

EXHIBIT 1

TO

AFFIDAVIT OF DARWIN LAWS

POLICY NUMBER: 4205-2178
RENEWAL OF: 4204-1257

ITEM 1.
Named
Insured
Address
(Street,
Town,
State)

City of Durham, North Carolina
C/O Risk Management Office
2609 North Duke Street - Suite 301
Durham, North Carolina 27704



ILLINOIS NATIONAL
INSURANCE COMPANY
THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES DECLARATIONS

This Declarations Page and attached schedule (if applicable), and all terms and conditions complete this insurance Policy.

ITEM 2.	POLICY FROM: April 01, 2005 TO: April 01, 2006 AT 12:01 A.M. PERIOD STANDARD TIME AT THE ADDRESS OF THE NAMED INSURED SHOWN ABOVE.		
ITEM 3.	LIMITS OF INSURANCE The Limits of Insurance, subject to all the terms and conditions of this Policy are: A. Limits of Insurance 1. Aggregate Limits Limits of Liability a. \$ Per End't. #03 Products-Completed Operations Hazard Aggregate b. \$ Per End't. #03 Errors and Omissions Liability Aggregate, other than personal Injury offense wrongful acts c. \$ Per End't. #03 Employee Benefit Liability Aggregate 2. Per Occurrence or Wrongful Act or Employee Benefit Wrongful Act Limit \$ Per End't. #03 Any one occurrence or wrongful act or employee benefit wrongful act or series of continuous, repeated, or related occurrences or wrongful acts or employee benefit wrongful acts in excess of your retained limit B. Retained Limit \$ Per End't. #03 Any one occurrence or wrongful act or employee benefit wrongful act or series of continuous, repeated, or related occurrences or wrongful acts or employee benefit wrongful acts.		
ITEM 4.	ENDORSEMENTS APPLICABLE TO THIS POLICY ON THE ORIGINAL DATE OF ISSUE: <table><tr><td><u>Title</u> See attached Schedule</td><td><u>Number</u> See attached Schedule</td></tr></table>	<u>Title</u> See attached Schedule	<u>Number</u> See attached Schedule
<u>Title</u> See attached Schedule	<u>Number</u> See attached Schedule		

ITEM 5.	PREMIUM COMPUTATION		
	<u>ESTIMATED EXPOSURE</u>	<u>RATE / PER</u>	<u>AUDIT PERIOD</u>
	203,778 Estimated Population	\$1.0305 Per Capita	Annual
	<u>MINIMUM & DEPOSIT PREMIUM</u>		<u>MINIMUM EARNED PREMIUM</u>
	\$209,999 - TOTAL PREMIUM (Including Terrorism Risk Insurance Act Coverage Premium)		\$52,500
	PREMIUM FOR TERRORISM RISK INSURANCE ACT COVERAGE: \$2,079		
	Taxes: N/A		
	Surcharges: N/A		
	The premium computation is for the stated audit period, unless an Installment Schedule is attached to this insurance Policy; such premium may be subject to adjustment.		
ITEM 6.	RETAINED LIMIT CLAIMS SERVICING ORGANIZATION:	GAB Robins 3000 Highwoods Blvd. - Suite 215 Raleigh, NC 27604	

This Policy is not valid unless countersigned by a duly authorized agent of the Company.

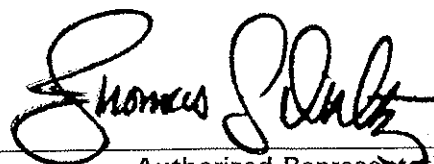
Producer:
(Name and
Address)

MARSH USA, INC.

100 North Tryon Street - Suite 3200
Charlotte, North Carolina 28202
Attn: John Kimel
Producer No.: 01546

Date of Issue: April 22, 2005
KNE/lis

Countersigned By: _____



Authorized Representative

ENDORSEMENT NO. 01

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

ACT OF TERRORISM - INSURED'S RETAINED LIMIT ENDORSEMENT

This Policy is amended as follows:

A. **ITEM 3B. OF THE DECLARATIONS, LIMITS OF INSURANCE**, is amended to include the following additional Insured's **Retained Limit**:

Act of Terrorism-Insured's Retained Limit: **\$500,000 SIR**

SECTION III. LIMITS OF INSURANCE, paragraph D. is amended to include the following:

Solely as respect to any **Act of Terrorism-Insured's Retained Limit**, we will be liable only for that portion of damages in excess of the Insured's **Retained Limit** which is as follows:

The amount stated in the Declarations as the **Act of Terrorism- Insured's Retained Limit** as a result of any one **occurrence**, or series of continuous, repeated, or related **occurrences**.

All **claims** and **suits** seeking damages for any liability arising out of an **Act of Terrorism** are subject to this **Act of Terrorism – Insured's Retained Limit**. **Defense Expenses** shall not erode this **Act of Terrorism – Insured's Retained Limit**..

