

ADULT LEARNING PROGRAM, INC.
CONFLICT OF INTEREST POLICY

This conflict of interest policy is designed to help directors, officers and employees of Adult Learning Program, Inc. (the "Corporation") identify situations that present potential conflicts of interest and to provide the Corporation with a procedure which, if observed, will allow a transaction to be treated as valid and binding even though a director, officer or employee has or may have a conflict of interest with respect to the transaction. The policy is intended to comply with the procedure prescribed in Connecticut General Statutes Sections 33-1104(a), 33-1127 through 33-1130 and Internal Revenue Code Section 4958, governing conflicts of interest for directors of nonprofit corporations. All capitalized terms are either names of important parties or are defined in Part VII of this policy.

I. Statement of Policy

The Corporation is a charitable organization formed exclusively for the purposes set forth in its certificate of incorporation. To prevent Conflicts of Interest and the appearance of conflicts, in connection with the pursuit of its mission, the Corporation adopts this conflict of interest policy, which sets forth appropriate review and approval procedures and minimum standards of conduct for the directors, officers, and employees of the Corporation. The intent of this policy is to establish procedures that meet the disclosure, voting and other requirements set forth by Connecticut State Law and by the Internal Revenue Code.

II. Conflicts of Interest

A conflict of interest exists in any situation where the Corporation, or an entity controlled by the Corporation, provides an economic benefit to a person, a family member of a person or a related person, who is in a position to influence acts of the Corporation. The following circumstances shall be deemed to create Conflicts of Interest:

(A) Outside Interests

- (1) A Contract or Transaction between the Corporation and a Disqualified Person, Family Member or Related Person.
- (2) A Contract or Transaction between the Corporation and an entity in which a Disqualified Person, Family Member or Related Person has a Material Financial Interest.
- (3) A Contract or Transaction between the Corporation and an entity which constitutes a Director's Conflicting Interest Transaction.

(B) Outside Activities

- (1) A Disqualified Person competing with the Corporation in the rendering of services or in any other Contract or Transaction with a third party.

- (2) A Disqualified Person's having a Material Financial Interest in an entity or individual that competes with the Corporation in the provision of services or in any other Contract or Transaction with a third party.

(C) Gifts, Gratuities and Entertainment

A Disqualified Person accepting gifts, entertainment or other favors from any individual or entity that:

- (1) Does or is seeking to do business with, or is a competitor of the Corporation; or
- (2) Has received, is receiving or is seeking to receive a loan or grant, or to secure other financial commitments from the Corporation;
- (3) Is a charitable organization operating in Connecticut;

under circumstances where it might be inferred that such action was intended to influence or possibly would influence the Disqualified Person in the performance of his or her duties.

This does not preclude the acceptance of items of nominal or insignificant value or entertainment of nominal or insignificant value which are not related to any particular transaction or activity of the Corporation.

(D) Compensation of Senior Staff

- (1) The compensation arrangement of the Executive Director or other senior staff as developed by the Board of Directors, Compensation Committee or Personnel Committee.

III. Disclosure of Potential Conflict

Prior to Board or committee action on a Contract or Transaction involving a Conflict of Interest, a Disqualified Person having a Conflict of Interest and who is in attendance at the meeting shall disclose all facts material to the Conflict of Interest. Any Disqualified Person who does not plan to attend a meeting at which he or she has reason to believe that the Board or committee will act on a matter in which the person has a Conflict of Interest shall disclose to the chair of the meeting all facts material to the Conflict of Interest. The chair shall report the disclosure at the meeting. Such disclosures shall be reflected in the minutes of the meeting and shall include, at a minimum, all information required by Section IV (A).

(A) Identification of Potential Conflict Of Interest

The disclosure must include the existence and nature of the conflicting interest and all facts known to the Disqualified Person respecting the subject matter of the transaction that an ordinarily prudent person would reasonably believe to be material to a judgment about whether or not to proceed with the transaction.

