



## **Board of Directors Conflict of Interest Statement**

### **Fiduciary Responsibilities of Board Members**

Serving on a community association board requires meeting two central fiduciary duties:

- **Duty of Care:** Board members must act with the care, diligence, and reasonable inquiry that a prudent person in a similar position would use. This is often called the "prudent person standard" or "business judgment rule." Directors are expected to act in good faith for the best interests of the association and are not liable for honest mistakes if their decisions are rational and well-intentioned.
- **Duty of Loyalty:** Directors must demonstrate undivided loyalty and honesty to the association and its members. It is a breach of this duty if a director acts out of self-interest or with a conflicting interest.

Directors must always act in good faith, prioritize the association's interests, and avoid conflicts of interest or self-dealing.

### **Legal Standards and Conflicts of Interest**

Colorado law requires non-profit board members, including those in homeowners' associations, to act prudently, in good faith, and in the best interest of the association. Sometimes, a board member may offer the association a business opportunity that also benefits themselves. To ensure fairness to the association, Colorado statutes allow such transactions only if certain conditions are met.

A "conflicting interest transaction" includes any contract, deal, or financial relationship between the association and (a) a board member, (b) a related party to the board member, or (c) a company in which the board member has a financial stake—even if it is a minor share or commission-based employment.

### **Disclosure and Approval Process**

Board members are expected to disclose any potential or actual conflicts of interest. If the board determines a conflict exists, the association can proceed with the contract only if one of the following is satisfied:

1. The board fully discloses the financial relationship, and a majority of disinterested board members approve the contract in good faith. The conflicted board member can vote, but the approval must come from a majority without his/her vote. OR
2. The financial relationship is disclosed to the association's members, and the owners vote to approve the contract. OR
3. The contract is found to be fair to the association, as determined by a court if challenged. This condition is only ultimately known after-the-fact by the decision of a court.

Before selecting an approach, the board should consider the appearance and political implications of its decision.

### **Criteria for Allowing Conflicts of Interest**

The Board agrees that a conflict of interest may be permissible if all of the following are met:

1. The arrangement provides better pricing for the association compared to competitive bids for the same services; AND
2. All details are disclosed and documented in meeting minutes to ensure transparency and reference if needed; AND

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3. The conflicted board member is available to answer questions but recuses themselves from voting and leaves the meeting during deliberation and the vote.

#### Handling Covenant Violation Complaints

All director complaints regarding covenant or ACC rule violations must be submitted to the HOA office and handled as with any other resident complaint. Unless authorized by the Board, directors who are the complaining party—except those acting in an official capacity as Director of Covenants or Architectural Control Committee (ACC) Chair—shall not participate in deliberations or decisions related to their complaint, unless otherwise authorized by the Board. However, violations of this guideline do not affect or invalidate the association's ability to enforce covenants, rules, or board decisions.



I have read and agree to abide by the terms of this statement.

Print name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

*This Conflict of Interest Statement is to be reviewed and signed by each Board Director upon appointment and annually following the Annual Meeting. Copies shall be maintained in the HOA office.*