The **Act of Terrorism – Insured's Retained Limit** applies whether or not there is any applicable underlying policies listed in the Schedule of Underlying Insurance or applicable limits of any other underlying insurance providing coverage to any insured. If there is applicable underlying insurance listed in the Schedule of Underlying Insurance or any other underlying insurance providing coverage to any **insured**, amounts received through such underlying insurance may be applied to reduce or exhaust the Each **Occurrence Act of Terrorism - Insured's Retained Limit**. However, in no event will amounts received through such underlying insurance for the payment of **defense expenses** reduce the Each **Occurrence Act of Terrorism - Insured's Retained Limit**.

Page 1 of 5

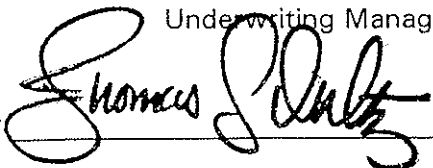
Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

Issued to: CITY OF DURHAM, NORTH CAROLINA

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

By  _____

Dated: APRIL 22, 2005

ENDORSEMENT NO. 01

ENDORSEMENT NO. 01

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

ACT OF TERRORISM - INSURED'S RETAINED LIMIT ENDORSEMENT

B. For the purpose of this endorsement, **SECTION II. DEFINITIONS** is amended to include the following additional definitions:

1. **Defense Expenses** means any payment allocated to a specific loss, **claim** or **suit** for its investigation, settlement or defense, including but not limited to:
 - a) Attorney's fees and all other investigation, loss adjustment and litigation expenses;
 - b) Premiums on bonds to release attachments;
 - c) Premiums on appeal bonds required by law to appeal any claim or **suit**;
 - d) Costs taxed against the insured in any **claim** or **suit**;
 - e) Pre-judgement interest awarded against any insured;
 - f) Interest that accrues after entry of judgement.
2. **Act of Terrorism** is defined as either:
 - a) A certified **act of terrorism** defined by Section 102. Definitions., of the Terrorism Risk Insurance Act of 2002 and any revisions or amendments.
 - b) The following Section 102 definition of **act of terrorism** from the Terrorism Risk Insurance Act of 2002 applies:

Page 2 of 5

Effective date of this endorsement is: APRIL 01, 2005

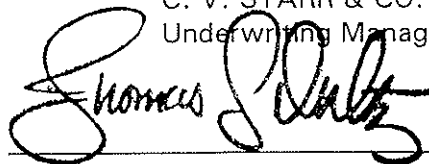
Attached to and forming part of Policy No. 4205-2178

Issued to: CITY OF DURHAM, NORTH CAROLINA

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

By



Dated: APRIL 22, 2005

ENDORSEMENT NO. 01

ENDORSEMENT NO. 01

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

ACT OF TERRORISM - INSURED'S RETAINED LIMIT ENDORSEMENT

(1) Act of Terrorism:

- (A) Certification. – The term **act of terrorism** means any act that is certified by the Secretary of the Treasury of the United States, in concurrence with the Secretary of State, and the Attorney General of the United States:
- (i) To be an act of terrorism;
 - (ii) To be a violent act or an act that is dangerous to:
 - (I) Human life;
 - (II) Property; or
 - (III) Infrastructure;
 - (iii) To have resulted in damage within the United States, or outside of the United States in the case of:
 - (I) An air carrier or vessel described in paragraph (5)(B); [for the convenience of this endorsement, paragraph (5)(B) reads: occurs to an air carrier (as defined in Section 40102 of title 49, United States Code) to a United States flag vessel (or a vessel based principally in the United States, on which United States income tax is paid and whose insurance coverage is subject to regulation in the United States), regardless of where the loss occurs, or at the premises of any United States mission];
 - (II) the premises of a United States mission; and
 - (iv) to have been committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

Page 3 of 5

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

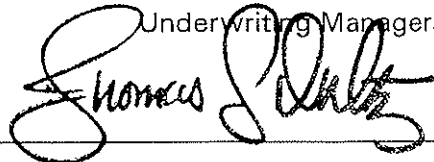
Issued to: CITY OF DURHAM, NORTH CAROLINA

Dated: APRIL 22, 2005

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

By



ENDORSEMENT NO. 01

ENDORSEMENT NO. 01

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

ACT OF TERRORISM - INSURED'S RETAINED LIMIT ENDORSEMENT

- (B) Limitation: No act shall be certified by the Secretary as an **act of terrorism** if:
- (i) The act is committed as part of the course of a war declared by the Congress, except that this clause shall not apply with respect to any coverage for workers' compensation; or
 - (ii) Property and casualty insurance losses resulting from the act, in the aggregate, do not exceed \$5,000,000.

- (C) Determinations Final: Any certification of, or determination not to certify, an act as an **act of terrorism** under this paragraph shall be final, and shall not be subject to judicial review.

- (D) Nondelegation: The Secretary may not delegate or designate to any other officer, employee, or person, any determination under this paragraph of whether, during the effective period of the Program, an act of terrorism has occurred; or

C. The use or threatened use of force or violence against person or property, or commission of an act dangerous to human life or property, or commission of an act that interferes with or disrupts an electronic or communication system, undertaken by any person or group, whether or not acting on behalf of or in connection with any organization, government, power, authority or military force, when the effect is to intimidate, coerce or harm a government, the civilian population or any segment thereof, or to disrupt any segment of the economy.