(B) Disqualification

A Disqualified Person shall disqualify him or herself and shall not participate in or listen to the discussion except to disclose material facts and to respond to questions where any direct or indirect economic benefit will be derived by that Disqualified Person. The disqualification must be an oral announcement to the Board and be so noted in the

minutes of any meeting in which the matter is discussed. Such person shall not attempt to exert his or her personal influence with respect to the matter, either at or outside of the meeting.

(C) Annual Declaration of Interests

Annually all Disqualified Persons will complete a "Declaration of Interests" form to be kept on file by the Corporation. This form will require disclosure of all of the following, which may conduct business with the Corporation:

- (1) All individuals who become Disqualified Persons by virtue of their relationship as Family Members must identify their potential interests, and
- (2) All corporations and trusts or estates in which any of the Disqualified Persons have a Material Financial Interest must identify their potential interests.

IV. Approval of Matters with Potential Conflicts of Interest

In order to protect the Corporation and its Board of Directors from liability under the Internal Revenue Code (26 CFR § 53 and § 301), under Section 33-1127 through 33-1130 of the Connecticut General Statutes and under any other state or federal law pertaining to conflict of interest, the following procedures must be followed when any transaction may provide an Economic Benefit to a Disqualified Person.

(A) Documentation and Description of Potential Conflict

The existence and the exact nature of the relationship of the Disqualified Person to the Corporation and the direct or indirect economic benefit that will be provided must be documented for recording with the minutes of any meeting where the matter is discussed. The Disqualified Person shall notify the secretary or other officer, of any Disqualified Person, Family Member or Related Person in respect to the transaction prior to any such vote by the Board of directors or committee. Additionally, the director must provide all known facts that a Qualified Director would reasonably believe to be material in deciding to proceed with the transaction. A majority of Qualified Directors must vote in favor of the transaction.

(B) Collection of Information

- (1) Prior to approval or major revision of any matter where a conflict or potential conflict exists, the Corporation must establish that the transaction is Fair to the Corporation. Where the proposed transaction is a contract between the Corporation and an external Disqualified Person, a report that adequately evaluates the market for services substantially similar to those proposed must be presented to the Board. This could include bids from three (3) or more similar vendors, a review of similar contracts by other organizations procuring similar services, or any other independent market analysis that is satisfactory to the Board.

(2) In the case of developing the compensation arrangement for the Executive Director and other senior executives, the Board must determine that its executive(s) be paid “reasonable compensation,” which the IRS defines as the amount ordinarily paid (a) for like services (b) by like enterprises (either taxable or tax-exempt) and (c) under like circumstances. Like services includes the type of work, how “hands-on” it is, the geographic scope of the work, the size of the organization (number of employees managed, budget, facilities and multiple functions). The determination of “like enterprises” reflects the size of the enterprise by employees, budget and persons served as well as like business type, where entities would be competing for the same pool of talent (pre-school versus university within the education field, for example). “Like circumstances” includes all compensation items, taxable or not, within a compensation package, and reflects the location (cost of living, urban versus rural). Using this background, the Board identifies a number of “comparables” in order to be assured that the compensation it will pay to the Corporation’s executive(s) is not excessive.

(C) Excess Benefit Determination

- (1) Once the Board has reviewed the report described in IV (B), a vote must be taken to determine that the proposed transaction does not provide an Excess Benefit to the Disqualified Person. This vote must be taken independently of the approval of the given transaction or program. If the Board has reasonably determined that the proposed transaction does not provide an excess benefit to the Disqualified Person, then they may vote to approve or disapprove the transaction or program.
- (2) The Board may rely on the advice of counsel expressed in a reasoned written legal opinion that any transaction to be acted upon by the Board is not an excess benefit transaction as defined in I.R.C. §4958.

(D) No Adequate Alternative to Proposed Transaction or Arrangement

If a more advantageous transaction or arrangement not producing a conflict of interest is not reasonably possible under the circumstances, the Board shall determine by a majority vote of the disinterested directors whether to approve the transaction or arrangement with the Disqualified Party. In doing so, they must in good faith consider whether the transaction or arrangement is in the Corporation’s best interest, for its own benefit, and whether it is fair and reasonable. Further, if the action is voted on by committee, the committee must be made up of all qualified directors or have been appointed by the affirmative vote of a majority of the qualified directors on the Board.

