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## Ethical Conduct—In General

As a nonprofit organization at the forefront of promoting ethics in public service, the Institute for Local Government applies the highest standards to its own conduct and those who serve the Institute. This policy supplements state and federal laws governing conflicts of interest and fiduciary duties for those who serve nonprofit organizations. It also supplements the provisions of article VI, section 4 of the Institute's bylaws and California law relating to loans and self-dealing transactions, as well as the board's whistleblower protection policy.

The Institute's funders, donors and volunteers support the Institute because they trust us to be good stewards of their resources and to observe the highest standards of conduct. Our commitment to and reputation for integrity requires careful observance of all applicable laws and regulations as a minimum standard. We also aspire to the highest standards of conduct and personal integrity above and beyond the minimum requirements of the law.

The Institute will comply with all applicable laws and regulations and expects its directors, officers, employees and contractors (collectively referred to in this policy as the "Institute Team") to:

- Conduct business in accordance with the letter and spirit of all relevant laws;
- Refrain from illegal, dishonest, or unethical conduct;
- Act in a trustworthy manner; and
- Treat others with respect.

In general, good judgment based on the values of trustworthiness, responsibility, respect, fairness and loyalty will define acceptable conduct. If a situation arises where it is difficult to determine the proper course of conduct or where there are questions concerning the propriety of certain conduct, the matter should be brought to the attention of the Institute's director, or if appropriate, board of directors.

Should questions arise regarding whether the Institute's standards have been met, a member of the board is encouraged to raise the issue so that the board can discuss and resolve the issue, except that any individual whose conduct is at issue will not participate in such decisions.

# Ethics Policy

## General Duties

1. **Fiduciary Duty.** As decision-makers for the Institute, members of the Institute's board of directors must discharge their duties in good faith, with the degree of care that an ordinarily prudent person in a like position would exercise under similar circumstances. This requires using common sense, being diligent and attentive to the Institute's needs, and making thoughtful decisions in the Institute's best interest.
2. **Safeguarding Confidential Information.** The Institute is committed to transparency and openness in its operations. There may be situations, however, when some information will be confidential. Members of the Institute Team are expected to protect confidential information relating to the Institute. "Confidential information" is information obtained through one's position with the Institute that is not public information. Team members must not use confidential information for their personal benefit or to the detriment of the Institute.
3. **Duty of Loyalty.** Members of the Institute's Team owe a duty of loyalty to the Institute. This requires that, in serving the Institute, Team members act and make decisions solely in the Institute's best interest on any given matter. No Institute Team member may take personal advantage of a business opportunity that is offered to the Institute unless the Institute's board of directors first determines not to pursue such opportunity.

## Conflicts of Interest

1. **Defined.** A conflict of interest arises when an Institute Team member has an existing or potential material interest in a transaction that impairs or might appear to impair, that person's independence or objectivity in the discharge of responsibilities and duties to the Institute.
2. **Scrutiny of Team Members' Interests in Institute Transactions**
  - a. **Transactions Subject to Particular Scrutiny.** An Institute Team member has an interest in a proposed or existing transaction<sup>1</sup> if he or she (or a relative):
    - i. Holds a position as trustee, director, officer, member, partner, or employee in another organization that a) is a party to the proposed or

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<sup>1</sup> For purposes of this policy, a "transaction" includes (a) contracts of sale, lease and licensing, and performance of services, whether entered into in the current year or ongoing from a prior year, and/or (b) joint ventures between the Institute and other organizations or individuals.

