of being a Michigan cooperative organization is that the IRS allows cooperatives to deduct from their gross taxable income the amount they pay in patronage dividends. The trade-off as a cooperative is that CU\*Answers must follow Michigan rules to remain classified as a cooperative. Michigan law restricts CU\*Answers' ability to do business outside of its Stockholders and requires CU\*Answers to have and maintain a "Cooperative Plan."

In short, while Xtend is socially cooperative in its nature the company is not legally recognized as a cooperative. While Xtend's strategic flexibility is increased by not having to meet the requirements of Michigan cooperative law, Xtend cannot use tactics such as tax-free cooperative patronage dividend distribution as part of its returns to owners. Understanding the options available to any firm as a Board of Director or Owner is important if the owners are going to get the maximum return from their investments and if the senior leadership of a firm is going to optimize the balance between owner return, tax liabilities, and the marketing of value to the customers and marketplace.

Xtend is required to follow the Michigan Business Corporation Act of 1972 (as amended), including the requirement of filing Articles of Incorporation, having a Board that keeps minutes, and ensuring taxes are paid on earnings. As a trade-off, Xtend is not limited in the number or class of shares it distributes, and shareholders have liability protection against the debts of Xtend. As a CUSO, Xtend must follow the Federal Credit Union Act, requiring the CUSO to "primarily serve" credit unions, its membership, or the membership of credit unions contracting with the CUSO. Certain activities and investments by a CUSO are prohibited, and there are limits to the amounts a federally chartered and/or federally insured credit union can invest in a CUSO. By law, credit unions are heavily regulated and outside of some limited exceptions cannot normally invest capital directly to and have ownership in a non-CUSO business. In short, a CUSO is a business that both qualifies for and has received credit union investment.

Our Design for Managing Ownership Returns preserves the advantages of Xtend's organization flexibility, such as preserving the right to have a diverse body of ownership and the ability to expand more aggressively with cooperative restrictions, while providing value to the ownership in the form of high impact low-cost service offerings and returns on investment.

## Marketing our Board Design

Nothing could be more important to highlight as a Board's contribution to a firm's operation than making sure owners are represented and central in the process of distributing the firms returns to owners. Ultimately shareholders want to know that Board members, not the professional agents of the firm, are empowered to balance the financial needs of the ongoing entity with the goals of its shareholders to earn from their investments. Xtend's Board is aware of its responsibilities and is focused on these processes at all times.

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

### Our Design for Managing Ownership Returns

The Board needs to maximize the current-year distributions to owners whenever possible through the payment of a Stock Dividend, a post-tax dividend that reduces the equity of Xtend's current fiscal year. The Board also needs to maximize the current Stockholder value so that credit unions that bought in and paid an ownership delta to participate as owners can eventually cover that delta with equity growth. Equity growth comes from two (2) sources:

1. The sales of ownership positions to credit unions that pay the book value plus an opportunity cost through the Board setting the purchase price.
2. The net income after taxes, less stock owner dividend distributions, which is added to retained earnings.

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

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

- Our pricing and our value exchange with our customers are designed to be ownership dividends themselves. There is no advantage in our financial model to overcharging our customer/owners in order to transfer income to third-party Stockholders. We lower prices whenever possible to distribute ownership value. Therefore, we charge when we have to, not just when we can.
- Owners are part of our innovative process and are rewarded for this. First, owner customers should have a greater input into and response from our firm in developing solutions. This should be embedded in our design. Second, owner customers can choose to fund the investment and based on our pricing; we can distribute an ownership dividend that is pre-tax and consistent with the operational intent of our credit union owners.
- The Board guard's owner returns through the tenet that we are more focused on our current customer owners and their needs versus the at-risk investment and promises for potential clients through our cost-of-sales investment. Third-party firms are typically more worried about marketplace expansion first, given that they redistribute income from clients to themselves.

# Using Ownership Distribution Targets

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## April

- Approving the Mid-Year Budget Recast (April 2024: assess mid-year performance for the 2024 business year).
- At this time of year, the Board evaluates the progress toward the ownership distribution targets and directs management to adjust its operations or budget accordingly. For example, the Board might anticipate that targets will be easily met and allow Management to move forward to additional investments, or direct management to increase the targeted levels. Based on our rolling 18-month budget process, the Board can see all the way to the end of the next year and how targets might be unfolding based on the projections.