V. Revisions and Modifications of Matters Involving a Conflict of Interest

Any substantial revision or modification of a transaction, contract or relationship that initially required excess benefit transaction determination by the Board will require re-determination using the procedure outlined in section IV at the time of revision.

VI. Potential Liability For Excise Tax

The IRS regulations state that an "organization manager," which primarily means a director or officer, who participates in approving an excess benefit transaction will be liable for payment of an excise tax equal to 10% of the excess benefit (which cannot exceed \$20,000 with respect to any one transaction) unless the participation was not willful and was due to reasonable cause. A director will be considered as having participated in a decision regarding an excess benefit transaction if he or she remains silent or inactive with respect to the decision, but not if he or she opposes the approval of the transaction. If the Board can demonstrate it has acted reasonably in concluding that there was no excess benefit and in approving the transaction, then it is unlikely that the tax will be imposed.

VII. Definitions

- (A) Conflicts Of Interest: A "Conflict of Interest" is any circumstance described in Part II of this Policy
- (B) Disqualified Person: Any person who is/was in a position to exercise substantial influence over the affairs of the organization, including but not limited to Board members, Executive Director, any member of the governing body that can vote and Family Members or Related Persons. This includes any person who was a Disqualified Person with respect to the Corporation within the last five years.
- (C) Qualified Director: A director who does not have a conflict of interest or a material relationship with the director who has the conflicting interest transaction.
- (D) Material Relationship: A familial, financial, professional or employment relationship that would reasonably be expected to impair the objectivity of the director's judgment when participating in the action to be taken.
- (E) Family Member/Related Persons: With respect to any Disqualified Person, a Family Member or Related Person is a) the director's spouse, or a parent or sibling thereof; b) a child, grandchild, parent or sibling of the director, or the spouse of any thereof; c) an individual i) living in the same home as the director, or ii) a trust or estate of which a person specified in the subparagraph a) or b) of this subdivision or clause i) of this subparagraph is a substantial beneficiary; d) an entity, other than the Corporation or an entity controlled by the Corporation, controlled by the director or any person specified in subparagraphs a) to c), inclusive, of this subdivision; e) a domestic or foreign i) business or nonprofit corporation, other than the Corporation or an entity controlled by the Corporation, of which the director is a director, ii) unincorporated entity of which the director is a general partner or a member of the governing body, or iii) individual, trust or estate for whom or of which the director is a trustee, guardian, personal representative or like fiduciary; or f) an employer of the director, or a person that is, or an entity that is controlled by, an employer of the director.
- (F) Material Financial Interest: A financial interest of any kind, which, in view of all the circumstances, is enough that it would reasonably be expected to impair a

Disqualified Person's, Family Member's or Related Person's judgment with respect to transactions to which the entity is a party. This includes:

- a. Any corporation in which a Disqualified Person has voting power.
 - b. Any trust or estate in which a Disqualified Person has beneficial interest.
 - c. Any corporation of which the Disqualified Person is a director, general partner, agent or employee.
 - d. Any individual who is a partner, principal or employee of any director.
- (G) Contract or Transaction: Any agreement or relationship involving the sale or purchase of goods, services, or rights of any kind, the providing or receipt of a loan or grant, the establishment of any other type of pecuniary relationship. The making of a gift to the Corporation is not a Contract or Transaction.
- (H) Excess Benefit, Excess Benefit Transaction: Any transaction, contract or compensation agreement between a tax-exempt organization and a Disqualified Person where the amount paid or to be paid to the Disqualified Person exceeds the value of the consideration (including the performance of services) received for providing such benefit. An "excess benefit" is equal to the difference between what is actually paid to a Disqualified Person and what the goods or services the Disqualified Person provides are reasonably worth.
- (G) Director's Conflicting Interest Transaction: A transaction effected or proposed to be effected by the Corporation, or by an entity controlled by the Corporation, (a) to which, at the relevant time, the director is a party, (b) respecting which, at the relevant time, the director had knowledge and a material financial interest known to the director, or (c) respecting which, at the relevant time, the director knew that a Related Person was a party or had a Material Financial Interest.
- (H) Fair to the Corporation: The transaction as a whole was beneficial to the Corporation, taking into appropriate account whether it was a) fair in terms of the director's dealings with the Corporation, and b) comparable to what might have been obtainable in an arm's length transaction, given the consideration paid or received by the Corporation.