Page 4 of 5

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

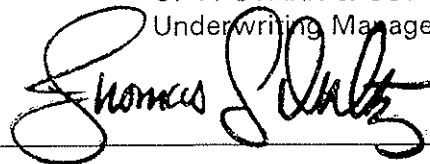
Issued to: CITY OF DURHAM, NORTH CAROLINA

Dated: APRIL 22, 2005

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

By



ENDORSEMENT NO. 01

ENDORSEMENT NO. 01

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

ACT OF TERRORISM - INSURED'S RETAINED LIMIT ENDORSEMENT

- D. Terrorism will also include any act which is verified or recognized by the United States Government as an **act of terrorism**.
- C. Solely as respects any liability arising out of any **Act of Terrorism**, **SECTION B. DEFENSE AND DEFENSE EXPENSES** paragraphs 1. and 2. and 3. are deleted in their entirety, and paragraph 3. is replaced by the following:

We will not be obligated to assume charge of the investigation, settlement or defense of any **claim** made, **suit** brought or proceeding instituted against any insured. **We** will however, have the right and shall be given the opportunity to participate in the defense and trial of any **claims**, **suits** or proceedings relative to any **occurrence** which, in **our** opinion, may create liability on **our** part under the terms of this Policy. If **we** exercise such right, **we** will do so at **our** own expense.

Page 5 of 5

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED.

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

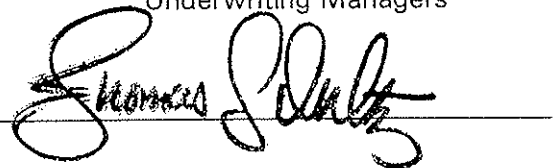
Issued to: CITY OF DURHAM, NORTH CAROLINA

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

Dated: APRIL 22, 2005

By



ENDORSEMENT NO. 01

ENDORSEMENT NO. 02

NORTH CAROLINA
AMENDATORY ENDORSEMENT

Wherever used in this endorsement: 1) "we", "us", "our", and "Insurer" mean the insurance company which issued this policy; and 2) "you", "your", "named Insured", "First Named Insured", and "Insured" mean the Named Corporation, Named Organization, Named Sponsor, Named Insured, or Insured stated in the declarations page; and 3) "Other Insured(s)" means all other persons or entities afforded coverage under the policy.

In consideration of the premium charged, it is hereby understood and agreed that the cancellation provision of this policy is deleted in its entirety and replaced by the following:

Cancellation

The Insured may cancel this policy by mailing or delivering to the Insurer a written notice of cancellation indicating the date upon which cancellation will be effective.

Policies in Effect for Less Than Sixty (60) Days

The Insurer may cancel for any reason, a policy in effect for less than sixty (60) days if it is not a renewal, by furnishing the Insured with, written notice of cancellation at least fifteen (15) days before the effective date of cancellation. The notice must contain the reason for the cancellation.

Page 1 of 4

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

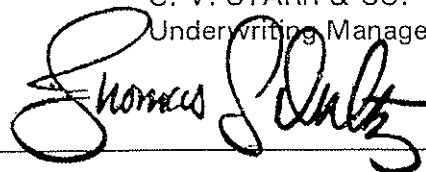
THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

Issued to: CITY OF DURHAM, NORTH CAROLINA

C. V. STARR & CO.
Underwriting Managers

Dated: APRIL 22, 2005

By

A handwritten signature in black ink, appearing to read "Thomas J. Kelly", is written over a horizontal line.

52154 (11/93)

ENDORSEMENT NO. 02

ENDORSEMENT NO. 02

NORTH CAROLINA
AMENDATORY ENDORSEMENT

Policies in Effect for Sixty (60) Days or More

The Insurer may not cancel a policy in effect for sixty (60) days or more except for one or more of the following reasons:

- (1) Nonpayment of premium in accordance with the policy terms;
- (2) An act or omission by the Insured or Other Insured(s) or a representative of same that constitutes material misrepresentation or nondisclosure of a material fact in obtaining the policy, continuing the policy, or presenting a claim under the policy;
- (3) Increased hazard or material change in the risk assumed that could not have been reasonably contemplated by the parties at the time of assumption of the risk;
- (4) Substantial breach of contractual duties, conditions, or warranties that materially affect the insurability of the risk;
- (5) A fraudulent act against the Insurer by the Insured or Other Insured(s) or a representative of same that materially affects the insurability of the risk;
- (6) Willful failure by the Insured or Other Insured(s) or a representative of same to institute reasonable loss control measures that materially affects the insurability of the risk after written notice by the Insurer;

Page 2 of 4

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

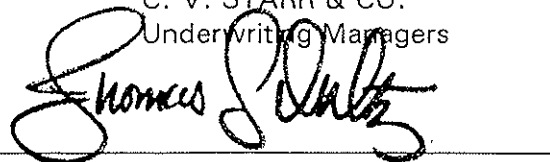
THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

Issued to: CITY OF DURHAM, NORTH CAROLINA

C. V. STARR & CO.
Underwriting Managers

Dated: APRIL 22, 2005

By



52154 (11/93)

ENDORSEMENT NO. 02

ENDORSEMENT NO. 02

**NORTH CAROLINA
AMENDATORY ENDORSEMENT**

- (7) Loss of facultative reinsurance, or loss of or substantial changes in applicable reinsurance;
- (8) Conviction of the Insured or Other Insured(s) of a crime arising out of acts that materially affect the insurability of the risk;
- (9) A determination by the Commissioner that the continuation of the policy would place the Insurer in violation of the laws of this State; or
- (10) The Director(s) or Officer(s) or the Insured fails to meet the requirements contained in the corporate charter, articles of incorporation, or bylaws of the Insurer, when the Insurer is a company organized for the sole purpose of providing members of an organization with insurance coverage in this State.

