



## CASE files

# How Risky Is Your Special Event?

*If you're not careful, your special event could cost far more than it generates.*

BY MELANIE L. HERMAN

**H**ome Again, a program for homeless teens, holds an annual variety show to raise funds.<sup>1</sup> Local musicians donate their time and talents, and dozens of volunteers participate. Started with just a few entertainers, it has become an event attended by thousands and is held in a city park.

This year, a volunteer was helping performers prepare their equipment when he tripped over an electrical conduit. It was a temporary conduit installed by the electrical contractor who set up the amplification system for the event.

The volunteer fell off the stage, injuring his back and breaking his left arm. He sued Home Again, the city, and the electrical contractor. The city's attorney tendered the city's defense to Home Again, claiming that the nonprofit was responsible for paying the damages demanded from both the nonprofit and the city.

### The Investigation

The nonprofit's insurer looked into the matter and determined that the city was right in shifting its responsibility to the nonprofit. The reason? Before it let Home Again use

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the park, the city had required Home Again to sign a contract. That agreement stated that Home Again was responsible for any harm resulting from the event. In addition, the contract had required Home Again to name the city as an "additional insured" on its general liability policy, and Home Again had done so. Thus, Home Again had to provide defense and indemnity for the city as well as for itself.

The investigation showed that the electrical contractor was completely responsible for the unsafe placement of the wiring. Unfortunately, the electrical contractor was uninsured and didn't have sufficient assets to pay for the damages.

The inquiry also revealed that the electrical contractor was a friend of one of Home Again's board members. He had agreed to provide his services at a discounted rate. The nonprofit

had failed to ask for a certificate of insurance. If they had done so, they would have discovered that the electrician was uninsured.

### The Outcome

Home Again's insurer paid all the damages related to this claim—\$35,000 in legal fees and \$150,000 for medical bills and pain and suffering. Home Again realized that getting a reduction of \$1,300 in the cost of electrical work turned out to be a very bad deal for them. They will pay higher insurance premiums for many years to cover the costs of their decision.

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## Loss Prevention Analysis

Landlords often try to shift responsibility to temporary users of their property. And sometimes it makes sense for the nonprofit to take this risk. But many nonprofits sign contracts without fully reviewing or understanding the provisions. As a result, a nonprofit can assume responsibility for events that far exceed its ability to prevent harm.

Also, since an “additional insured” endorsement can be obtained without additional charge (or a nominal charge) to the insured (here, the nonprofit Home Again), some nonprofits wrongly believe that these endorsements don’t cost them anything. It’s important to understand that having “additional insureds” on your policy can mean that your policy must respond to claims filed against another organization. This may needlessly expose your organization. What if you face a subsequent claim but the limit of liability has been depleted?

As regards the electrical contractor, Home Again learned an expensive lesson. Individuals and businesses providing services to nonprofits must be able to bear the cost of any harm they cause. Obtaining a certificate of insurance is a minimum requirement. When possible, or when the job is sizable, such contractors should name the nonprofit as an “additional insured” on their own insurance policies.

## Risk Management Strategies

**1. Never assume responsibility** for something over which you have no control. Don’t let your zeal to use a facility color your judgment. True co-sponsors should share liability in proportion to their degree of control over the event. Don’t allow an undue burden to be placed on your organization.

**2. Review the terms** of any contract governing lease, rental, or use of a facility. Consult legal counsel about the terms of the contract. Make certain that any burden-shifting provisions are narrowly tailored and appropriate to the circumstances.

**3. Scrutinize any requests** to add landlords or others as “additional insureds” on your insurance. Always consider the potential consequences of adding other organizations to your coverage.

**4. Before selecting a location** for a special event, review it from an attendee’s perspective. Does the site present any unusual hazards? Do the types of people attending (such as children, the elderly, or people with disabilities) create special concerns?<sup>2</sup>

**5. Outline each party’s responsibilities** in a written document. Such a “memo of agreement” helps avoid assumptions about who is responsible for each aspect of the event. Consider creating event-focused job descriptions for key representatives. You may also want to hold joint training or orientation sessions to clarify everyone’s role.

**6. Document each partner’s insurance requirements.** Determine what insurance coverages and limits each party should have, including the inclusion of “additional insureds” or “named insureds.” Require each party to provide the other with certificates of insurance and copies of “additional insured” endorsements.

## The Lesson

Special events are often held at locations unfamiliar to the nonprofit. Even when the “rent” is minimal, you may be asked to sign a contract and to name the facility owner as an

“additional insured” on your insurance policy. While doing so may be appropriate, proceed with caution. And, while discounted services may seem like a great deal, consider the consequences if that contractor is uninsured.

Before signing any contract, discuss it with your attorney and your insurance professional. Doing so will be time well spent if anyone is hurt while attending, working at, or traveling to or from your special event. ■

### Footnotes

<sup>1</sup>The name of this organization is fictional, but the factual description of the claim is based on an actual claim at the Nonprofits’ Insurance Alliance of California (NIAC).

<sup>2</sup>See *Volunteer Liability and Risk Management*, available from the Society’s Resource Center, 800-424-7367, [www.snpo.org](http://www.snpo.org).

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*This column is dedicated to helping readers understand typical claims filed against nonprofit organizations and the risk management steps that could have made a difference in each instance. The scenarios featured in this column are adapted from actual claims files at the Nonprofits’ Insurance Alliance of California (NIAC) and the Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG). NIAC and ANI-RRG are part of a group of 501(c)(3) insurers owned and governed by nonprofits. For more information, visit [www.insurancefor nonprofits.org](http://www.insurancefor nonprofits.org) or call 800-359-6422.*

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