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MEMORANDUM

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

FROM: WHITE BEAR ANKELE TANAKA & WALDRON
Attorneys at Law

RE: Crime Coverage, Fidelity Bonds and Designated Agent Endorsements

DATE: November 4, 2014

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 employee dishonesty and/or contractor fraud, theft, etc., relating to public funds. Based upon the particular circumstances and needs of the District, one coverage may be more applicable and/or advisable. This memorandum addresses the available coverages and their purposes.

1. **Crime Coverage**.

Crime coverage, such as the Special District Property and Liability Pool's (the "Pool") coverage, is intended to insure the District for its employees and their dishonest acts. Directors are considered employees for crime coverage purposes. The standard/basic coverage for Pool policies is $5,000 and the annual premium is approximately $125 per year. This amount may need to be increased to an amount sufficient to cover the District in the event an employee embezzles funds, etc. Any district with employees should consider crime coverage to ensure it is properly protected. Depending on the employee's access to District funds will determine the recommended limits. If the employee is an operator who has no access to funds, fees paid by customers, etc., then the limits can be lower; however, if the employees have access to any revenues, bank accounts, etc., of the District, then the amount should be increased accordingly so that the District has sufficient coverage in the event of a dishonest act by the employee(s).

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. These are:

Crime Limit	Annual Premium
$100,000	$504.95
$250,000	$810.95
$500,000	$1,275.50
$1,000,000	$1,476.08

2. **Third Party Fidelity Bonds**.

If the District engages contractors or consultants who have access to District funds (i.e. accountants, managers and 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 is only to the extent of the amount of the bond and, in the event other clients are impacted by the contractor's act, then the coverage is applicable to all affected parties and the total 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 it also only protects the company for which the employee works, not any clients of the company. Third party fidelity bond coverage provides protection only for the acts of the employees of the company, not the owner/partner of the company. Therefore, if the accountant providing services to the District is the owner/partner of the company, then this 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 is recommended in addition to the third party fidelity bond to cover the owner/partner's acts.

3. **Designated Agent Endorsement**.

If the District engages contractors or consultants who have access to District funds (i.e. accountants, managers and billing services), and the owner/partner of that company performs services for the District where they have access to public funds, then it is recommended that the District add a designated agent endorsement ("DA Endorsement") to its crime coverage. The DA Endorsement provides coverage for the District for the owner/partner and its action(s). The DA Endorsement does not have to name each person performing work for the District but it is required to name the company and the company is required to complete a questionnaire in order for the endorsement to be issued. The amount of the crime coverage, together with the DA Endorsement, should be determined based on the potential exposure the District has collectively.

4. **Recommendation**.

Due to the increased exposure to potential fraud, theft, embezzlement, etc., of public funds, district insurance brokers recommend having sufficient coverage for this exposure. The recommended types of coverage depend on the circumstances and the amount of coverage depends on the potential exposure 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 (and premiums) are not duplicated. For example, if you have $50,000 coverage, this can be for both the crime coverage and the DA Endorsement and provides $50,000 coverage for either District employee or contractor actions, or both, up to that amount.

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 and/or legal counsel to determine the potential exposures and recommended limits to protect the District from potential crimes.