

Community Association Insurance Proposal

Designed For:

**AUTUMN HEIGHTS CONDOMINIUM
OWNERS ASSOCIATION, INC.**

Prepared by:

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Senior Vice President*

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Account Executive*

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Commercial Lines Account Manager*

August 17, 2005

NO COVERAGE IS PROVIDED BY THIS PROPOSAL, nor can it be construed to replace any provision of your policy. **YOU SHOULD READ YOUR POLICY** for complete information on the coverage you are provided. If there is any conflict between the policy and this summary, **THE PROVISIONS OF THE POLICY SHALL GOVERN.**

We are pleased to provide you with this **proposal**. This is a convenient coverage summary, not a legal contract. This proposal is provided to facilitate your understanding of your insurance program. Please refer to the actual policies for specific terms, conditions, limitations, and exclusions that will govern in the event of loss.

In evaluating your exposures to loss, we have been dependent upon information provided by you. If there are other areas that need to be evaluated prior to binding of coverage, please bring these areas to our attention. Should any of your exposures change after coverage is bound, such as beginning new operations, hiring employees in new states, buying additional property, etc., please let us know so proper coverage(s) can be discussed.

While we will strive to place your insurance with reputable, highly rated companies, we cannot guarantee the financial stability of any insurance company.

This proposal is valid for 30 days. **This is not a binder of insurance.**

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Your Service Team

When you have changes in insurance, require claim service, and/or have questions, our team of professionals are qualified and prepared to assist you.

| | |
|--------------------------------|--|
| PRODUCER: | BOARD MEETINGS, ANNUAL MEETINGS, COVERAGE QUESTIONS |
| Andrew W. Cobb, CIC | 719-477-4277 acobb@vgic.com |
| ACCOUNT EXECUTIVE: | NEW BUSINESS QUOTES, COVERAGE QUESTIONS |
| Linda A. Engle, CIC, AAI, CPSR | 719-477-4272 lengle@vgic.com |
| ACCOUNT MANAGER: | RENEWAL QUESTIONS, POLICY CHANGES, ACCOUNTING |
| Mary Russo, CISR | 719-477-4243 mrusso@vgic.com |
| ACCOUNT ASSOCIATE: | CERTIFICATES OF INSURANCE |
| Kathy Walker | 719-477-4282 kwalker@vgic.com |
| Terri Williams | 719-477-4266 twilliams@vgic.com |
| PERSONAL LINES: | QUOTATION OF PERSONAL POLICIES |
| Vincent M. Ciulla | 303-217-7707 vciulla@vgic.com |
| CLAIMS: | REPORTING OF CLAIMS |
| Kim Walsh | 719-477-4242 kwalsh@vgic.com |

Toll-Free Service Number

1-877-855-8442

Note:

It is Van Gilder Insurance Corporation's policy not to follow up on premium/payments due, late notice or non-payment cancellation notices.

COMMUNITY ASSOCIATION PROPOSAL

I. NAMED INSURED: **AUTUMN HEIGHTS CONDOMINIUM OWNERS ASSOCIATION, INC.**

II. PROPERTY:

| | |
|--------------|--|
| \$ 3,000,000 | Building(s) ** |
| \$ Included | Business Income including Extra Expense |
| | Ordinance and Law Limits Below apply per Loss (See Appendix A) |
| \$ 250,000 | Coverage A - Loss to the Undamaged Portion of the Building |
| \$ Included | Coverage B - Increased Demolition Cost |
| \$ Included | Coverage C - Increased Cost of Construction |

Coverage Description: Special Causes of Loss
Deductible: \$5,000 per loss Deductible
Blanket Basis for Buildings
Agreed Value (Coinsurance Waived)
Replacement Cost up to 150% of Building Value
Sewer and Drain Backup-Must Originate on Premises
Business Income - Actual Loss Sustained up to 12 Months
Includes Extra Expense & Maintenance Fees
Subrogation against Unit Owners waived

** The policy definition of Buildings is expanded to protect all of the Association's above ground structures, including but not limited to, signs, fences, carports, light standards, mailboxes, clubhouses, etc. Further, it extends to protect permanent attachments to the structures, including improvements and/or upgrades inside individual units, which have been installed by and at the expense of individual unit owners. For example: paint, wallpaper, wall-to-wall carpeting, cabinetry, countertops, fireplaces, plumbing fixtures, doors, trim work and paneling, wood beams, recessed lighting, and ceiling fans. Also included are appliances that service the unit such as central air-conditioning, furnace, hot water heater, garbage disposal, dishwasher, range, refrigerator, washer and dryer. Theft of appliances is not covered.