Cancellation is not effective unless written notice of cancellation is mailed or delivered to the Insured at least fifteen (15) days before the effective date of cancellation.

Nonrenewal

The Insurer may nonrenew a policy by mailing or delivering written notice of nonrenewal to the Insured at least forty-five (45) days prior to the policy expiration date (or anniversary if the policy has been written for a term of more than 1 year). The notice must state the precise reason for nonrenewal.

Page 3 of 4

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

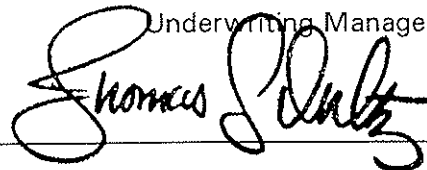
THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

Issued to: CITY OF DURHAM, NORTH CAROLINA

C. V. STARR & CO.
Underwriting Managers

Dated: APRIL 22, 2005

By



52154 (11/93)

ENDORSEMENT NO. 02

ENDORSEMENT NO. 02

NORTH CAROLINA
AMENDATORY ENDORSEMENT

The Insurer will give the Insured forty-five (45) days written notice if it lowers coverage limits or raises deductible or premium rates other than at the request of the Insured.

The nonrenewal provisions do not apply if the Insured has insured elsewhere, has accepted replacement coverage or has requested or agreed to nonrenewal.

Policy Renewal

If the Insurer intends to renew this policy, the Insurer shall furnish the Insured and any designated mortgagee or loss payee notice of the renewal terms and a statement of premium due not less than forty-five (45) days before the policy expiration date.

Notices

All notices of cancellation and nonrenewal must be mailed or delivered to the Insured, the agent or broker of record and any designated mortgagee or loss payee at their address shown in the policy, or if not indicated in the policy at their last known address. The notice must state the precise reason for cancellation or nonrenewal. Proof of mailing is sufficient proof of notice. Failure to send the notice of cancellation or nonrenewal to any designated mortgagee or loss payee invalidates the cancellation only as to the mortgagee's or loss payee's interest.

Page 4 of 4

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED

Effective date of this endorsement is: APRIL 01, 2005

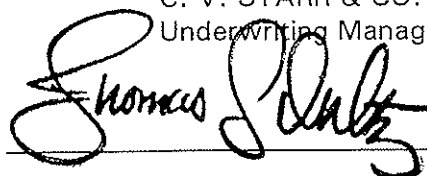
Attached to and forming part of Policy No. 4205-2178

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

Issued to: CITY OF DURHAM, NORTH CAROLINA

C. V. STARR & CO.
Underwriting Managers

By

A handwritten signature in black ink, appearing to read "Thomas Starr", is written over a horizontal line.

Dated: APRIL 22, 2005

52154 (11/93)

ENDORSEMENT NO. 02

ENDORSEMENT NO. 03

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES
LIMITS OF INSURANCE AMENDATORY ENDORSEMENT

The Policy Declarations Page is amended in part as follows:

ITEM 3. LIMITS OF INSURANCE

The Limits of Insurance, subject to all the terms and conditions of this Policy are:

A. Limits of Insurance

- | 1. Aggregate Limits | Limits of Liability |
|---|---|
| a. <u>\$5,000,000</u> | Products-Completed Operations Hazard Aggregate |
| b. <u>\$5,000,000</u> | Errors and Omissions Liability Aggregate, other than personal and advertising injury offense wrongful acts. |
| c. <u>\$5,000,000</u> | Employee Benefits Liability Aggregate |
| 2. Per Occurrence or Wrongful Act or Employee Benefit Wrongful Act Limit | |
| <u>\$5,000,000</u> | Any one occurrence or wrongful act or employee benefit wrongful act or series of continuous, repeated, or related occurrences or wrongful acts or employee benefit wrongful acts in excess of your retained limit. |

B. Retained Limit:

- | | |
|--------------------|---|
| <u>\$500,000</u> | Any one occurrence or wrongful act (other than employment practice liability) or employee benefit wrongful act or series of continuous, repeated, or related occurrences or wrongful acts or employee benefit wrongful acts. |
| <u>\$1,000,000</u> | Any one wrongful act arising out of employment practice liability , or series of continuous, repeated, or related occurrences or wrongful acts arising out of employment practice liability. |

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED

Effective date of this endorsement is: APRIL 01, 2005

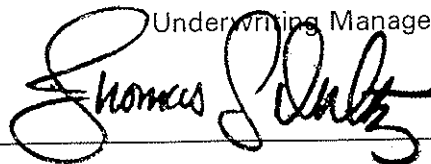
Attached to and forming part of Policy No. 4205-2178

