



NATIONAL HEADQUARTERS CIVIL AIR PATROL

CAP REGULATION 1-4

20 JUNE 2013

Corporate Principles

CONFLICT OF INTEREST

The purpose of this conflict of interest regulation is to protect the interests of Civil Air Patrol (Corporation) when it is contemplating entering into a transaction or arrangement that might benefit the private interest of a corporate officer or a CAP Member appointed to the Board of Governors of the Corporation. This regulation is intended to supplement, but not replace, any applicable state and federal laws governing conflicts of interest applicable to nonprofit and charitable organizations. This regulation applies to all CAP members.

SUMMARY OF CHANGES.

Administrative corrections. **Note: Shaded areas identify new or revised material.**

1. Definitions.

a. Interested Person. Any CAP corporate officer (as defined in Article XII of the Constitution), any Member of the Board of Governors (BoG), any member of the CAP Senior Advisory Group (CSAG), or any member of any committee within CAP when such group or committee has been delegated decision-making authority regarding a transaction or arrangement by the BoG, who has a “financial interest”, as defined below, is an interested person.

b. Financial Interest. A person has a financial interest if the person has, directly or indirectly, through business, investment, or family member (spouse, descendant, ancestor, sibling, spouse of descendant or sibling, or estate or trust benefiting these family members):

(1) an ownership or investment interest in any entity with which the Corporation has or is negotiating a transaction or arrangement,

(2) a compensation arrangement with the Corporation or with any entity or individual with which the Corporation has or is negotiating a transaction or arrangement, or

(3) a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Corporation has or is negotiating a transaction or arrangement that is contingent in whole or in part upon the consummation of the transaction or arrangement.

c. Compensation. Direct and indirect remuneration of any kind, whether in cash or in kind, or a gift or favor that has a value in excess of \$25.00.

d. A financial interest is not necessarily a conflict of interest. Under paragraph 2b, a person who has a financial interest may have a conflict of interest only if the BoG, CSAG, or

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committee (as appropriate) decides that a conflict of interest exists in accordance with this regulation.

2. Procedures.

a. Duty to Disclose. In connection with any actual or potential conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the members of the BoG and to the members of the CSAG or CAP committee considering the proposed transaction or arrangement.

b. Determining Whether a Conflict Of Interest Exists. After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he or she shall recuse himself or herself from the BoG, CSAG, or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining BoG, CSAG, or committee members shall decide if a conflict of interest exists. If the CSAG or any CAP committee determines that a conflict does not exist, the ratification of that determination must be made by the Chief Executive Officer (CEO).

c. Procedures for Addressing the Conflict Of Interest.

(1) An interested person may make a presentation to the BoG, CSAG, or CAP committee; but after the presentation, he or she shall recuse himself or herself from the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.

(2) The chairperson of the BoG, CSAG, or CAP committee shall, if appropriate in the judgment of the governing board BoG, CSAG or committee, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

(3) After exercising due diligence, the BoG, CSAG, or CAP committee shall determine whether the Corporation 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.

(4) If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the BoG, CSAG or committee shall determine by a majority vote of its disinterested voting members (meaning those members with no actual or potential conflict of interest) whether the transaction or arrangement is, notwithstanding any actual or potential conflict of interest, in the Corporation's best interest, for the Corporation's own benefit, and whether the transaction or arrangement is nevertheless fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement. Any decision taken by the CSAG or CAP committee to proceed notwithstanding the existence of an actual conflict of interest shall be ratified by the CEO. The deliberations and decisions of the CSAG or CAP committee (as the case may be) shall be recorded and communicated to the BoG.

d. Violations of the Conflicts Of Interest Policy.

(1) If the members of the BoG, CSAG, or CAP committee have reasonable cause to believe a member has failed to disclose any actual or potential conflict 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.

(2) If, after hearing the member's response and after making any further investigation that may be warranted by the circumstances, the BoG, CSAG, or committee determines in its discretion that the member has failed to disclose an actual or potential conflict of interest, it shall take appropriate disciplinary and corrective action., up to and including termination of membership in the Corporation. Such a determination shall be reported to the BoG.

3. Records of Proceedings. The minutes of the BoG, CSAG or CAP committee shall contain:

a. The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or potential conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the decision as to whether a conflict of interest in fact existed; and

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.

4. Compensation.

a. A member of the BoG, CSAG, or CAP committee who receives compensation, directly or indirectly, from the Corporation 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 the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

c. No voting member of the BoG, CSAG, or CAP committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation, either individually or collectively, is prohibited from providing information to the BoG, CSAG, or committee regarding said compensation.

d. If a voting member of the BoG, CSAG, or CAP committee whose jurisdiction includes compensation matters has a family member (as defined in paragraph 1b) who receives compensation, directly or indirectly, from the Corporation, such member shall be considered as having received the compensation himself or herself for purposes of this policy.

5. Annual Statements. Each interested person shall annually sign a CAPF 178, *Conflict Of Interest Statement*, in which he or she affirms that he or she

a. has received a copy of the conflict of interest policy,

b. has read and understands the policy,

c. agrees to comply with the policy; and

d. understands the Corporation is charitable and in order to maintain its federal tax exemption, it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

The signed original CAPF 178 will be provided to the Office of the General Counsel to be maintained IAW CAPR 10-2, *Files Maintenance and Records Disposition*. The member shall be entitled to retain a copy.

6. Periodic Reviews. To ensure the Corporation operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

a. Whether compensation arrangements and benefits are reasonable, based on competent survey information and the result of a transaction in which both parties act independently and on an equal footing; and

b. Whether partnerships, joint ventures, and arrangements with management organizations conform to the Corporation's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes, and do not result in inurement, impermissible private benefit, or in an excess benefit transaction (all as defined by the Internal Revenue Code and the regulations and interpretive guidance promulgated pursuant thereto).

7. Use of Outside Experts. When conducting the periodic reviews as provided for in paragraph 6, the Corporation may, but need not, use outside experts. If outside experts are used, their use shall not relieve the BoG of its responsibility for ensuring that the Corporation conducts periodic reviews.

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Commander