Enhanced Property Features:

| | |
|--|---|
| \$25,000 Accounts Receivable | \$500,000 Newly Acquired Buildings |
| \$50,000 Appurtenant Structures | \$ 10,000 Trees, Shrubs and Plants |
| \$ 5,000 Arson & Theft Reward | \$ 25,000 Pollutant Clean-up and Removal |
| \$10,000 Business Computer | \$ 2,500 Utility Services – Direct Damage |
| \$ 5,000 Claims Data Expense | \$ 2,500 Utility Services – Business Income |
| \$10,000 Fine Arts | \$ 25,000 Excess Debris Removal |
| \$10,000 Fire Department Service Charge | \$ 25,000 Valuable Papers and Records |
| \$ 5,000 Fire Protective Equipment Discharge | \$ 10,000 Expediting Expenses |
| \$ 500 Lost Key Consequential | Preservation of Property (30 days) |

Coverage is provided for the risk of direct physical loss, and is subject to all policy terms, exclusions, and conditions. The rates used in the development of the premium may be tentative and are subject to adjustment once promulgated.

III. COMMERCIAL GENERAL LIABILITY:

Coverage is provided for protection against loss, because of your negligence, to persons or property resulting from your premises or operations, and is **subject to** all policy terms, exclusions and conditions.

| | |
|--------------|---|
| \$ 2,000,000 | General Aggregate |
| \$ 2,000,000 | Products and Completed Operations Aggregate |
| \$ 1,000,000 | Each Occurrence limit |
| \$ 1,000,000 | Personal and Advertising Injury |
| \$ 300,000 | Fire Legal Liability limit |
| \$ 5,000 | Guest Medical Payments - Each Guest |

| | |
|-------------------|--|
| Including: | Premises - Operations Liability |
| | Products Liability |
| | Independent Contractors Liability |
| | Contractual Liability |
| | Employees as Additional Insured |
| | Unit Owners as Additional Insured |
| | Host Liquor Liability |
| | Incidental Medical Malpractice |
| | Extended Bodily Injury - acts to protect premises |
| | Non-owned Watercraft Liability – under 26' in length |
| | Defense is outside the policy limit |

Higher limits of liability may be available. Upon your request, we will attempt to secure optional quotations.

IV. CRIME:

This coverage provides protection for loss caused by embezzlement or wrongful abstraction of money, securities, and other property by employees as described in the policy.

| | |
|------------|-----------------------------|
| \$ 250,000 | Blanket Employee Dishonesty |
| | Money and Securities |
| | Forgery and Alteration |

| | |
|------------------------------|--------------------------------------|
| Coverage Description: | Limit applies per Loss |
| | \$5,000 per loss Deductible |
| | Definition of Employee includes: |
| | Non-compensated Directors & Officers |
| | Management firm and their Employees |

IMPORTANT: **Inventory shortages, including arithmetic errors, are not covered.** Your crime policy contains warranties that may restrict coverage. Refer to your policy for a complete description.

Higher limits of liability may be available. Upon your request, we will attempt to secure optional quotations.

V. BUSINESS AUTOMOBILE:

\$ 1,000,000 Non-Ownership/Hired Automobile Liability

Higher limits of liability may be available. Upon your request, we will attempt to secure optional quotations.

VI. ASSOCIATION PROFESSIONAL LIABILITY*: (See Appendix B)

\$ 1,000,000 Each Claim
\$ 1,000,000 Annual Aggregate

Including: Claims Made Policy Form
 Prior Acts - unknown acts at policy inception
 \$2,500 per loss Deductible (including defense costs)
 Duty to Defend Insuring Agreement
 Association Errors and Omissions (Entity coverage)
 Employment Practices Liability
 Broadened definition of covered to include:
 Directors
 Officers
 Employees
 Volunteers
 Committee Members
 Property Manager – acts taken at direction of Board

Higher limits of liability may be available. Upon your request, we will attempt to secure optional quotations.

VII. WORKERS' COMPENSATION (A) and EMPLOYERS' LIABILITY (B)*:

Workers' Compensation Benefits: Coverage is provided to pay when due, compensation and other benefits required of the insured by the Workers' Compensation Laws of the applicable state.

Employer's Liability: Coverage is provided to pay, on behalf of the insured, all sums which the insured shall become legally obligated to pay as damages because of bodily injury by accident, disease, or death, at any time, arising out of and in the course of employment by the insured. Coverage is **subject to** all policy terms, exclusions and conditions.

