COMMUNITY MUSIC SCHOOL, INC.

POLICY STATEMENT – CONFLICTS OF INTEREST

CONFLICTS OF INTEREST

1. Statement of Purpose

Community Music School, Inc. (CMS) discloses and documents all real or perceived conflicts of interest involving CMS and those who have influence over the corporation, including CMS’s directors, employees, Board committee members, substantial contributors and their family members. CMS will address such conflicts in a manner that will fully protect the integrity and reputation of both CMS and the potentially interested parties.

This policy is intended to supplement but not replace any applicable North Carolina or federal laws or regulations governing conflicts of interest applicable to nonprofit and charitable organizations.

As a public charity, CMS must strive for the highest standards of professionalism, accountability, and transparency as it pursues projects and commercial or business relationships related to CMS’ mission and purposes. CMS must seek to avoid conflicts of interest whenever possible. The creditability and reputation of CMS can be damaged when CMS enters into a transaction or arrangement that creates the appearance or reality of a conflict of interest. In instances where CMS determines that a conflict of interest does exist, CMS must follow a systematic process to justify moving forward despite the conflict and to determine appropriate courses of action to mitigate CMS’s participation in the conflict.

Employees and members of the CMS Board of directors and its committees serve in the public’s interest and are obligated to conduct the affairs of CMS in a manner consistent with that role. All decisions of directors, officers and staff must be made in adherence to this fiduciary responsibility.

Finally, CMS must ensure that its actions comply with the rules against private inurement and private benefit of the Internal Revenue Service and applicable State of North Carolina rules and statutes.

2. General Definition. For purposes of this Conflicts of Interest Policy, the following definitions shall apply:

a. A Responsible Person is any director, employee, or member of a committee with governing Board delegated powers, who has a direct or indirect financial interest, as defined below.

b. A Family Member is defined by the IRS to include spouse, domestic partner, or civilly joined union, brothers and sisters (whether by whole or half-blood), ancestors, children,
grandchildren, great-grandchildren and spouses of children, grandchildren, great-grandchildren, and siblings of a Responsible Person.

c. A **Financial Interest** exists if a person has, directly or indirectly, through business, investment or a Family Member:

   i. an ownership or investment interest in any property, entity or individual with which CMS has a Transaction or Arrangement;

   ii. a compensation arrangement with CMS or with any entity or individual with which CMS has a Transaction or Arrangement;

   iii. a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which CMS is negotiating, or any entity or individual with respect to which the Board or a committee is considering, a Transaction or Arrangement; or

   iv. an ownership or compensation relationship in any entity or other organization that may be directly or indirectly benefited or otherwise affected by any act of CMS, or any Transaction or Arrangement CMS has engaged in or which the Board or a committee is considering.

A Financial Interest does not necessarily constitute or result in a conflict of interest. For purposes of this Policy, a person shall be considered to have a conflict of interest only if the Board or an appropriate committee determines that a conflict of interest exists pursuant to the process outlined below.

Compensation includes direct and indirect remuneration and gifts or favors which are substantial in nature, but shall not include gifts of less than Fifty Dollars ($50.00) in value.

A Responsible Person who has a Financial Interest with respect to one or more parent, sister, or subsidiary business entities of an organization shall be deemed to have a Financial Interest in such organization.

d. **Independent Director** – A director shall be considered “independent” for the purposes of this policy if he or she is “independent” as defined in the instructions for the IRS 990 form or, until such definition is available, if the director:

   i. is not, and has not been for a period of at least three years, an employee of CMS or any entity in which CMS has a financial interest;

   ii. does not directly or indirectly have a significant business relationship with CMS which might affect independence in decision-making;

   iii. is not employed as an executive of another company where any of CMS’s executive officers or employees serve on that company’s compensation committee; and
iv. does not have an immediate family member who is an executive officer or employee of CMS or who holds a position that has a significant financial relationship with CMS.

e. **Transaction or Arrangement** is any agreement or relationship involving the sale or purchase of goods, services, employment, any interest in real property, or rights of any kind, the providing or receipt of a loan or grant, the establishment of any other type of business relationship or other transactions where CMS gives or agrees to give value. The making of a gift to CMS is not a Contract or Transaction.

