

# Lexington Arts and Crafts Society, Inc.

## Conflict of Interest Policy

*Adopted by LexArt Board of Directors, March 23, 2019*

### Article I Purpose

The purpose of this conflict of interest policy is to protect Lexington Arts and Crafts Society, Inc.'s ("LexArt's") interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of a director, officer, the member of a committee, or an employee or agent of LexArt in a position of significant authority designated by the President that might otherwise harm LexArt. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.

### Article II Definitions

1. **Interested Person.** Any employee, director, officer, member of a committee, an employee or agent of LexArt in a position of significant authority designated by the President who has a direct or indirect financial interest or personal interest, as defined below, is an Interested Person. If a person is an Interested Person with respect to an organization affiliated with LexArt, he or she is an Interested Person with respect to LexArt, as well as to all other organizations affiliated with LexArt.

2. **Financial Interest.**

A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

- a. An ownership or investment interest in any entity with which LexArt has a transaction or arrangement,
- b. A compensation arrangement with LexArt or with any entity or individual with which LexArt has a transaction or arrangement, or
- c. A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which LexArt is negotiating a transaction or arrangement.

Compensation includes direct and indirect remuneration as well as gifts or favors that are substantial.

A financial interest isn't necessarily a conflict of interest. Under Article III, Article 2, a person who has a financial interest may have a conflict of interest only if the appropriate governing board or committee decides that a conflict of interest exists.

3. **Personal Interest.** A person has a personal interest if the person has, directly or indirectly, through business, investment, family or personal affiliation of any kind, non-financial connections or interests in any entity with which or individual with whom LexArt has or, to the person's knowledge, is contemplating entering a transaction or arrangement of any nature.

### **Article III Procedures**

1. **Duty to Disclose.**

In connection with any actual or possible conflict of interest, an Interested Person must disclose the existence of his or her financial interest or personal interest and all related material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

2. **Determining Whether a Conflict of Interest Exists.**

After disclosure of the financial or personal interest and all material facts, and after any discussion with the Interested Person, she or he must leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members must decide if a conflict of interest exists.

3. **Procedures for Addressing the Conflict of Interest.**

- a. An interested person may make a presentation at the governing board or committee meeting, but after the presentation, she or he must leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.
- b. The chairperson of the governing board or committee must, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.
- c. After exercising due diligence, the governing board or committee must determine whether LexArt can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.
- d. If a more advantageous transaction or arrangement is not reasonably attainable under circumstances that would not give rise to a conflict of interest, the Board or committee must determine, by an affirmative vote of a majority of the quorum of disinterested directors participating in the meeting, whether the transaction or arrangement is in LexArt's best interest and for its own benefit, and whether the transaction is fair and reasonable to LexArt. In conformity with the above determination it must make its decision as to whether to enter into the transaction or arrangement.

4. **Violations of the Conflicts of Interest Policy.**

- a. If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it must 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 member's response and after making further investigation as may be warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it must take appropriate disciplinary and corrective action.

**Article IV  
Records of Proceedings**

The minutes of the governing board and all committees with board delegated powers must contain:

- a. The names of the persons who disclosed or otherwise were found to have a financial or personal interest in connection with an actual or possible conflict of interest, the nature of the financial or personal interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.
- b. The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

**Article V  
Compensation**

- a. A voting member of the governing board who receives compensation, directly or indirectly, from LexArt for services is precluded from voting on matters pertaining to that member's compensation.
- b. A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from LexArt for services is precluded from voting on matters pertaining to that member's compensation.
- c. No voting member of the governing board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from LexArt, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

## **Article VI Annual Statements**

Each employee, director, officer, member of a committee, or person associated with LexArt in a position of significant authority as designated by the President must annually sign a statement that discloses such person's financial interests and personal interests and affirms that such person:

- a. Has received a copy of the conflicts of interest policy,
- b. Had read and understands the policy,
- c. Has agreed to comply with the policy, and
- d. Understands that LexArt is a charitable organization and that in order to maintain its qualification as an organization described in Article 501(c)(3) of the Internal Revenue Code, it must engage primarily in activities that accomplish one or more of its tax-exempt purposes.

## **Article VII Periodic Reviews**

To ensure LexArt operates in a manner consistent with charitable purposes and doesn't engage in activities that could jeopardize its tax-exempt status, periodic reviews must be conducted. The periodic reviews must, at a minimum, include the following subjects:

- a. Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.
- b. Whether partnerships, joint ventures, and arrangements with management organizations conform to LexArt's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further the purposes of LexArt and don't result in inurement, impermissible private benefit, or in an excess benefit transaction.

## **Article VIII Use of Outside Experts**

When conducting the periodic reviews as provided for in Article VII, LexArt may, but need not, use outside advisors. If outside experts are used, their use must not relieve the governing board of its responsibilities for ensuring periodic reviews are conducted.