Conflict of interest is difficult to define, yet many people think they know it when they see it. The legal definition of conflict of interest, usually set out in state laws governing nonprofit corporations, is very specific and covers relatively few situations. Most conflicts fall into a gray area where ethics and public perception are more relevant than statutes or precedents.

Conflict of interest arises whenever the personal or professional interests of a board member are potentially at odds with the best interests of the nonprofit. Such conflicts are common: A board member performs professional services for an organization, or proposes that a relative or friend be considered for a staff position. Such transactions are perfectly acceptable if they benefit the organization and if the board made the decisions in an objective and informed manner. Even if they do not meet these standards, such transactions are usually not illegal. They are, however, vulnerable to legal challenges and public misunderstanding. Loss of public confidence and a damaged reputation are the most likely results of a poorly managed conflict of interest. Because public confidence is important to most nonprofits, boards should take steps to avoid even the appearance of impropriety. These steps may include:

- Adopting a conflict-of-interest policy that prohibits or limits business transactions with board members and requires board members to disclose potential conflicts.
- Disclosing conflicts when they occur so that board members who are voting on a decision are aware that another member’s interests are being affected.
- Requiring board members to withdraw from decisions that present a potential conflict.
- Establishing procedures, such as competitive bids, that ensure that the organization is receiving fair value in the transaction.

**SAMPLE 1: EL MORRO AREA ARTS COUNCIL (EMAAC) CONFLICT OF INTEREST POLICY**

Conflict of interest arises whenever the personal or professional interest of a Board Member is potentially at odds with the best interests of EMAAC. Although the legal standards for avoiding conflict of interest for nonprofit organizations are fairly limited, EMAAC will avoid where possible even the appearance of impropriety.

Individuals and businesses qualified to provide goods and services in the EMAAC area are limited, and therefore situations may arise where Board Members are commercially engaged by EMAAC, or hired by EMAAC for artistic projects-workshops, summer camps, performances, etc. Because these situations all involve potential conflict of interest, the following procedures apply.

If an issue is to be decided by the Board that involves potential conflict of interest for a Board Member, it is the responsibility of the Board Member to:
1. Identify the potential conflict of interest.
2. Not participate in discussion of the program or motion being considered.
3. Not vote on the issue.

It is the responsibility of the Board to:
1. Only decide to hire or contract with the Board member if they are the best qualified individuals available, and willing to provide the goods or services needed at the best price.
2. Record in the minutes of the Board Meeting the potential conflict of interest, and the use of the
procedures and criteria of this policy.

Although it is not a conflict of interest to reimburse Board Members for expenses incurred (such as the purchase of supplies), Board Members are prohibited by law from being paid for serving on the Board. Generally, Board Members will not receive pass-through dollars for individual projects.

**ANOTHER SAMPLE**

for Officers, Directors, Committee Members, Staff Members, and certain Consultants

No member of the Board of Directors, or any of its Committees, shall derive any personal profit or gain, directly or indirectly, by reason of his or her participation with the XYZ Nonprofit. Each individual shall disclose to the organization any personal interest which he or she may have in any matter pending before the organization and shall refrain from participation in any decision on such matter.

Any member of the Board, any Committee, or Staff who is an officer, board member, a committee member, or staff member of a client organization or vendor of the XYZ Nonprofit shall identify his or her affiliation with such agency or agencies; further, in connection with any committee or board action specifically directed to that agency, shall not participate in the decision affecting that agency and the decision must be made and ratified by the full board.

Any member of the Board, any Committee, Staff, and certain Consultants shall refrain from obtaining any list of clients for personal or private solicitation purposes at any time during the term of their affiliation.

At this time, I am a board member, committee member, or an employee of the following organizations:

__________________________________________________________________________________________
__________________________________________________________________________________________
__________________________________________________________________________________________

Now this is to certify that I, except as described below, am not now nor at any time during the past year have been:

1) A participant, directly or indirectly, in any arrangement, agreement, investment, or other activity with any vendor, supplier, or other party doing business with the XYZ Nonprofit which has resulted or could result in personal benefit to me.

2) A recipient, directly or indirectly, of any salary payments or loans or gifts of any kind or any free service or discounts or other fees from or on behalf of any person or organization engaged in any transaction with the XYZ Nonprofit.

Any exceptions to 1 or 2 above are stated below with a full description of the transactions and of the interest, whether direct or indirect, which I have (or have had during the past year) in the persons or organizations having transactions with the XYZ Nonprofit.

__________________________________________________________________________________________
__________________________________________________________________________________________
__________________________________________________________________________________________

Date:_____________________________  Signature:__________________________________
Printed:__________________________________

For more information, contact Ann Weisman at New Mexico Arts, 505-827-6490, 800-879-4278 (toll free in NM), or aweisman@oca.state.nm.us.