3. **General Guidelines.** All CMS employees, directors and members of Board committees, shall seek to avoid conflicts of interest between their duties to CMS and to any other interest or organization to which they have a duty to or any other activity in which they have a financial interest. All persons subject to this policy must conduct themselves honestly and fairly in any dealings between themselves and CMS. Such individuals shall not use their position or knowledge gained during their association with CMS for their own private benefit nor to obtain an unfair advantage over any aspect of their dealings with CMS.

4. **Obligations of Responsible Persons.**

   a. **Disclosure.** In connection with any actual or possible conflict of interest, a Responsible Person must disclose the existence of any Financial Interest. Such disclosure must be made in writing as an update to the Annual Statement and must provide all material facts. Such disclosure must be made before CMS takes any action with respect to the potential Transaction.

   b. **Annual Statements.** Each individual subject to this policy shall sign a Conflict of Interest Annual Statement upon commencement of his or her term of office or employment, and annually thereafter in conjunction with the beginning of CMS’s fiscal year. The Annual statement shall include, at a minimum, the following certifications:

      i. received a copy of the conflicts of interest policy;

      ii. has read and understands the policy;

      iii. agrees to comply with the policy; and

      iv. understands that CMS is a charitable organization and that in order to maintain its tax-exempt status, it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

The Annual Statement also requires disclosures of Financial Interests in order to identify and document possible conflicts of interest. A copy of the Annual Statement is attached hereto as Appendix A.
c. **Recusal.** Any person subject to this policy may recuse himself or herself at any time from involvement in any decision or discussion in which the director believes he or she has or may have a conflict of interest, without going through the process for determining whether a conflict of interest exists.

d. **Abstention.** Each Board or committee member, employee or other Responsible Person shall abstain from discussing with another Board or committee member or employee any issue, matter or transaction in which he or she has an actual, potential, or perceived conflict of interest, prior to review by the Board as described below, unless specifically asked by the Board, committee or executive director to give information on the issue, matter, or transaction. Each Board or committee member with an actual, potential or perceived conflict of interest shall excuse himself or herself from the room during deliberations and votes of the issue, matter or transaction at hand and shall formally recuse himself or herself at relevant Board or committee meetings so that such abstention may be duly recorded in the minutes.

5. **Obligations and Roles of the Board of Directors.**

a. **Acknowledgement & Determination** The Board of Directors (“Board”) shall allot ample time on a meeting agenda to acknowledge and review the disclosure of an actual, potential or perceived conflict of interest. The Board shall invite the individual having the potential conflict with the opportunity to provide at the meeting any supplemental facts not previously disclosed in writing. Upon hearing all material facts and after the individual has left the meeting, the Board of Directors shall discuss and determine, by recorded vote, whether such a conflict does exist.

b. **Subsequent Actions** In the event that the transaction is exclusive, and/or it is determined that the benefits accruing to CMS exceed any conflict of interest concerns, the Board of Directors shall determine by a majority vote of disinterested members whether or not to proceed. The absence of a Board member due to conflict of interest shall not be a consideration in determining whether a quorum exists. When a transaction, contract or project of CMS involves an actual, potential or perceived conflict of interest with an interested person, the Board shall act to approve such transaction, contract or project only after making these specific findings:

i. The transaction, contract or project is in CMS’s best interest, for the benefit of CMS and its objectives, is fair and reasonable, and is consistent with its mission and policies;

ii. The transaction, contract, or project is approved with the Board’s full knowledge of its financial or other benefit to the insider who has the conflict of interest;
iii. When the interested person is a member of the Board of Directors, the director did not participate in the vote approving the transaction, contract or project and was, in fact, absent both during the discussion of the transaction, contract or project, and when the Board voted on it; and

iv. A more advantageous and less conflicting arrangement could not have been obtained with reasonable effort.

c. Records of Proceedings. The minutes of meetings of the Board of Directors and all committees acting with the authority of the Board of Directors shall include:

i. The names of all persons who have disclosed or otherwise were found to have Financial Interests in connection with an actual or possible conflict of interest, the nature of the Financial Interest, any actions taken to determine whether a conflict of interest was present, and the Board’s or Committee’s determination of whether a conflict of interest existed; and

ii. The names of the persons who were present at the meeting for discussions and votes relating to the transaction or arrangement, the content of these discussions (including any alternatives to the proposed transaction or arrangement), and a record of the vote.

