

SECTION 4. CONFLICT OF INTEREST

Every FOL chapter should adopt a formal Conflict of Interest Policy. An official policy helps protect the chapter from potential sources of conflict arising between the best interests of the organization and the private interests of board members and other interested parties. Often people are unaware that their activities may represent potential conflicts of interest, but chapters can raise awareness by developing a policy and reviewing it on a regular basis (ideally annually).

It is strongly recommended that chapters attach a copy of their Conflict of Interest Policy when filing their IRS 990 Form. Conflicts that are not disclosed and properly managed can result in penalties to the interested person as well as to the nonprofit organization, as enforced by the IRS.

A formal policy must include the following:

- Definitions of relevant terms;
- Procedures for handling potential conflicts; and
- A statement requiring the abstention of interested parties from deliberations and voting on potential conflicts.

Remember to be cautious and avoid decisions that have the potential to be a conflict of interest. Avoid purchases and services from board members or their family and/or friends without being sure that the cost is competitive. Avoid gifts of a substantial nature to members, board members, family, or friends. Do not pay members, board members, family, or friends for services that are part of an elected or appointed position.

Use the sample “Conflict of Interest Policy” and “Annual Disclosure Statement” (Appendix 4-A) as a guide or template for setting up a chapter policy.

**Friends of the Library, *NAME* Chapter
Conflict of Interest Policy**

**Article I
Purpose**

The purpose of this Conflict of Interest Policy is to protect Friends of the Library, *NAME* Chapter interests when it is contemplating entering into a transaction or arrangement that might benefit the personal interest of a board member or officer of the *NAME* Chapter, or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflicts of interest applicable to nonprofit and charitable organizations.

**Article II
Definitions**

Interested Person

Any director, officer, or member of a committee with influence, either direct or indirect, over the organization's decision-making process, and who may have direct or indirect personal interests, financial or otherwise, as defined below.

Personal Interest

If a person has, directly or indirectly, through business, investment, or family:

- a. An ownership or investment interest, financial or otherwise, in any entity with which the *NAME* Chapter has or is negotiating a transaction or arrangement;
- b. A compensation arrangement, financial or otherwise, with the *NAME* Chapter or with any entity or individual with which the *NAME* Chapter has or is negotiating a transaction or arrangement; or
- c. A potential to obtain a non-financial benefit or advantage that he/she would not have obtained absent their relationship with the *NAME* Chapter, or where his/her duty or responsibility to the *NAME* Chapter conflicts with a duty or responsibility owed to some other organization.

If one of the personal interests described occurs, it does not necessarily mean that a conflict exists, or that the conflict, if it exists, is material enough to be of practical importance, or if material, that upon full disclosure of all relevant facts and circumstances that a conflict exists precludes board action. As provided in Article III, the board shall determine whether a conflict exists.

**Article III
Procedures**

1. Duty to Disclose

- a. In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the personal interest as soon as it is known, or reasonably should be known, and be given the opportunity to disclose all material facts to the directors and members of committees considering the proposed transaction or arrangement.

- b. Where an actual or potential conflict exists between the interests of the FOL chapter and an interested party with respect to a specific proposed action or transaction, the FOL chapter shall refrain from the proposed action or transaction until such time as the proposed action or transaction has been approved by the disinterested members of the governing body.
2. Determining Whether a Conflict of Interest Exists

After disclosure of the personal interest and all material facts, and after any discussion with the interested person, he/she shall leave the governing board meeting while the determination of a conflict of interest is discussed and voted upon. The remaining disinterested board members shall decide if a conflict of interest exists by a vote of majority at which a quorum is present, and the interested party shall not be counted for purposes of determining whether a quorum is present, nor for purposes of determining what constitutes a majority vote of board members in attendance.
 3. Procedures for Addressing the Conflict of Interest
 - a. An interested person may make a presentation at the governing board meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.
 - b. If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the *NAME* Chapter's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.
 - c. The minutes of the meeting shall reflect that disclosure of the possible conflict of interest was made, the vote taken and, where applicable, the abstention from voting and participation by the interested party.
 4. Violations of the Conflict of Interest Policy
 - a. If the governing board or committee has reasonable cause to believe an interested party has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.
 - b. If, after hearing the interested party's response and after making further investigation as warranted by the circumstances, the governing board determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

Article IV
Annual Disclosure Statement

1. Each board member and officer shall annually sign a statement which affirms such person:
 - a. Has received a copy of the *NAME* Chapter's Conflict of Interest Policy;
 - b. Has read and understands the policy;

- c. Has indicated and disclosed any and all potential present or future conflicts of interest; and
 - d. Has agreed to comply with the policy.
2. If at any time during the year, the information in the annual disclosure statement changes materially, the interested party shall disclose such changes and revise the annual disclosure form.
3. The *NAME* Chapter's Board of Directors shall regularly and consistently monitor and enforce compliance with this policy by reviewing annual disclosure statements and taking such other actions as are necessary for effective oversight.

**Friends of the Library, *NAME* Chapter
Conflict of Interest Policy
Annual Disclosure Statement**

A conflict of interest, or an appearance of a conflict, can arise whenever a transaction, or an action, of the *NAME* Chapter conflicts with the personal interests, financial or otherwise, with that of a board member or other interested person.

Please describe below any relationships, transactions, or positions you hold (volunteer or otherwise), or circumstances that you believe could create a conflict of interest, now or in the future, between the *NAME* Chapter and your personal interests (as described in Article II of the Conflict of Interest Policy):

_____ I have no conflict of interest to report.

_____ I have the following conflict(s) of interest, or potential conflict(s) of interest, to report:

- 1. _____
- 2. _____
- 3. _____

I _____ have received and understand FOL *NAME* Chapter's Conflict of Interest Policy, and I understand that it is my obligation to disclose as soon as it is known or reasonably should be known, any potential conflicts of interest, or appearance of conflicts, to the President of the Board of Directors and that for transactions in which I may have a conflict, I will abstain from any vote on the matter involving the conflict.

Signature **Date**