

CHA Board of Trustees
CONFLICT OF INTEREST POLICY

Article I: Purpose

This conflict of interest policy is designed to foster public confidence in the integrity of the California Hospital Association (CHA) and to protect CHA's interest when it is contemplating entering a transaction that might benefit the private interest of a trustee, a corporate officer, the top management or top financial official, a key employee, a person with substantial influence over CHA, or other interested person.

Article II: Definitions

For purposes of this policy, certain terms shall be defined as follows:

Compensation means any payment for services rendered, whether as an employee or independent contractor, and includes direct and indirect remuneration as well as gifts or favors that are more than insubstantial.

Insider means a person with substantial influence over CHA. The following four categories of persons are deemed to have substantial influence over CHA, and therefore are considered "insiders" for the purposes of this policy:

1. Each member of the Board of Trustees.
2. The president and chief executive officer, chief operating officer, and chief financial officer.
3. Key employee. Key employee means an employee whose total annual compensation (including benefits) from the organization and its affiliates is more than \$150,000 **and** who (a) has responsibilities or influence over the organization similar to that of officers, directors, or trustees; **or** (b) manages a program that represents 10% or more of the activities, assets, income, or expenses of the organization; **or** (c) has or shares authority to control 10% or more of the organization's capital expenditures, operating budget, or compensation for employees.
4. Any person who met any of the above definitions at any time during the five years before the proposed transaction.

Interested person means any person described in any of the four categories above or in either of the two categories below.

5. Spouses, ancestors, children, grandchildren, great-grandchildren, brothers, sisters, and the spouses of their children, grandchildren, great-grandchildren, brothers, and sisters of any individual listed in categories 1 – 4 above.
6. Any entity in which any combination of persons listed above in categories 1 – 5 owns more than 35 percent of the combined voting power, if the entity is a corporation; profits or capital interest, if a partnership; or beneficial interest, if a trust or estate.

Interest means any commitment, investment, relationship, obligation, or involvement that may influence a person's judgment, including receipt of compensation from CHA, a sale, loan, or exchange transaction with CHA, and other financial interests (see below), as well as personal, political, social, or professional interests.

A *conflict of interest* is present when, in the judgment of the body or individual determining whether a conflict exists, an interested person's stake in the transaction is such that it reduces the likelihood that an insider's influence can be exercised impartially in the best interests of CHA.

Financial interests include situations where the interested person has, directly or indirectly, through business, investment, or family:

1. An ownership or investment interest in any entity with which CHA has, or proposes to enter into, a transaction; or
2. A compensation arrangement with any entity or individual with which CHA has, or proposes to enter into, a transaction; or
3. A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which CHA has, or proposes to enter into, a transaction.

Person means any individual or entity, including a trust, estate, partnership, association, company, or corporation.

Transaction means any transaction, agreement, or arrangement between an interested person and CHA, or between CHA and any third party where an interested person has an interest in the transaction or any party to it. Transactions specifically identified as presenting no conflict of interest by applicable law, or under a corporate policy adopted by the Board of Trustees to govern certain similar transactions and impartially administered, are excepted from the term transaction for purposes of this policy. Nothing in this policy permits CHA to engage in a transaction prohibited by law.

Article III: Procedures

1. Duty to Disclose

Each interested person shall disclose to the Board, or to the Executive Committee or other Board Committee empowered to approve a specific transaction or type of transaction (“Committee”), all material facts regarding his, her, or its interest (including relevant affiliations) in the transaction. The interested person shall make that disclosure promptly upon learning of the proposed transaction. Insiders shall make disclosures on behalf of interested persons related to them unless the related interested person does so.

2. Determining Whether a Conflict of Interest Exists

With regard to an interested person, the Board or Committee shall determine if a conflict of interest exists. The insider(s) and any other interested person(s) involved with the transaction shall not be present during the Board or Committee’s discussion or determination of whether a conflict of interest exists, except as provided in Article IV below.