d. Independent Review. If a conflict involves contracting for services or other financial transaction for which other options are available, the Board of Directors may choose to appoint a disinterested person and/or committee to evaluate the alternatives.

e. Resignation When warranted by the nature and magnitude of a conflict of interest, the Board shall request that a conflicted Board or committee member or employee resign.

f. Executive Committee. If appropriate, the potential conflict may be referred to the Executive Committee of the Board, which shall have the authority to determine whether a conflict exists and to set conditions for resolution of any conflict. The Executive Committee shall consider the potential conflict, conduct such inquiry and investigation as it deems appropriate, and shall approve a transaction involving a potential conflict only after finding the transaction is fair, equitable and has no material adverse effect on CMS.

6. Violations of Conflicts of Interests Policy. Board and committee members and employees have a duty to CMS to disclose any conflict of interest related to or arising from a transaction or arrangement. If the Board or a committee has reasonable cause to believe that a member 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. If, after hearing member’s response and after making further investigation as warranted by the circumstances, the Board or committee determines the member has failed to disclose an
actual or possible conflict of interest, it is empowered to take appropriate disciplinary action against the person and take corrective action to remedy any harm caused by the conflict of interest.

7. **Board and Committee Member Compensation.** Board and committee members cannot serve for financial interest and may not be compensated except for reimbursement of expenses and, in limited circumstances, for professional services that would otherwise be contracted out. Such members are precluded from voting on matters pertaining to that member’s compensation. Any such compensation must be in compliance with federal and state charitable trust laws and the Internal Revenue Code. Neither the president nor the treasurer of the Board of directors may be compensated for professional services. A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from CMS for services is precluded from voting on matters pertaining to that member’s compensation. No voting member of the Board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from CMS, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

8. **Periodic Reviews.** CMS shall conduct periodic reviews of its activities to ensure that it is operating in a manner consistent with its charitable purposes and that it is not engaging in activities that could jeopardize its tax-exempt status. In conducting such reviews, CMS shall evaluate the following:

   a. Whether CMS’s compensation arrangements and benefits are reasonable and the result of arm’s length negotiations; and

   b. Whether contractual arrangements with providers of goods or services conform to written policies, are properly recorded, reflect reasonable payments for goods or services, further charitable purposes, and do not result in private inurement or impermissible private benefit or in an excessive benefit transaction.

In conducting its periodic reviews, the Board of Directors may in its discretion engage outside advisors, but the Board of Directors shall at all times retain responsibility for ensuring that periodic reviews are conducted.
APPENDIX A

CONFLICT OF INTEREST ANNUAL STATEMENT

COMMUNITY MUSIC SCHOOL, INC.

As an employee, Board member, or member of a committee of the Community Music School, the Conflict of Interest Policy requires you to deliver this Annual Statement to the Board Chair/President. A copy of the Conflict of Interest Policy is attached to this statement. Please review it carefully before completing this Annual Statement, and fill out the information below.

Name: ____________________________________________ Date:______________________

Position: _______ Board Member ______Committee Member ______ Employee

1. List any and all positions you hold, business dealings you have or financial interests (current or potential), including a compensation arrangement as defined in the Conflict of Interest Policy, that may present a conflict of interest with your work for CMS:

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

2. List any and all Family Members (as defined in the Conflict of Interest Policy) who may hold a position, business dealing or financial interest, including a compensation arrangement as defined in the Conflict of Interest Policy, that may present a conflict of interest with your work for CMS:

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

3. Are you an independent director, as defined in the Conflict of Interest policy? Yes No
4. I affirm the following:

I have received a copy of the CMS Conflict of Interest Policy. ____ (initial)
I have read and understand the policy. ____ (initial)
I agree to comply with the policy. ____ (initial)

I understand that CMS is charitable and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more tax-exempt purposes. ____ (initial)

I am not aware of any financial interest involving me or a related party that could present a conflict of interest that I have not disclosed either above or in a previous disclosure statement. ____ (initial)

_________________________________________________
Signature                    Date