Issued to: CITY OF DURHAM, NORTH CAROLINA

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

By



Dated: APRIL 22, 2005

ENDORSEMENT NO. 03

ENDORSEMENT NO. 04

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

POLICY TERRITORY LIMITATION ENDORSEMENT

SECTION VI., GENERAL CONDITIONS, Paragraph O. is hereby deleted in its entirety and replaced by the following:

POLICY TERRITORY

This Policy applies to **occurrences, wrongful acts, and employee benefit wrongful acts** anywhere in the world with the exception of any country or jurisdiction which is subject to trade or other economic sanction or embargo by the United States of America, but only if a **claim** is made and a **suit** is brought for such **occurrence, wrongful act, and employee benefit wrongful act** in the United States of America.

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

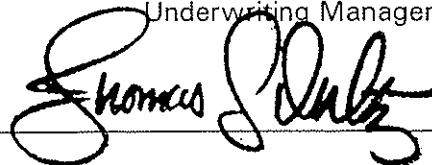
THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

Issued to: CITY OF DURHAM, NORTH CAROLINA

C. V. STARR & CO.
Underwriting Managers

Dated: APRIL 22, 2005

By



ENDORSEMENT NO. 05

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

TIME ELEMENT POLLUTION EXCLUSION

This Policy is hereby amended as follows:

SECTION V. EXCLUSIONS, paragraph H. is deleted in its entirety and replaced with the following:

- I. 1. For **bodily injury**, or **property damage** due to an **occurrence** or loss due to a **wrongful act** which would not have occurred or taken place in whole or in part but for the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of **pollutants** at any time.
2. For loss, cost, or expense arising out of any:
 - a. Request, demand, or order that **you**, or any others, test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of **pollutants**; or
 - b. **Claim** or **suit** by or on behalf of a governmental authority for damages because of testing for, monitoring, cleaning up, removing, containing, treating, detoxifying or neutralizing, in any way responding to, or assessing the effects of **pollutants**.

However, 2.b. shall not apply to such loss, cost or expense arising from any spill, release, or other hazardous condition at or from the premises, equipment or location(s) which **you** do not own, rent, control or occupy.
3. The exclusion set forth in sections 1. or 2. above does not apply if said discharge, dispersal, release or escape of **pollutants** meets all the following conditions:
 - a. It was accidental and neither expected or intended by **you**;

Page 1 of 3

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

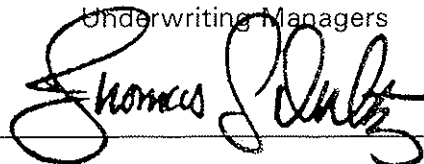
Issued to: CITY OF DURHAM, NORTH CAROLINA

Dated: APRIL 22, 2005

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

By



ENDORSEMENT NO. 05

ENDORSEMENT NO. 05

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

TIME ELEMENT POLLUTION EXCLUSION

- b. It was instantaneous and was demonstrable as having commenced at a specific time and date during the Policy Period;
 - c. Its commencement became known to **you** within ten (10) calendar days;
 - d. Its commencement was reported in writing to **us** within forty (40) calendar days of becoming known to **your** Risk Manager, or any of **your** designated Department Heads; and
 - e. Reasonable effort was expended by **you** to terminate the discharge, dispersal, release or escape as soon as conditions permitted.
4. Nothing contained in this endorsement shall operate to provide any coverage with respect to:
- a. Any site or location used by **you**, or others on **your** behalf, for the handling, storage, dispersal, dumping, processing, or treatment of **waste** material;
 - b. Any fines or penalties;
 - c. Acid rain; or
 - d. Clean up, removal, containment, treatment, detoxification, or neutralization of **pollutants** situated on premises **you** own, rent or occupy at the time of the actual discharge, dispersal, seepage, migration, release or escape of said **pollutants**.

However, this exclusion shall not apply to the following:

- i. Any liability arising out of **bodily injury** or **property damage** due to an **occurrence** or loss due to a **wrongful act** by **you** arising out of heat, smoke, or fumes from a **hostile fire**;

Page 2 of 3

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

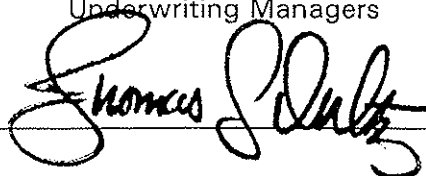
Issued to: CITY OF DURHAM, NORTH CAROLINA

Dated: APRIL 22, 2005

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

By



ENDORSEMENT NO. 05

Copyright © 1995, American International Group, Inc. All rights reserved.

ENDORSEMENT NO. 05

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

TIME ELEMENT POLLUTION EXCLUSION

- ii. Any liability arising out of explosion, lightning, windstorm, vandalism or malicious mischief, collapse, riot and civil commotion, flood, earthquake or collision, upset, or overturn of an **automobile** or equipment;
- iii. Any liability arising out of police use of mace, oleoresin capsicum (o.c.), pepper gas or tear gas;
- iv. Weed abatement or spraying; or
- v. Any liability arising out of the **products-completed operations hazard**.