3. Procedures for Addressing a Conflict of Interest

The Board or Committee shall follow the procedures set forth in Article IV in order to decide what measures are needed to protect CHA’s interests in light of the nature and seriousness of the conflict, to decide whether to enter into the transaction and, if so, to ensure that the terms of the transaction are appropriate. In the case of an insider who is a director, the director shall not vote on any transaction in which the director has an interest, and the remaining Board or Committee members shall decide the matter.

Article IV: Review by the Board or Committee

The Board or Committee may ask questions of and receive presentation(s) from the insider(s) and any other interested person(s), but shall deliberate and vote on the transaction in their absence. The Board or Committee shall ascertain that all material facts regarding the transaction and the interested person’s conflict of interest have been disclosed to the Board or Committee, and shall compile appropriate data to ascertain whether the proposed transaction is fair and reasonable to CHA.

After exercising due diligence, which may include investigating alternatives that present no conflict, the Board or Committee shall determine whether the transaction is in CHA’s best interest, for its own benefit, and whether it is fair and reasonable to CHA; the majority of disinterested members of the Board or Committee then in office may approve the transaction. Decisions regarding a director with a material financial interest in a transaction may be made initially by a Committee where it is not reasonably practicable to obtain advance Board approval, but must be ratified by the Board at the Board’s next meeting. If the transaction does not involve a director with a material financial interest, the transaction can be approved by the Board or

Committee by majority vote of those present at a meeting for which quorum requirements have been met.

Article V: Records of Proceedings

The minutes of any meeting of the Board and any Committee pursuant to this policy shall contain the name of each interested person who disclosed or was otherwise determined to have an interest in a transaction; the nature of the interest and whether it was determined to constitute a conflict of interest; any alternative transactions considered; the members of the Board or Committee who were present during the debate on the transaction, those who voted on it, and to what extent interested persons were excluded from the deliberations; any comparability data or other information obtained and relied upon by the Board or Committee and how the information was obtained; and the result of the vote, including, if applicable, the terms of the transaction that was approved and the date it was approved.

The records must be prepared by the later of the next meeting of the Board or Committee or 60 days after the final action of the Board or Committee with respect to the transaction, and must be approved by the Board or Committee within a reasonable time afterwards.

Article VI: Annual Disclosure and Compliance Statements

Each director, each corporate officer, the top management official, the top financial official, and each key employee of CHA, and others that CHA may identify, shall annually sign a statement, that:

- affirms that the person has received a copy of this conflict of interest policy, has read and understood the policy, and has agreed to comply with the policy; and
- discloses the person's financial interests and family relationships that could give rise to conflicts of interest,

A Conflict of Interest Disclosure form is attached to this policy. All such statements by Trustees and officers shall be filed with the minutes of the meetings of the Board or Committee; statements by others shall be retained in their personnel files.

Article VII: Past Transactions; Violations

If the Board has reasonable cause to believe that an insider of CHA has failed to disclose actual or possible conflicts of interest, including those arising from a transaction with a related interested person, it shall inform such insider of the basis for this belief and afford the insider an opportunity to explain the alleged failure to disclose. If, after hearing the insider's response and making further investigation as warranted by the circumstances, the Board or Committee determines that the insider has failed to disclose an actual or possible conflict of interest, the Board or Committee shall take appropriate disciplinary and corrective action.

In situations where a transaction involving a conflict of interest is discovered after it has already occurred or begun, the Board or Committee shall conduct a review as described above in Article IV, and determine whether disciplinary or corrective action is possible or warranted. In appropriate cases, the Board or Committee may determine, upon completion of the review, that ratification of the transaction is in CHA's best interest, for its own benefit, and is fair and reasonable to CHA.

Article VIII: Annual Reviews

To ensure that CHA operates in a manner consistent with its status as an organization exempt from federal income tax, the Board shall authorize and oversee an annual review of the administration of this conflict of interest policy.

Article IX: Legal Standards

CHA and its Trustees and officers shall adhere to fiduciary duty and conflict of interest rules imposed by law, including those contained in the Internal Revenue Code and the California Nonprofit Corporation Law.

Version dated February 6, 2009

CJW:jr
Attachment