

## Lesson 1: Exploring the Meaning of Fiduciary Responsibility

### Task #1

In researching the meaning of fiduciary responsibility, it seems the terms fiduciary responsibility and fiduciary duty are interchangeable. The most consistent meaning for fiduciary responsibility/duty is the obligation that one party has in relationship with another to act entirely on the other party's behalf and best interest.

Fiduciary responsibility/duty concerns Rotary from its clubs to Rotary International (RI) itself. Rotary clubs, districts and RI are made up boards, directors and trustees. The board members, directors and trustees have a duty to act with care and in the best interests of Rotary and its mission.

There are at least four and more categories of fiduciary duty. They are as follows: Duty of Care, Duty of Loyalty, Duty to Act in Good Faith, Duty of Obedience and Duty to Report. It could be stated that the duties of care, loyalty, acting in good faith, obedience primarily apply to club officers and their responsibility/relationship to the club. The Duty to Report applies to all club members.

**Duty of Care** means that board officers must give the same care and concern to their board responsibilities as any prudent and ordinary person would. They can fulfil their responsibilities by overseeing and monitoring the club's activities. The board must be willing to question expenditures and examine variances.

**Duty of Loyalty** means the board must place the interests of the organization ahead of their own interest at all times.

**Duty to Act in Good Faith** means that officer, directors and trustees must act with honesty, good faith and fairness when handling their obligations.

**Duty of Obedience** means the board has the responsibility to ensure organization is complying with all applicable state and federal laws. Furthermore officers, directors and trustees must carry out their duties within the scope of their delegated authority under the law and the applicable governing documents.

**Duty to Report** means any person who reasonably believes that a minor is or has been the victim of physical injury, abuse, child abuse, a reportable offense that appears to have been inflicted on the minor by other than accidental means or that is not explained by the available medical history as being accidental in nature.

For the purposes of this subsection, "person" means: The parent, stepparent or guardian of the minor; Any other person who has responsibility for the care or treatment of the minor.

a. Reports shall be made immediately either electronically or by telephone. The reports shall contain the following information, if known:

1. The names and addresses of the minor and the minor's parents or the person or persons having custody of the minor.
2. The minor's age and the nature and extent of the minor's abuse, child abuse, physical injury or neglect, including any evidence of previous abuse, child abuse, physical injury or neglect.
3. Any other information that the person believes might be helpful in establishing the cause of the abuse, child abuse, physical injury or neglect.

b. A person who violates this section is guilty of a class 1 misdemeanor, except if the failure to report involves a reportable offense, the person is guilty of a class 6 felony.

When comparing the Rotary 4-Way Test against categories of fiduciary responsibility/duty, I see a common theme, which are truthfulness, fairness, goodwill and acting in good faith to the benefit of all concerned.

## Task #2

Fiduciary Impact on the following:

**Club's major fundraiser.** The fiduciary must manage the club's assets responsibly. This can be done by adhering to the Duty of Care. The fiduciary must be able to question expenditures. An overcharge must be questioned as it violates the Duty of Care and shows a lack of concern for the club's financial assets. Regarding the inappropriate use of a donation, this would be a violation of the Duty of Obedience. Club officers would be violating this duty because they are failing to comply with the donor's restrictions on pledges and donations.

**District Simplified Grant.** Based on the example, a club could be justified in asking for the difference between the grant and the actual expenditure. But before requesting a return of the difference, I would seek guidance from the District Grant Committee regarding the charity's diversion of some of the grant funds to meet another need. If the district said no to the diversion and per the District grant policy, the club would need to inform the charity to return the difference between the initial grant and the actual expenditure. The amount to be returned would be \$900.00.

**RI Matching Grant.** The local club must exercise its fiduciary responsibilities, which means the board must act with care and in the best interest of the club, district and Rotary International. Based on the information provided the South American district is not acting with honesty, good faith and fairness. In other words, they are violating their fiduciary responsibilities and the 4 Way Test. As to what to do, the club needs to inform their AG and the District about the overall lack of cooperation and stonewalling coming from the South American district. At some point, Rotary International will have to be informed.

## Task #3

### Rotary Insurance

Local club board members are generally protected from individual liability by the business judgement rule and non-profit shield laws. A board member that properly exercises his or her fiduciary duties will be able to use this fact as a defense against personal liability in the event of a lawsuit. This is known as the business judgement rule.

However, board members can be held personally liable for actions of the board they sit on. For peace of mind, Rotary clubs and districts should carry Director and Officers (D&O) insurance. Rotary provides active U.S. clubs with general liability and D&O/employment practices liability insurance. The insurance is financed by insurance assessments collected from U.S. clubs and districts on the July invoice.

Regarding the question who would report the activity, at the club level it is likely going to be the president, but I believe the secretary and the treasure would be involved, too.

#### Task #4

##### TRF Cadre of Technical Advisors

Enlisting the assistance of a TRF Cadre advisor could benefit a club that seeks to do a grant project. The Cadre advisor would assist in the project planning and implementation; community assessments; incorporating elements of sustainability; aid in monitoring and evaluation plans; answer questions about Rotary's Areas of Focus and the club with financial management best practices. Having a Cadre advisor on board would help a club ensure that projects being funded by TRF grants are being used properly and in accordance with the terms and conditions for Rotary grants.