All **bodily injury** or **property damage** due to an **occurrence** or loss due to a **wrongful act** arising from i., ii., iii., iv., or v. above arising out of the same, interrelated, associated, repeated or continual discharge, dispersal, release or escape of **pollutants** shall be deemed one **occurrence** or **wrongful act**. The commencement of such discharge, dispersal, release or escape of **pollutants** shall be recorded and reported to the Risk Manager or designated Department Head within a seventy-two (72) hour period.

It is further agreed that regardless of whether any **claim** or **suit** against **you** has been made, **you** shall give written notice to **us** or any of **our** authorized brokers within forty (40) calendar days of the Risk Manager's or designated Department Head's recorded entry of such discharge, dispersal, release or escape of **pollutants** which may result in liability for **bodily injury** or **property damage** due to an **occurrence** or loss due to a **wrongful act** as described in i., ii., iii., iv., or v. above;

Page 3 of 3

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED

Effective date of this endorsement is: APRIL 01, 2005

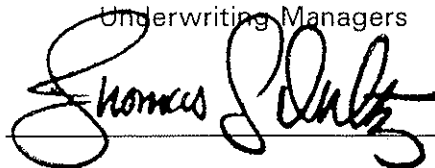
Attached to and forming part of Policy No. 4205-2178

Issued to: CITY OF DURHAM, NORTH CAROLINA

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

By



Dated: APRIL 22, 2005

ENDORSEMENT NO. 05

ENDORSEMENT NO. 06

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

UNINSURED/UNDERINSURED MOTORIST EXCLUSION

SECTION V. EXCLUSIONS, IS HEREBY AMENDED TO INCLUDE THE FOLLOWING PARAGRAPH:

This insurance does not apply to:

Any obligation of the Insured for covered first party automobile expenses.

It is further agreed that SECTION I., Paragraph B. Defense and Defense Costs, subparagraph 1. is hereby deleted in its entirety and replaced by the following:

We shall have the right and duty to defend, investigate and settle any claim or suit seeking damages covered by the terms and conditions of this Policy when the applicable limits of insurance of the underlying insurance listed in the Schedule of Underlying Insurance, the limits of insurance of any other underlying insurance providing coverage to you, or your self insured retention has been exhausted by payment to a third party of judgments, settlements, or defense costs.

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED

Effective date of this endorsement is: APRIL 01, 2005

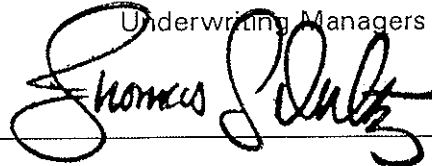
Attached to and forming part of Policy No. 4205-2178

Issued to: CITY OF DURHAM, NORTH CAROLINA

THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

C. V. STARR & CO.
Underwriting Managers

By



Dated: APRIL 22, 2005

ENDORSEMENT NO. 06

ENDORSEMENT NO. 07

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

AMENDATORY ENDORSEMENT

This endorsement modifies insurance provided under the following:

SECTION V. EXCLUSIONS,

- Z. Arising out of the rupture, bursting, over-topping, flooding, cracking, seepage, under seepage, accidental discharge or partial or complete structural failure of any **dam**;

is hereby deleted in its entirety as respects Lake Michie Dam and Little River Dam.

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

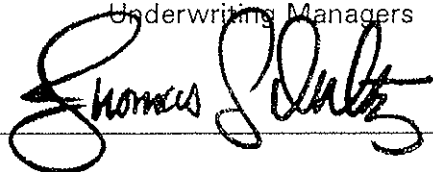
THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

Issued to: CITY OF DURHAM, NORTH CAROLINA

C. V. STARR & CO.
Underwriting Managers

Dated: APRIL 22, 2005

By

A handwritten signature in black ink, appearing to read "Thomas J. Starr", is written over a horizontal line.

ENDORSEMENT NO. 08

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

AMENDATORY EXCLUSION ENDORSEMENT

This endorsement modifies insurance provided under the following:

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

SECTION V. EXCLUSIONS is amended in part as follows:

- D. Arising out of the liability of **your employee** for **bodily injury** to another of **your employee(s)** injured in the course of his or her employment. However, this exclusion does not apply to liability assumed by **you** under any **insured contract**;

is hereby deleted in its entirety.

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

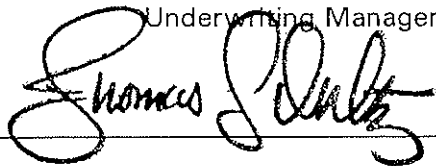
THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

Issued to: CITY OF DURHAM, NORTH CAROLINA

C. V. STARR & CO.
Underwriting Managers

Dated: APRIL 22, 2005

By



ENDORSEMENT NO. 09

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES
GOVERNMENTAL IMMUNITY ENDORSEMENT

This Policy is not intended by the insured to waive its governmental immunity as allowed by North Carolina General Statutes Sec. 153A-435. Accordingly, subject to this policy and the Limits of Liability shown on the Declarations, this policy provides coverage only for occurrences or wrongful acts for which the defense of governmental immunity is clearly not applicable or for which, after the defenses is asserted, a court of competent jurisdiction determines the defense of governmental immunity not to be applicable.

