

# CONFLICT OF INTEREST POLICY

## HAWAII DREAM SERVICE CENTER

The Board of Directors of Hawaii Dream Service Center (the “Corporation”) has adopted this policy on January 8, 2006, to ensure that the affairs of the Corporation are managed without improper conflicts of interest and to fulfill the purposes of the policy, as described below. There are no exceptions to this policy except as otherwise provided by law.

### ARTICLE I

#### PURPOSE

The purpose of this policy is to protect this tax-exempt organization’s interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Corporation or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.

### ARTICLE II

#### DEFINITIONS

Section 2.1. Interested Person: An interested person is any person described below who has a direct or indirect interest, financial or otherwise, in a transaction with the Corporation.

- (1) A director, principal officer, or member of a committee with governing board delegated powers;
- (2) A person who was, at any time during the five (5) year period ending on the date of the transaction involved, in a position to exercise *substantial influence* over the affairs of the Corporation;
- (3) A *member of the family* of an interested person;
- (4) An entity in which individuals described in the preceding categories own more than a 35% interest.

Section 2.2. Definitions.

(1) Conflict of Interest: Conflicts of interest cannot be readily defined. Virtually any situation in which a decision maker—a director, an officer or a staff person—is influenced in a decision within the scope of his or her organizational duties by personal, financial, business or other concerns unrelated to the Corporation’s best interest may present a conflict of interest.

Conflicts of interest may involve direct or indirect interests. For example, a person has an indirect interest in a transaction if another entity in which the person has a material interest, directly or indirectly, through business, investment or family, or in which the person is a general partner, director, officer or trustee is a party to the transaction.

(2) Financial Interest: A person has a financial interest if the person has, directly or indirectly, through business, investment or family:

(a) An ownership or investment interest in any entity with which the Corporation has a transaction or arrangement;

(b) A compensation arrangement with the Corporation or with any entity or individual with which the Corporation has a transaction or arrangement;

(c) A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Corporation is negotiating a transaction or arrangement.

Compensation includes direct and indirect remuneration as well as gifts or favors that are substantial.

A financial or other interest is not necessarily a conflict of interest. Under Section 3.1, a person who has such an interest may have a conflict of interest only if the appropriate governing board or committee decides that a conflict of interest exists.

(3) Substantial Influence: A person is in a position of substantial influence if the person is (a) a voting member of the organization's governing body or (b) is the organization's president, CEO or CFO (or has the powers or responsibilities of these officers) or (c) any other person who may have substantial influence over the affairs of the Corporation in view of the facts and circumstances.

(4) Member of the Family: Members of the family include (a) spouses, ancestors, children, grandchildren, great grandchildren, and spouses of children, grandchildren, and great grandchildren and (b) the brothers and sisters of the individual and their spouses.

### **ARTICLES III**

#### **PROCEDURES**

Section 3.1. Duty to Disclose: In connection with any actual or potential conflict of interest, financial or otherwise, an interested person must disclose the existence of the interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

Disclosure under this section also includes those transactions or arrangements that may present conflicts of interest that do not involve the person making the disclosure.

Section 3.2. Determining Whether a Conflict of Interest Exists: After disclosure of financial or other interest and all material facts, and after any discussion with the interested person, he/she shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists.

Section 3.3. Procedures for Addressing the Conflict of Interest: A conflict of interest transaction shall be addressed as follows:

(1) By the Board or a Committee of the Board: A conflict of interest transaction or arrangement may or may not be approved. A conflict of interest transaction may be approved if the material facts of the transaction and the person's interest are disclosed or known to the board or a committee of the board, and the transaction is authorized, approved or ratified by an affirmative vote of a majority of the directors either on the board or on the committee, who have no direct or indirect

interest in the transaction; provided, that a transaction may not be authorized, approved, or ratified by a single director. Such majority vote of the directors on the board shall constitute a quorum for the purposed of taking action under this section.

The procedures shall be as follows:

(a) An interested person may make a presentation at the governing board or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest;

(b) The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement;

(c) After exercising due diligence, the governing board or 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.

(d) If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Corporation's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination, the governing board or committee shall make its decision as to whether to enter into the transaction or arrangement.

Section 3.4. Violations of the Conflict of Interest Policy: If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts 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.

If, after hearing the member's response and after making further investigation as warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

## **ARTICLE IV**

### **RECORD OF PROCEEDINGS**

The minutes of the governing board and all committees with board delegated powers shall contain the following:

(1) The name of the person or persons who disclosed or otherwise were found to have an interest, financial or otherwise, in connection with an actual or possible conflict of interest, the nature of the interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.

(2) 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, the comparability data obtained, how it was obtained, and what data was relied upon; and a record of any votes taken in connection with the proceedings and who approved.

(3) The terms of the approved transaction, date of approval, and any action taken with respect to those members who had a conflict of interest in the transaction.

Such documentation must be prepared by the next meeting of the governing body and the body must review and approve the record as being reasonable, accurate and complete within a reasonable time thereafter.

**ARTICLE V**  
**COMPENSATION**

(1) A voting member of the governing board who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

(2) 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.

(3) No voting member of the governing board or any 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 any committee regarding compensation.

**ARTICLES VI**  
**ANNUAL STATEMENTS**

Each director, principal officer and member of a committee with governing board delegated powers shall annually sign a statement, which affirms such person:

(1) Has received a copy of the conflict of interest policy.

(2) Has read and understands the policy;

(3) Has agreed to comply with the policy; and

(4) 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.

Additionally, each director, principal officer and member of a committee with governing board delegated powers shall disclose in such statement any transaction or relationship involving possible conflicts of interest in regard to the Corporation.

**ARTICLE VII**  
**PERIODIC REVIEW**

To ensure the Corporation operates in a manner consistent with its 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:

(1) Whether compensation and other arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.

(2) Whether partnerships, joint ventures, and arrangements with management corporations 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 are in excess benefit transaction.

## **ARTICLE VIII**

### **USE OF OUTSIDE EXPERTS**

When conducting the periodic reviews as provided for in Article VII, the Corporation may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the governing board of its responsibility for ensuring periodic reviews are conducted.