

Nonprofit Boards Bring Personal Reward and Risk



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Serving on a non-profit board for your homeowner association or favorite local charity is a rewarding way to give back to your community. However, have you ever considered the potential liability hazard? What would happen if the board is sued? Are your personal assets at risk?

Many nonprofit organizations do not carry adequate limits to protect their directors and officers. Faced with the tough economy and the need to cut costs, many nonprofit boards have voted to keep their coverage - but reduced their limits. However, if coverage limits are exhausted due to a liability lawsuit, board members can be held personally responsible for the remaining judgment amount and/or legal fees.

What Could Happen?

It may seem unlikely that a lawsuit would be brought against the nonprofit organization on whose board you serve. However, keep in mind that a suit can be brought against the organization even if the charges are completely unfounded. The board may have followed every rule to the letter, but if someone sees things differently or simply has an axe to grind, a costly lawsuit can be brought against your organization.

A board can be sued for a wide of range of issues. You may be faced with an unhappy homeowner, a disgruntled former employee or a vendor claiming licensing infringement. Below are some real life examples that demonstrate just some of the situation that can arise.

The board of a condominium association was sued by an applicant who was denied approval to purchase a unit. He claimed the board discriminated based on sexual orientation. As the conflict developed, the applicant added a defamation count to the lawsuit, increasing the legal fees and possible judgment significantly.

The board of a nonprofit organization, created to raise money for the city's library was sued by the city. The city sued to recover over \$2,000,000 when it was discovered that the board had voted to allocate funds to an additional nonprofit organization.

The U.S. Dept. of Justice brought suit, alleging misappropriation of funds and failure to revert unused money back to the government when a nonprofit organization received a federal grant and allegedly used leftover funds to renovate their office space.

How can you protect yourself?

Fortunately, insurance carriers have created the Nonprofit Directors and Officers Liability endorsement that can protect you. These comprehensive carriers recognize that your insurance needs extend beyond the basics and have coverages that respond to your personal exposures.

We can add Nonprofit Directors and Officers Liability coverage onto your Personal Excess Liability policy beginning at \$1,000,000 and some carriers provide much higher limits. This endorsement provides:

- Mismanagement of funds
- Discrimination
- Wrongful termination
- Harassment
- Libel & Slander
- Copyright infringement

What about the legal costs?

Defense costs, which can be substantial, are paid outside of the coverage limit. This means that the legal expenses will not exhaust your policy limits. Defense costs are covered whether or not the suit is found to be valid and do not end when or if a claim reaches the policy limit.

Put your mind at ease

Serving on a board for a museum, religious organization or other charitable group can be an enriching experience. Nonetheless, a bit of due diligence is wise. Be sure you are aware of what you are responsible for and what you can do to mitigate any personal risk. There are options available to allow you the pleasure of the community service without exposure of your personal net worth.