## September

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

## December

- Evaluating targets and our performance for the previous year and setting the final distribution of income (Set future distribution targets based on September 30 year-end closing financials).
- One additional action at this time is to consider whether the current target formulas are still relevant or whether they should be changed and documented as to why. For example, in a year where you paid well in excess of your targeted dividend, should you continue with the plan for a similar annual increase every year?

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

# Proposed Target Formulas

## Maximizing Current-Year Distributions

### Target 1: Stock Dividend

Set a target for the change in Stock dividend distributions. For example, if we paid out 5% in stock dividends in the previous year, what should the trend be, moving forward? Do we want an ever-increasing stock dividend percentage, a consistent percentage, or should it vary based on annual performance?

If we set a goal for a 5% dividend in 2024, we could calculate a number and the effect it would have on equity.

## Maximizing Stockholder Value

### Target 2: New Owners

Set a goal for attracting new owners and increasing equity through additional paid-in capital.

**For example**, in 2022, we may have set a goal to add two (2) net new owners, representing roughly 25% of the proposed new clients that are anticipated to enter the cuasterisk.com ecosystem during that fiscal year less anticipated redemptions. Using \$61,000 as the share price paid, the CFO would be able to anticipate the effect of two (2) net new owners on the equity for 2022. The attached chart illustrates the impact this would have on our financials.

### Target 3: Per-Share Value

Increase the value per share by a growth percentage over the previous year-end, yielding a targeted net equity increase at the end of the upcoming year.

**For example**, for the 2020 fiscal year, we might have set the goal for per-share value to increase by 3%. This would allow the CFO to calculate the actual net increase for the end of the year. The budget could get to this number via two tactics: selling new owners or earning net income. Therefore, the formula is new equity equals additional paid-in capital plus retained earnings from the year.

# Key Dates for Xtend Owners

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The Xtend current fiscal calendar begins on October 1st and ends on September 30th.

## First Meeting of the Fiscal Year

- Reorganization meeting
  - Election of Chair, Vice Chair and Secretary/Treasurer
  - Appointment of Nominating Committee
  - Appointment of Handbook Committee
  - Appointment of Investment Committee
  - Appointment of Shared Branching Committee
- Approve the Annual Calendar
- At this time of year, the Board evaluates its ability to distribute returns against its targets and may declare additional distributions to either current-year payments or improvements in equity. In some years, it may actually say it missed the targets and would distribute income that was lower than the original intent. One additional action at this time is to consider whether the current target formulas are still relevant or whether they should be changed and documented as to why. For example, in a year where you paid well in excess of your targeted Stockholder Dividends, should you continue with the plan for a similar annual increase every year?

## December

- Determination of Stock Price
- Approve Annual CPA Audit; establish final dividend distribution based on audited financials.
- Evaluate targets related to ownership distributions and performance for the previous year and set final distribution of income (for example, in the first quarter of 2024 fiscal we set the distribution amounts based on September 30 closing financials for the year to come)
- Distribution of Stock Dividends, if applicable.
  - Dividends may be sent at the Board's discretion.

## January

- Distribution of Board Member Handbook to all Xtend Stockholders
- Nominating Committee begins open acceptance of applications for Board election.

## **March 31**

- Nominating Committee closes acceptance of applications for Board election.
- Nominating Committee reviews applications and presents candidates.
  - Notification to Stockholders of ballot after March Board Meeting

## **April**

- Mid-year Budget Review/Revision
  - At this time of year, the Board evaluates the progress towards the ownership distribution targets and directs management to adjust its operations or budget accordingly.
  - For example, the Board might anticipate that targets will be easily met and allow management to move forward to additional investments, or direct management to increase the targeted levels.
  - Based on our rolling 18-month budget process, the Board can see all the way to end of the next year and how targets might be unfolding based on the projections.
- Nominating Committee considers petitions for additional candidates to be added to the ballot; any amendments to the ballot will be communicated to Stockholders.
- Annual HR Employee Resource Report
- Assess mid-year performance as it relates to potential ownership distributions.

## **June**

- Xtend Annual User Group Meeting
- Annual Stockholders Meeting and Election of Directors
- CU\*Answers Leadership Conference and Golf Outing

## **July through September**

- Annual Planning Session
- Review upcoming year Business Plan and Budget
- Approve Compensation Budget (if applicable)



