_________ Foundation
Policies and Procedures

Conflict of Interest and Self-Dealing

Purpose
This policy provides guidance on dealing with two common issues faced by the Foundation's Trustees and staff: **self-dealing** (issues involving financial gains) and **conflicts of interest** (issues involving personal motivations and loyalties). It protects the Foundation's tax-exempt status and reputation and protects the Trustees and staff from IRS penalties when the Foundation is considering grants and contracts.

The policy applies to the following people and businesses[i]:

- Trustees and staff and their immediate family members (spouse, parents, children and grandchildren, spouses of children and grandchildren)
- Businesses in which the people listed above own at least 35% of the voting power or partnerships in which they own 35% of the profits interest

Foundation Policy
Trustees and staff members are expected to put their loyalty to the Foundation first when conducting Foundation business. They may not use their positions at the Foundation for personal gain or to benefit another person or organization at the expense of the Foundation or its reputation. They should especially be sensitive to potential misperceptions by other Trustees, by the non-profit community, and by regulators and the broader community. Trustees and staff members are expected to disclose any potential issues to the Board of Directors prior to the Foundation's consideration of a grant or contract.

Policy Section A: Self-Dealing
The Foundation will not engage in acts of "self-dealing" as defined in Section 4941 of the Internal Revenue Code. Examples of self-dealing include, but are not limited to:

- Foundation grants that satisfy personal pledges
- Foundation grants that are earmarked for the direct benefit of Trustees, staff, their immediate family members, or businesses
- Accepting free tickets or seats to fundraising events and performances from grantees or organizations applying for grants. Note that a Trustee may use such a ticket or seat if attending the event is part of his or her normal evaluation of a grantee or grant applicant. However, the IRS is clear that other family members may not use the ticket or seat.
- Excessive compensation or reimbursing unreasonable or unnecessary expenses
- Paying trustees or staff, their family members, or businesses for goods, property, or personal services (except banking, investing, legal, and accounting services)

Policy Section B: Conflicts of Interest
The Foundation is primarily concerned with three situations that pose conflicts of interest for Trustees, staff, and their immediate family members:

1. <u>The person is currently a board member or volunteer of a grant applicant</u>. It is not a direct conflict of interest to serve as an unpaid board member or volunteer for the organization. However, Trustees are expected to disclose their volunteer relationships to be transparent and avoid any misperceptions about their decision-making.

2. <u>The person or their business is currently employed by, doing business with, or in negotiations to do business with, a grant applicant.</u> If the proposed grant does not directly financially benefit that person:

a. The Board of Directors will vote on the potential grant as a single grant (as opposed to a vote on the block of grants)
b. A Trustee with a conflict may participate in the discussion to answer questions
c. A Trustee with a conflict shall then abstain from voting when the vote is taken and the minutes will reflect his or her abstention

If the Trustee, family member, or staff member has direct control over the grantee's spending, the IRS requires that the grant can be for no more than 12 months and that the grantee must provide the Foundation with complete records of its expenditures.

3. The person has a financial interest (e.g. ownership, investment interest or compensation arrangement) in a business. The Foundation may enter into a financial arrangement with that business only if the following requirements are met:
   a. The Executive Committee determines and documents that the relationship will not violate self-dealing rules or other laws
   b. The person discloses the details of his or her financial interest to the Executive Committee and abstains from voting on the financial arrangement
   c. The terms of the transaction are fair and reasonable to the Foundation, and the Executive Committee determines that the Foundation could not have obtained a more beneficial agreement with reasonable effort under the circumstances
   d. The Executive Committee unanimously approves the transaction

Exceptions
No exceptions will be made to this policy.

Procedures
Trustees and staff will complete an annual survey issued by the Foundation office disclosing all current affiliations that could be perceived as conflicts of interest. Affiliations with applicant organizations will be housed in the Foundation's grants database.

Confidentiality
This policy is confidential and for internal use by Trustees only. It may not be distributed by Trustees or Foundation staff in any part or form to potential applicants. Distribution to consultants or other foundations must be approved by the Foundation office.

Background
Historically Trustees of the ______ Foundation have valued community service and viewed Trustee affiliations at nonprofit organizations (as alumni, board members, etc.) as a positive factor in the consideration of proposals from those organizations. Such affiliations provide Trustees experience and access to operational, governing, and/or performance information that otherwise might not be available for due diligence and evaluation purposes. The Foundation's operational approach to grantmaking wherein individual Trustees "sponsor" applicant organizations, moreover, promotes attachment to grantee organizations. Trustee affiliations, however, create the potential for conflicts of interest or the appearance of such conflicts.

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[i] The IRS refers to this group of people and businesses as "disqualified persons"