Worker's Compensation (A): Statutory

Employer's Liability (B):

| | |
|------------|--|
| \$ 500,000 | Bodily Injury by Accident |
| \$ 500,000 | Bodily Injury by Disease - Policy Limit |
| \$ 500,000 | Bodily Injury by Disease - Each Employee |

For an explanation of why Community Associations with no employees should carry a Workers Compensation and Employers Liability policy see Appendix C.

This Workers' Compensation coverage does not apply to monopolistic states. Monopolistic states are states where the coverage is only available through a state fund or state pool. The monopolistic states are Ohio, North Dakota, Washington, West Virginia and Wyoming. If you do business in any monopolistic states, you should consult with your broker/state to determine if specific coverage should be obtained.

Higher limits of liability may be available. Upon your request, we will attempt to secure optional quotations.

VIII. UMBRELLA

| | |
|--------------|------------------------------------|
| \$15,000,000 | Each Occurrence |
| \$15,000,000 | Annual Aggregate |
| \$ 10,000 | Self Insured Retention |
| | Flat Charge (Not Subject to Audit) |

Applies over and above primary limits for **Commercial General Liability, Workers Compensation, Business Automobile Liability, Employer's Liability and Association Professional Liability.**

Higher limits of liability may be available. Upon your request, we will attempt to secure optional quotations.

IX. SERVICES:

Van Gilder Insurance agrees to provide the following services:

1. Issuance of Mortgagee Certificates of Insurance:

Certificates of Insurance may be obtained online at www.vgic.com. On-line certificates make it possible for homeowner, property managers, and mortgage companies to access, update, and print a certificate of insurance 24 hours a day, 7 days a week.

Any questions may be directed to Kathy Walker of our office at (719) 477-4282 or Toll-Free at (877) 855-8442.

2. Reporting and Monitoring of Claims:

All claim reports should be submitted to Kim Walsh at (719) 477-4242. Although unit owners are allowed to file claims directly, we strongly recommend that claims be submitted by an authorized Association Board Member or to the Association's Professional Property Manager.

- 3. Attend a Board and/or Association Annual Meeting to review the Association's insurance program upon request. Please provide adequate advance notice. When possible the insurance presentation should be scheduled first on the meeting agenda.**
- 4. Assist Unit Owners in coordinating their Personal Insurance needs with the Association's Master Policy.**
- 5. Provide Unit Owner Packets upon request. Unit Owner Packets must be distributed by the Association to assure that the maximum number of unit owners read them (do not consider them "junk" mail).**

X. DISCLAIMER:

This PROPOSAL is intended for reference only. It does not replace, amend or change the actual insurance policies in any manner. Coverage descriptions and representations contained in this PROPOSAL are subject to all forms, endorsements, conditions, definitions, exclusions and any other attachments that are part of the actual insurance policies.

Van Gilder Insurance endeavors to provide insurance protection that complies with, or exceeds, the requirements of your Association's governing documents. It is not possible, however, to warrant or guarantee that all coverage required by the governing documents is provided in the actual insurance policies.

As indicated throughout this PROPOSAL, higher limits of coverage may be available. Upon request we will attempt to secure optional quotations for your consideration.

XI. CARRIER & PREMIUM SUMMARY:

| | | |
|---------------------------------|---------------------|---------------------------|
| <u>PACKAGE (II - V):</u> | | Best's Rating = A+ |
| Carrier: | St. Paul-Travelers | |
| Policy Period: | 09/05/05 – 09/05/06 | |
| Annual Premium: | \$28,375.00 | |

| | | |
|--|---------------------|--------------------------|
| <u>ASSOCIATION PROFESSIONAL LIABILITY (VI):</u> | | Best's Rating = A |
| Carrier: | USLI | |
| Policy Period: | 09/05/05 – 09/05/06 | |
| Annual Premium: | \$1,418.00 | |

| | | |
|---|---------------------|-------------------|
| <u>WORKERS COMPENSATION (VII):</u> | | |
| Carrier: | Pinnacol | |
| Policy Period: | 09/05/05 – 09/05/06 | |
| Annual Premium: | \$436.00* | *Subject to Audit |

| | | |
|--------------------------------|---------------------------|--------------------------|
| <u>UMBRELLA (VIII):</u> | | Best's Rating = A |
| Carrier: | Federal Insurance Company | |
| Policy Period: | 09/05/05 – 09/05/06 | |
| Annual Premium: | \$2,941.00 | |

| | | |
|----------------------|-------------|--|
| <u>TOTAL:</u> | | |
| Annual Premium: | \$33,096.00 | |