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

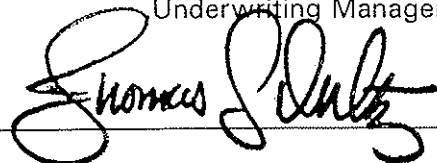
THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

Issued to: CITY OF DURHAM, NORTH CAROLINA

C. V. STARR & CO.
Underwriting Managers

Dated: APRIL 22, 2005

By

A handwritten signature in black ink, appearing to read "Thomas J. Duby", is written over a horizontal line.

ENDORSEMENT NO. 10

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

MANDATORY AGGREGATE LIMITS OF LIABILITY ENDORSEMENT

Declarations Page [Form 70109 (3/98)], Item 3, A., 1., b., Limits of Liability is amended to read:

Errors and Omissions Liability Aggregate, other than **personal**
and **advertising injury offense wrongful**
acts

Policy [Form 70108 (3/98), SECTION III, Limits of Insurance, item G., 2., is amended to read:

2. For all losses arising out of all **wrongful acts**, other than **personal** and **advertising injury offense wrongful acts**; or

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED

Effective date of this endorsement is: APRIL 01, 2005

Attached to and forming part of Policy No. 4205-2178

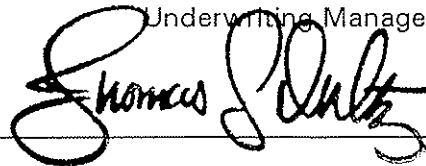
THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA

Issued to: CITY OF DURHAM, NORTH CAROLINA

C. V. STARR & CO.
Underwriting Managers

Dated: APRIL 22, 2005

By



FORMS SCHEDULE

Named Insured: CITY OF DURHAM, NORTH CAROLINA

Policy Number: 4 205 2178

Effective 12:01 AM: April 01, 2005

End't. No.	Form Name	Form Number/ Edition Date
	Special Exs Liab Policy for Public Entities Dec	70109 (3/98)
	Special Excess Liab Policy for Public Entities	70108 (3/98)
1	Act of Terrorism – Insured's Retained Limit Endorsement	MNSCPT
2	North Carolina Amendatory Endorsement	52154 (11/93)
3	Limits of Insurance Amendatory Endorsement	MNSCPT
4	Policy Territory Limitation Endorsement	MNSCPT
5	Time Element Pollution Exclusion	70091 (3/98)
6	Uninsured/Underinsured Motorist Exclusion	MNSCPT
7	Amendatory Endorsement	MNSCPT
8	Amendatory Exclusion Endorsement	MNSCPT
9	Governmental Immunity Endorsement	MNSCPT
10	Mandatory Aggregate Limits of Liability Endorsement	MNSCPT

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

Table of Contents

SECTION I. WHAT WE SHALL PAY ON YOUR BEHALF	1
A. Insuring Agreements	1
B. Defense and Defense Costs	2
SECTION II. DEFINITIONS	3
SECTION III. LIMITS OF INSURANCE	12
SECTION IV. WHO IS AN INSURED	14
SECTION V. EXCLUSIONS	15
SECTION VI. GENERAL CONDITIONS	22
A. Appeals	22
B. Arbitration	22
C. Audit	22
D. Bankruptcy or Insolvency	23
E. Cancellation/Change/Nonrenewal	23
F. Conformance to Statute	24
G. Duties in The Event of an Occurrence or Wrongful Act or Employee Benefit Wrongful Act or Claim or Suit	25
H. First Named Insured	26
I. Inspection	27
J. Legal Actions Against Us	27
K. Other Insurance	27
L. Our Right Of Approval	27
M. Policy Changes	28

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

Table of Contents

N.	Policy Period	28
O.	Policy Territory	28
P.	Premium	28
Q.	Premium Audit	28
R.	Separation Of Insureds	29
S.	Subrogation	29
T.	Transfers of Your Rights and Duties	30

SPECIAL EXCESS LIABILITY POLICY FOR PUBLIC ENTITIES

Various provisions in this Policy restrict coverage. Read the entire Policy carefully to determine rights, duties, and what is and is not covered.

Throughout this Policy the words **you** and **your** refer to the **Named Insured(s)** shown in the Declarations and any other person(s) or organization(s) qualifying as an **insured** under this Policy. The words **we**, **us**, and **our** refer to the Company providing this insurance.

Other words and phrases that appear in boldface have special meaning. Refer to SECTION II. **DEFINITIONS**.

In consideration of the payment of the premium and in reliance upon the statements in the Declarations, **we** agree to provide as follows:

SECTION I. WHAT WE SHALL PAY ON YOUR BEHALF

A. INSURING AGREEMENTS

1. BODILY INJURY AND PROPERTY DAMAGE LIABILITY

We shall pay **you**, or on **your** behalf, the **ultimate net loss**, in excess of the **retained limit**, that the **insured** becomes legally obligated to pay by reason of liability imposed by law or assumed under an **insured contract** because of **bodily injury** or **property damage** arising out of an **occurrence** during the Policy Period.

