

Fiduciary Responsibility of HOA Boards and its Six Core Principles

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If you've ever been an HOA Board member or attended an HOA meeting, you have probably heard the term *fiduciary responsibility*. What is that, and why is it important? It is a legal and ethical obligation where one party (the fiduciary) is required to act in the best interests of another party (the beneficiary) rather than their own, avoiding conflicts of interest and prioritizing the beneficiary's needs.

There are six core principles to being a fiduciary. They are Duty of Care, Duty of Loyalty, Duty of Obedience, Duty of Prudence, and Duty of Disclosure. Let's examine each of these principles in more detail.

Duty of Care. Definition: Exercise the same care and concern in board service as any prudent person would in managing their own affairs. Key requirements of this principle are:

- Attend and actively participate in board meetings.
- Serve on at least one committee.
- Monitor budgets and financial reports.
- Participate in strategic planning.
- Oversee programs and activities.

Duty of Loyalty. Definition: Place the organization's interests ahead of personal or professional interests. Key requirements of this principle are:

- Avoid conflict of interest.
- Never use a board position for personal gain.
- Support board decisions once made.
- Maintain organizational unity.
- Act in the organization's best interest.

Duty of Obedience. Definition: Ensure the organization complies with all laws and regulations while adhering to its purpose. Key requirements of this principle are:

- Follow the organization's bylaws.
- Ensure compliance with applicable laws and regulations.
- Stay true to the organization's purpose.
- File required reports and documents.

Duty of Confidentiality. Definition: Protect privileged or sensitive information. Key requirements of this principle are:

- Keep board discussions private.
- Protect sensitive information.
- Maintain confidentiality.
- Safeguard employee information.
- Never use internal information for personal benefit.

Duty of Prudence. Definition: Exercise caution and wisdom in decision-making and risk management. Key requirements of this principle are:

- Make informed decisions.
- Consider long-term implications.
- Assess risks before acting.
- Approve expenditures wisely.
- Maintain professional standards.

Duty of Disclosure. Definition: Be forthright with information that could impact board decisions. Key requirements of this principle are:

- Report potential conflicts of interest.
- Share relevant information.
- Communicate concerns promptly.
- Be transparent about relationships.
- Disclose any personal benefit.