- existing transaction; or b) is in any way involved in the proposed or existing transaction, including through the provision of services; or
    - ii. Has a material financial interest or relationship with another organization that a) is a party to the proposed or existing transaction; or b) is in any way involved in the proposed or existing transaction, including through the provision of services; or
    - iii. Has a financial interest in the proposed or existing transaction.
  - b. **Materiality Threshold.** An Institute Team member's financial interest will be considered material if it involves:
    - i. An ownership or investment interest in an organization that represents more than one percent of the outstanding shares of a publicly-traded company or five percent of the outstanding shares or comparable interest of a privately-owned company; or
    - ii. An ownership or investment interest in an organization that produces income for or constitutes part of the net worth of the Institute Team member (or their relative); or
    - iii. A compensation arrangement of any kind.
- 3. **Disclosure of Interest and Participation in Meeting.** When at any meeting or other occasion at which a decision to purchase, or to consider the purchase of goods or services, or the selection of depository of funds, or furnishing of insurance or the employment of professionals, or other comparable transaction, is to be made, the party having the financial interest shall state, and there shall be recorded in the minutes or other record, the fact of his or her financial interest. Having made the disclosure, the interested party may participate in the discussion, his or her presence may be counted in determining a quorum, but he or she will abstain on the question.
- 4. **Decision and Record of Decision.**
  - a. **Decision.** The board may approve the transaction only if it determines, after reasonable investigation, that the transaction is fair and reasonable to the Institute and a more advantageous transaction is not available to the Institute from another source.
  - b. **Minutes of Meeting.** As part of the record of the decision on the transaction, the minutes will reflect the following:
    - i. The names of those with a conflict of interest;

- ii. The nature of the interest;
- iii. The extent of investigation of alternatives to the transaction;
- iv. The basis for any board determination that the transaction is in the best interest of and fair and reasonable to the Institute; and
- v. A record of the votes taken in connection with the transaction.

## Co-Investment Interest

1. **Defined.** A “co-investment interest” arises when an Institute Team member or their relative has personal funds invested with
  - a. An investment manager providing, or expected to provide, investment management services to the Institute or
  - b. A professionally managed investment fund in which the Institute is invested or is considering investing. A “professionally managed investment fund” does not include mutual funds or other similar investment vehicles generally available to the investing public on essentially the same terms.
2. **Disclosure.** Institute Team members must disclose co-investment interests in writing to the chairs of the board and finance committee. Such disclosure shall include all material facts, including, but not limited to, fee arrangements and any preferential treatment received not available to others.
3. **Scrutiny.** The finance committee shall determine what, if any, corrective action is required with respect to the co-investment interest, including, but not limited to, terminating the investment relationship or seeking an adjustment in fee structure. The individual who discloses a co-investment interest may make a presentation and respond to questions from the committee but shall not be present during the discussions of, and vote on, how to address the co-investment interest.

## Failure to Disclose

1. **Notification.** If a member of the Institute Team has reason to believe that someone has failed to disclose a conflict of interest or co-investment interest within the meaning of this policy, that person shall inform the board.
2. **Opportunity to Explain.** The board shall inform the individual in question of the basis for such belief and afford the individual an opportunity to explain the alleged failure to disclose.

3. **Determination.** If, after hearing the response of such individual and making such further investigation as may be warranted in the circumstances, the board determines that the individual has in fact failed to disclose a conflict of interest within the meaning of this policy, it shall take appropriate disciplinary and corrective action.

## **Annual Statement**

1. **General Obligation.** Each Institute Team member has a duty to place the Institute's interests first and a continuing responsibility to comply with the requirements of this policy.
2. **Familiarity with Policy.** Promptly following the adoption of this policy and on upon joining the Institute Team, each team member shall acknowledge his or her familiarity with this policy.
3. **Disclosure of Interests.** Promptly following the adoption of this policy and every January 1 thereafter, Institute Team members shall disclose in writing to the board chair any transactions or co-investment interests subject to this policy by completing a Disclosure Statement.
4. **Review.** The board chair shall review disclosure statements. Any issues not previously disclosed shall be referred to the board or appropriate committee.
5. **Records Retention.** The disclosure statements shall be retained in the Institute's records for at least one year following the individual's ceasing to be a member of the Institute Team.

*Approved January 29, 2010*

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