

# Contents

<b>Introduction</b> .....	<b>vii</b>
What Is a Conflict of Interest?.....	vii
Heightened Scrutiny of Nonprofit Organizations.....	viii
Overview .....	ix
<b>Chapter 1: How Conflicts of Interest Arise</b> .....	<b>1</b>
Legal Duties of Board Members .....	1
Situations That Give Rise to Conflicts of Interest .....	2
Financial Conflict .....	2
Loyalty to More Than One Nonprofit Organization .....	2
Conflicting Roles and Relationships .....	3
The Conflict-of-Interest Continuum .....	4
<b>Chapter 2: Conflicts of Interest and the Law</b> .....	<b>7</b>
State Laws.....	7
Federal Tax Law .....	8
Private Inurement .....	8
Private Benefit.....	9
Intermediate Sanctions Rules .....	10
Excess Benefit Transactions .....	11
Unreasonable Compensation as Excess Benefit Transaction .....	11
Non-Fair-Market-Value Purchase of Property or Services as Excess Benefit Transaction.....	11
Penalties for Excess Benefit Transactions.....	11
Tax on Disqualified Person .....	12
Tax on Organization Manager .....	12
Rebuttable Presumption of Reasonableness.....	12
Excess Benefit Transactions and Maintenance of Tax-Exempt Status .....	14
Self-Dealing Rules Applicable to Private Foundations.....	14
Other Laws.....	16
<b>Chapter 3: The Conflict-of-Interest Policy: Addressing Conflicts before Problems Arise</b> .....	<b>17</b>
Diversity on the Board: An Essential Component .....	17

Creating the Policy.....	17
Who Should Be Covered by the Policy?.....	19
To Whom Are Conflicting Interests Reported? .....	20
Components of the Conflict-of-Interest Policy .....	20
Statement of Purpose and Duties of Officers and Directors ..	20
Direct or Indirect Financial or Other Material Interest .....	21
What Happens When a Direct or Indirect or Other	
Material Interest Is Reported? .....	24
Recording Reported Interests.....	25
Co-Investment Interest.....	25
Failure To Disclose .....	25
The Disclosure Statement .....	26
Special Considerations: Foundations.....	27
Serving a Broad Purpose .....	27
<b>Chapter 4: Addressing Conflicts of Interest after</b>	
<b>Problems Arise .....</b>	<b>29</b>
Establishing a Procedure for Responding .....	29
Discussion with the Conflicted Board Member .....	30
What Should Be Done after the Discussion? .....	30
Handling a Problem That Arises during a Board Meeting .....	30
Discovery of Failure To Disclose .....	31
<b>Chapter 5: Conflicts of Interest and Ethical Considerations.....</b>	<b>32</b>
Organizational Code of Ethics .....	32
Developing a Written Policy.....	33
Creating a Culture of Integrity.....	33
<b>Conclusion .....</b>	<b>34</b>
<b>Appendix 1: Q&amp;As .....</b>	<b>35</b>
<b>Appendix 2: IRS Form 1023 Requirements, Instructions,</b>	
<b>and Sample Conflict-of-Interest Policy .....</b>	<b>39</b>
<b>Appendix 3: Additional Sample Conflict-of-Interest Policy.....</b>	<b>44</b>
<b>Appendix 4: Sample Conflict-of-Interest Disclosure</b>	
<b>Statement .....</b>	<b>48</b>
<b>Appendix 5: Sample Policy for the Promotion of Ethical</b>	
<b>Conduct.....</b>	<b>50</b>
<b>Appendix 6: Glossary .....</b>	<b>51</b>
<b>Suggested Resources .....</b>	<b>55</b>
<b>About the Authors .....</b>	<b>57</b>