VIII. Violations of the Conflicts of Interest Policy

- (A) If the Board has reasonable cause to believe that a Disqualified Person has failed to disclose actual or possible conflicts of interest, it shall inform the Disqualified Person of the basis for such belief and allow the Disqualified Person an opportunity to explain the alleged failure to disclose.

(B) If, after hearing the Disqualified Person's response and upon further investigation, as warranted, the Board determines that the Disqualified Person has failed to disclose an actual or potential conflict of interest, it shall take appropriate corrective action.

IX. Conflict of Laws

Other state or federal laws or regulations relating to conflicts of interest shall apply where the provisions of those laws or regulations are more stringent than this Conflict of Interest Policy.

I hereby certify that I have reviewed, and agree to abide by, the Corporation's Conflict of Interest Policy that is currently in effect.

Signature: _____ Date: _____

Annual Disclosure Letter, to be completed by Every Director

[To the Corporation]

Dear _____ [Executive Director]:

I am a member of the Board of Directors of Adult Learning Program, Inc. (the "Corporation"). I understand that as a director I have the responsibility to report to my Board of Directors any transactions between (i) the Corporation and (ii) me or my spouse, my immediate family (including a parent, child, sibling, sibling's family, grandchild), my spouse's immediate family, estates, trusts and partnerships in which I or my immediate family have a beneficial interest, and a corporation or entity in which I or my immediate family is a beneficial owner of more than five percent of the voting interests (collectively, the "Related Persons"). The purpose of this letter is to provide you with the information you need from me for purposes of this report. I understand that the auditors of the Corporation have requested that each director make a written statement of this kind.

Either Paragraph A or Paragraph B below is an accurate statement in my particular case, as indicated by my initials:

(A) _____ (Initial here if Paragraph A is correct.)

During the year ending _____, 201_, neither I nor any Related Person to me has any ownership or investment interest (whether direct or indirect) in any entity with which the Corporation has any transaction or arrangement (financial or otherwise). Furthermore, neither I nor any Related Person to me has engaged in any outside activity, which may exert an influence on my judgment with respect to issues concerning the Corporation or compromise my ability to serve in the best interest of the Corporation.

(B) _____ (Alternatively, initial here if the following paragraph is correct and provide the detailed information requested below.)

During the year ending _____, 201_, I (or a Related Person to me) engaged in the following transactions or arrangements (financial or otherwise) with the Corporation.

| <u>Description of Transaction</u> | <u>Payment</u> | <u>Payee</u> | <u>Purpose of Payment</u> |
|-----------------------------------|----------------|--------------|---------------------------|
|-----------------------------------|----------------|--------------|---------------------------|

During the year ending _____, 201_, I (or a Related Person to me) engaged in the following activities, which may exert an influence on my judgment with respect to issues concerning the Corporation or compromise my ability to serve in the best interest of the Corporation.

| <u>Description of Activity</u> | <u>Leadership Position Held in Organization (if applicable)</u> |
|--------------------------------|---|
|--------------------------------|---|

I acknowledge that I have an ongoing responsibility to disclose to the Board of Directors of the Corporation any transactions or activities described above as they arise. The answers to the foregoing questions are accurately stated to the best of my knowledge and belief. You have my consent to disclose this information to other members of the Board of Directors of the Corporation and to the auditors of the Corporation.

Sincerely,

[Director]