EXPLANATION OF BEST'S RATINGS

| | |
|--------------------------|---------------------------------|
| A++ - A+ SUPERIOR | C - C- MARGINAL |
| A - A- Excellent | D VERY VULNERABLE |
| B++ - B+ VERY GOOD | E UNDER STATE SUPERVISION |
| B - B- ADEQUATE | F IN LIQUIDATION |
| C++ - C+ FAIR | NR NOT RATED |

† Some of the premiums are based on estimated payrolls and/or receipts. An audit may be made by the insurance company after the policy expires to determine final premiums. In addition, Property may be subject to tentative rates and are subject to change once promulgated.

Payment Information:

- Package - Company Bill, Payment Plan
- Association Professional Liability - Agency Bill, Full Pay
- Workers Compensation – Company Bill, Payment Plan available
- Umbrella-Agency Bill, Full Pay

Quote is Subject to the Following:

- Current Financial Statements
- Signed Association Professional Liability Applications
- Declarations and Bylaws
- Company Loss Runs (5 years)
- Signed Terrorism Coverage Form
- Favorable Loss Control

OPTIONAL COVERAGE:**EQUIPMENT BREAKDOWN COVERAGE:**

\$3,000,000 Annual Aggregate

Including: Coverage Description Limit applies per loss.
Policy Loss Deductible

Premium: \$1,195.00

Glossary

1. **Actual Cash Value**: Replacement cost, less depreciation
2. **Aggregate Limit**: Maximum limit of liability, per policy term, regardless of the number of occurrences
3. **Agreed Value**: Amount of insurance coverage agreed upon by the Named Insured and the Insurance Company. This waives the coinsurance penalty, and a Statement of Values is required.
4. **Blanket Insurance**: Aggregate limit of property insurance which may include one location or multiple locations; a Statement of Values is required
5. **Claims-Made**: A liability policy which limits insurance for those claims occurring after the retroactive date and during a policy term; claims must be reported during the policy term or any applicable extended reporting period
6. **Coinurance Clause**: A requirement of the insured to insure for limits equal to an agreed percentage of property values. A penalty may apply when limits of insurance are deficient to the agreed percentage of those property values, at the time of loss. An example of the reduction in payment is:

$$\frac{(\text{Limit of Insurance Carried})}{(\text{Limit of Insurance Required})} \times \text{Loss} - \text{Deductible} = \text{Payment}$$

7. **Occurrence**: A single event resulting in a loss
8. **Replacement Cost**: The cost to replace lost or damaged property by using new or like materials, not subject to depreciation
9. **Retro Date**: Date on a "Claims-Made" liability policy which triggers the beginning of insurance
10. **Statement of Values**: A signed statement from the insured that itemizes locations, exposures, and values, that is used when Blanket Insurance is written

APPENDIX A

What is Ordinance and Law Coverage?

Ordinance and Law is a type of insurance coverage that is normally required by a Community Association's governing documents. In fact, Ordinance and Law is actually three separate types of coverage. Together, they provide protection for additional expenses resulting from the enforcement of ordinance and law that is triggered when there is covered cause of loss to an insured building, such as fire, tornado or gas explosion. The three types of coverage are as follows:

Coverage A – Loss to the Undamaged Portion of the Building. In some jurisdictions, ordinance or law requires that a building that is partially damaged be demolished (in other words, it becomes a total loss). Coverage A states that if such ordinance is in place, and is enforced by the local authorities, that the insurance policy will treat the claim as a total loss even though the building was only partially damaged.

Coverage B – Increased Demolition Cost. This pays the increased cost to demolish the undamaged portion of the building if you are required by ordinance or law to implement Coverage A.

Coverage C – Increased Cost of Construction. This pays for upgrades that are required by the enforcement of ordinance or law. A good example of a significant upgrade that you might be required to make if you had a major fire would be the installation of a fire sprinkler system throughout the building or an ADA related upgrade.

Ordinance and Law coverage is specifically excluded by most Property insurance policies but can be added by endorsement for an additional premium. Some insurance carriers do include a small amount of Ordinance and Law coverage in their Property policies automatically. Even if this is so, it will normally not be an adequate amount of coverage to protect the Community Association. Therefore, it is important for a Community Association to evaluate what amount of Ordinance and Law coverage is appropriate, and structure their coverage accordingly. It is common sense that the older the buildings, the greater the exposure for loss due to changes in local building ordinance and Law.

