GARY R. WHITE
KRISTEN D. BEAR
WILLIAM P. ANKELE, JR.
JENNIFER GRUBER TANAKA
CLINT C. WALDRON
KRISTIN BOWERS TOMPKINS
ROBERT G. ROGERS

WHITE BEAR ANKELE TANAKA & WALDRON
ATTORNEYS AT LAW

SEAN ALLEN
GEORGE M. ROWLEY
NEIL RUTLEDGE
BRENT E. BUTZIN
ZACHARY P. WHITE
BOBBY D. GREENE
SILVIA FEJKA
MEGAN L. TAGGART

MEMORANDUM

TO: Board of Directors
Greatrock North Water and Sanitation District ("District")

FROM: WHITE BEAR ANKELE TANAKA & WALDRON
Attorneys at Law

RE: Crime Coverage, Fidelity Bonds and Designated Agent Endorsements

DATE: January 14, 2015

As the insurance renewal season approaches, an area on which we recommend you pay particular attention is that of crime coverage, fidelity bonds and designated agent endorsements. These coverages provide protection to the District for the dishonest acts of employees and consultants relating to public funds (e.g. theft, fraud, embezzlement). This memorandum addresses the available coverages and their purposes.

1. **Crime Coverage**.

Crime coverage, such as the Special District Property and Liability Pool's ("Pool") coverage, is intended to insure the District against the dishonest acts of its employees. Directors are considered employees for crime coverage purposes. The standard coverage for Pool policies is $5,000 and the annual premium is approximately $125 per year. This amount may need to be increased to sufficiently cover the District against potential losses related to the dishonest acts of employees, dependent, in part, on employee access to District funds. For example, if employees have no access to District bank accounts, service fees paid by customers, or other District monies or revenue, then the Board of Directors ("Board") may determine lower limits are sufficient; however, if employees have access to bank accounts, service fees paid by customers, or other District monies or revenue, then the Board may determine that increased coverage is warranted to ensure the District is adequately protected.

The Pool has provided the premiums associated with several tiers of coverage for budgeting purposes. The premiums listed below are for districts with 0-24 employees and are not dependent upon the District's budget. If the District has more employees, the premium will be higher.

Crime Limit	Annual Premium
$100,000	$562
$250,000	$891
$500,000	$1,426
$1,000,000	$1,750

2. **Third Party Fidelity Bonds**.

If the District engages contractors or consultants who have access to District funds (e.g. accountants, managers, billing services), then the District should require the contractor or consultant to provide the District with a third party fidelity bond. The District does not need to be named as an additional insured on the bond to receive protection. However, it should be noted that the District's coverage under such bond is limited to the amount of the bond, and in the event other clients are impacted by a contractor's or consultant's dishonest acts, the aggregate coverage available to all affected parties is likewise limited to the amount of the bond. Therefore, the total loss or damage to the District may not be covered unless the bond is of an amount sufficient to cover these contingencies.

There are several nuances to third party fidelity bonds which should be noted. It is important that this bond be specified to be "third party." Without this designation, the bond protects only the company itself, and does not extend protection to third parties, such as the District. Note that employee dishonesty coverage is not the same as a third party fidelity bond, as employee dishonesty coverage only protects the company for which the employee works, not any clients of the company. Also, third party fidelity bond coverage provides protection only for the acts of the employees of the company, not the owner/partner of the company. For example, if an accountant providing services to the District is the owner/partner of the company, then third party fidelity bond coverage provides no protection to the District for the owner/partner's act (only their employees) and there are no endorsements available to the owner/partner for this protection. In this instance, a designated agent endorsement (discussed below) is recommended in addition to the third party fidelity bond.

3. **Designated Agent Endorsement**.

If the District engages a contractor or consultant who has access to District funds (e.g. accountants, managers and billing services), and the owner/partner of that company performs services for the District, then it is recommended that the District add a designated agent endorsement ("DA Endorsement") to its crime coverage policy. The DA Endorsement provides coverage to the District for the dishonest acts of an owner/partner of a contractor or consultant providing services to the District. The DA Endorsement must name each person performing work for the District and the company is required to complete a questionnaire in order for the endorsement to be issued. The amount of the DA Endorsement premium will be determined by the insurance company after internal review of the questionnaire but will be a minimum of $350. Upon issuance of the DA Endorsement, the owner/partner listed thereon receives coverage under the District's crime coverage policy and is treated as an employee for coverage purposes. The District's crime coverage limits should be determined based on the potential exposure the District has collectively.

4. **Recommendation**.

Due to the increased exposure to potential fraud, theft, embezzlement and other dishonest acts related to public funds, district insurance brokers recommend binding and requiring coverage sufficient to cover the exposure. The recommended type and amount of coverage depend on the particular facts and circumstances and the potential exposure to risk. The following table sets forth the recommended coverages based upon circumstances:

Type of Coverage	Employees	Contractors (not owner/partner)	Contractors (owner/partner)
Crime Coverage	Yes	No	No
Third Party Fidelity Bond	N/A	Yes	Yes
DA Endorsement*	N/A	N/A	Yes

*A DA Endorsement requires crime coverage be in place but the limits can be applied to both so that the limits are not duplicated. For example, if you have $50,000 in crime coverage and a DA Endorsement, the owner/partner listed in the DA Endorsement is treated as an employee under the crime coverage policy and his/her actions are covered under that policy's limit.

For districts with employees and contractors, it is advisable to have the crime coverage plus the third party fidelity bond. If the owner/partner of the contractor performs services for the District, it is advisable that a DA Endorsement also be added. Therefore, there are many instances in which all three coverages are advisable.

With regard to the coverage amounts, it is recommended that the District consult with its manager, accountant, legal counsel and insurance broker to determine the potential exposures and recommended limits to protect the District from potential dishonest acts.