

**HILLCREST HEALTH SERVICE SYSTEM  
Governance Policy Manual**

**Trustees as Vendors to the Medical Center**

**Policy #: 0004**

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**Purpose:** To establish a process by which the governing boards may evaluate the appropriateness of individual Trustees simultaneously serving (directly or indirectly) in the role of a vendor (“vendor relationship”) to the Hillcrest Health Service System and its Subsidiaries (the “Corporation”).

To avoid any generalization or perception that all director-vendor relationships constitute a conflict of interest or a *per se* violation of the fiduciary Duty of Loyalty; and to enhance the Corporation’s commitment to preserving governance control in a majority of independent Governors/Trustees.

**Policy:** In the context of the diversity of experience of the Board it is recognized that opportunities for vendor relationships may occur from time to time. These relationships do not inherently constitute a breach of fiduciary duty nor create a conflict of interest. Indeed, many such relationships may be in the best interests of the Corporation. For example, it may be appropriate and prudent for the Corporation to contract for the provision of products, goods or services with a Governor/Trustee, or with an entity in which a governor/Trustee has a material financial interest, because of such factors as (a) quality; (b) reliability; (c) favorable pricing; (d) enhanced service; (e) social responsibility; and/or other, similar *bona fide* factors. However, any such contracting approval shall be in a manner consistent with existing Medical Center policy.

It is also recognized, however, that in certain instances such vendor relationships may present interests which conflict with those of the Corporation, jeopardize the ability of the involved Governor/Trustee to exercise objectivity and loyalty to the Medical Center, and otherwise create the appearance of impropriety. Furthermore, a surfeit of vendor relationships may be inconsistent with the Board’s expressed commitment to vest governance control in a majority of truly independent Governors/Trustees.

**Definitions:**

“The Corporation” shall mean Hillcrest Health Service System and its Subsidiaries and all legal entities for which the Corporation shall serve as sole or controlling shareholder, member, partner or in similar capacity.

“Vendor Relationship” shall mean a relationship in which the Corporation contracts with a Governor/Trustee or family member thereof, or with a business enterprise in which a Governor/Trustee or family member thereof has a material financial relationship, for the provision of goods, products or services.

“Family Member” shall mean the Governor/Trustee’s spouse, parents, children, brothers, sisters, mother and father-in-law, sons and daughters-in-law, and brothers and sisters-in-law.

“Material Financial Relationship” shall mean a relationship with an entity with respect to which the Trustee or family member is either an employee, partner, shareholder, member, owner or has such other relationship of a personal or financial nature that, in the determination of the Governance Committee, could in fact or in appearance compromise the Trustee’s objectivity and loyalty to the Medical Center.

### **Standard of Review**

All vendor relationships will be evaluated on a “close scrutiny” standard of review by the Board and, as such, will be subject in each case to the following review process:

Consistent with the duty of candor, it is the obligation of each Governor/Trustee to make full advance disclosure of any potential vendor relationship and seek Board approval of any such relationship in the manner provided under the Board’s Conflict of Interest Policy. In those situations where the Governor/Trustee was unaware of the pending relationship and thus incapable of disclosing the relationship in advance, the obligation shall be to make the required disclosure immediately upon awareness thereof, and seeking ratification of the vendor relationship from the Board. In determining whether to approve or ratify the subject, vendor relationship, the Governance Committee shall consider the following factors, among others:

The materiality of the Governor/Trustee’s personal or financial interest in a relationship with the entity or person proposed to serve as a vendor to the Corporation Center and whether such interest can be expected to affect the objectivity of the Governor/Trustee’s judgment;

- The relative size of the transaction as to which the proposed vendor relationship relates to the total business of the Governor/Trustee or the entity in which he/she or a family member has an interest;
- The nature of the good, product or service that is the subject of the proposed vendor relationship;
- The specific terms and conditions of the proposed vendor relationship, their reasonableness, the presence of any unique benefits or advantages to the Corporation arising therefrom, and the extent to which similar (or more advantageous) terms and conditions are available from other vendors and have been considered;
- The effect of approving the proposed vendor relationship on the Board’s ability to preserve governance control in a majority of independent Governors/Trustees; and
- Such other factors as the Board and the Governance Committee, acting in consultation with the Vice President and General Counsel and consistent with the Corporate Compliance Plan, shall deem prudent to consider.

### **Record of Proceedings:**

The minutes of the Board and of the Governance Committee shall contain:

The names of the Governor/Trustees who disclosed or otherwise were found to have an actual or proposed vendor relationship with the Corporation; the nature of the vendor relationship any action taken to evaluate the implications of the vendor relationship to the Corporation and to its charitable mission, and the decision of the Board or the Governance Committee, as the case may be, as to whether the proposed vendor relationship is approved or ratified.

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 therewith.

**Relationship to Other Policies**

This Policy is to be applied in a manner consistent with (and is not intended to supersede in any manner) any other governance policy or procedure of the Corporation, including but not limited to the Conflict of Interest Policy and the Corporate Compliance Plans. Questions regarding application of these various governance policies shall be addressed to the Vice President and General Counsel.

reviewed: 08/07, 01/09