APPENDIX B

Association Professional Liability versus Directors and Officers Liability

One of the most significant, yet misunderstood, liability exposures facing a Community Association is professional liability, sometimes referred to as “errors and omissions.” Traditionally, this exposure has been viewed and treated as personal liability that can be imposed by a court of law on those individuals who serve as duly elected or appointed Directors and Officers of an Association. Associations have, therefore, purchased standard Directors and Officers Liability coverage to address this exposure on behalf of their individual Directors and Officers.

Coverage provided by the standard Directors and Officer Liability policy is very narrow in scope. It responds to third party claims brought against duly elected or appointed Directors and Officers that allege wrongful acts as defined in the policy. Further, it provides coverage to the Association, but **only** for the Association’s obligation to indemnify individual Directors and Officers. This obligation must exist prior to knowledge of any claim and is normally established through an indemnification provision in the Association’s By Laws. Defense costs as well as actual damages are included in the policy limit. While affording some coverage, the standard Directors and Officers Liability policy does not adequately address the coverage need of Community Associations.

In the mid 1980’s a new, much broader form of coverage, sometimes called Association Professional Liability, became available. This new policy form enhanced coverage by expanding the definition of who is covered by the policy. In addition to protecting individuals who are duly elected or appointed Directors and Officers, the Association Professional Liability policy covers employees, volunteers, committee members and other persons acting at the direction of or on behalf of the Association. It also covers the Association as a corporate entity without restricting coverage to the Associations pre-existing obligation to indemnify individual Directors and Officers. This is critical, as many States, including Colorado, have statutes that limit the liability of those who serve as volunteer Directors and Officers of non-profit Associations unless they act with willful or wanton disregard of the facts or with the intent to harm. This statutory protection **does not** apply to the Association as a corporate entity, therefore making it a much more vulnerable and accessible target to recover damages from. Having this corporate “entity” coverage is essential for Associations in today’s litigious environment.

APPENDIX C

Why Associations Need Workers Compensation Coverage

Community Associations who have employees must carry Workers' Compensation coverage. This is required by Colorado statute. However, it is the **strong** recommendation of Van Gilder Insurance Corporation that every Community Association should carry Workers Compensation and Employers Liability coverage, even if the Association does not have any "formal" employees.

The reason for our recommendation is that Community Associations frequently use independent contractors to obtain various services. It is difficult, if not impossible, for Associations to verify with absolute certainty that the independent contractors they use carry continuous Workers' Compensation insurance. Or, alternatively, that an agreement by the independent contractor to sign a statement declaring independent contractor status will be valid should a loss occur.

Under certain circumstances Colorado statutes allow individuals who are injured while in the service of another to make claim against that person or organization for Workers' Compensation benefits without regard to previous representations by such person that they are an independent contractor. Contrary to popular belief, it is not possible (or legal) to "sign a waiver" eliminating a statutory requirement. Should the injured party be successful in showing that they were an employee, as defined by Colorado's Workers Compensation statute, and that their injury occurred during the course of serving an Association, they, or their heirs, are entitled **by law** to Workers' Compensation benefits.

The Commercial General Liability coverage carried by Community Associations **does not** apply to Workers' Compensation claims. In fact, it specifically excludes coverage for such claims. The only way to fill this gap in coverage is for Community Associations to carry a Workers' Compensation and Employers Liability policy.

Van Gilder Insurance will be happy to provide a quotation for Workers' Compensation and Employers Liability upon request.

APPENDIX D

VGIC Compensation Disclosure Commission Only Basis

We are pleased that you have asked Van Gilder Insurance Corporation (VGIC) to provide selected insurance services. The purpose of this letter is to explain to you how we are compensated for our work.

For the placement and service of your insurance program, VGIC will receive commission-based compensation from selected insurance companies and/or wholesale intermediaries. The compensation received by VGIC may differ depending on the product and the insurance company. VGIC may receive additional compensation from selected insurance companies based upon other factors, such as the loss or claims experience of our book of business with a particular insurance company, growth in new business, retention of the business, premium volume placed with a particular insurance company or for particular lines of insurance or categories of coverage, training and technology investments, and profitability. VGIC may also receive interest income from moneys held by us on your account until paid to cognizant insurers on your behalf. VGIC may also be reimbursed for services rendered under contract with selected premium finance companies who agree to finance your account premiums.

We are happy to provide specific additional information related to your account upon request. It is our privilege to serve you, and we want you to be comfortable with how we do business.