2. ERRORS AND OMISSIONS LIABILITY

We shall pay **you**, or on **your** behalf, the **ultimate net loss**, in excess of the **retained limit**, that the **insured** becomes legally obligated to pay to compensate others for loss arising out of **your wrongful act** that takes place during the Policy Period and arises solely in performing or failing to perform duties of the **public entity**.

3. EMPLOYEE BENEFIT LIABILITY

We shall pay **you**, or on **your** behalf, the **ultimate net loss**, in excess of the **retained limit**, that the **insured** becomes legally obligated to compensate others for loss arising out of **your employee benefit wrongful act** that takes place during the Policy Period, in the **administration** of **your employee benefit program**.

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

B. DEFENSE AND DEFENSE COSTS

1. **We shall have the right and duty to defend, investigate and settle any claim or suit seeking damages covered by the terms and conditions of this Policy when the applicable limits of insurance of the underlying insurance listed in the Schedule of Underlying Insurance, the limits of insurance of any other underlying insurance providing coverage to you, or your self insured retention of the retained limit have been exhausted by payment to a third party of judgments, settlements, or defense costs, or by payment of covered first party automobile expenses.**
2. **When we assume the defense of any claim or suit:**
 - a. **We will defend any claim or suit against you seeking damages under this Policy even if such claim or suit is groundless, false, or fraudulent, but we have the right to investigate, defend, and settle the claim or suit as we deem necessary.**
 - b. **We will pay the following, to the extent that they are not included in the underlying insurance listed in the Schedule of Underlying Insurance, self insured retention of the retained limit or in any other insurance providing coverage to you:**
 - i. **Premiums on bonds to release attachments for amounts not exceeding our Limits of Insurance, but we are not obligated to apply for or furnish any such bond;**
 - ii. **Premiums on appeal bonds required by law to appeal any claim or suit we defend, but we are not obligated to apply for or furnish any such bond;**
 - iii. **All costs taxed against you in any claim or suit we defend;**
 - iv. **Pre-judgment interest awarded against you on that part of the judgment we pay. If we make an offer to pay the applicable Limit(s) of Insurance, we will not pay any pre-judgment interest based on that period of time after the offer;**
 - v. **All interest that accrues after entry of judgment and before we have paid, offered to pay, or deposited in court the part of the judgment that is within our applicable Limit(s) of Insurance; or**

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

- vi. **Your** expenses incurred with **our** consent or at **our** request.
3. **We** will not defend any **suit** or **claim** after **our** applicable Limit(s) of Insurance has been exhausted by payment of judgments, settlements, or defense costs.
 4. All expenses **we** incur in the defense of any **suit** or **claim** are included within the Limits of Insurance, except for salaries of **our** employees, **our** office expenses, and any expenses of any **claims** or **suit** by the servicing organization **we** have engaged.
 5. In all other instances except 1. above, **we** will not be obligated to assume charge of the investigation, settlement or defense of any **claim** made, **suit** brought or proceeding instituted against **you**. **We** will, however, have the right and shall be given the opportunity to participate in the defense and trial of any **claims**, **suit** or proceedings relative to any **occurrence**, **wrongful act** or **employee benefit wrongful act**, which in **our** opinion, may create liability for **us** under the terms and conditions of this Policy. If **we** exercise such right, **we** will do so at **our** own expense.
 6. If allegations of **wrongful acts** solely as respect to **employment practice liability** are not subsequently proven after a trial by a final judgment or other adjudication adverse to **you** or if there is a dismissal of the **claim** or **suit** before a trial, **we** will reimburse **you** up to fifty percent (50%) of reasonable defense costs **you** incur, subject to a maximum amount of \$250,000. However, reimbursement of such defense costs will not be made by **us** to **you** if there is any kind of settlement with a third party.

SECTION II. DEFINITIONS

A. **Administration** means:

1. Counseling **employees**, including their dependents and beneficiaries, with respect to the **employee benefit program**;
2. Handling records in connection with the **employee benefit program**; and/or
3. Effecting or terminating any **employee's** participation in a plan included in the **employee benefit program**.

B. **Automobile** means a land motor vehicle, trailer or semi-trailer; or, such land motor vehicles used in a transit or public transportation system operating over non-fixed routes as provided in the exception provisions of Exclusion DD.

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

- C. **Bodily Injury** means bodily harm, sickness, disability or disease. **Bodily injury** shall also mean mental injury, mental anguish, humiliation, shock or death if resulting directly from **bodily injury**, sickness, disability or disease. **Bodily injury** shall include care and loss of services resulting at any time resulting from the **bodily injury** of any person or persons.
- D. **Claim(s)** means a demand for money.
- E. **Covered first party automobile expenses** means the minimal legally mandated **automobile** personal injury protection (PIP) expenses and/or uninsured/underinsured motorists benefits.
- F. **Dam** means any artificial barrier, together with appurtenant works, which does or may impound or divert water.
- G. **Employee** includes a **leased worker** or a volunteer while acting within the scope of his/her duties as such.
- H. **Employee benefit program** includes any employee benefit plan involving, but not limited to, the following:
- Group life insurance, group accident or health insurance, profit sharing plans, pension plans and stock subscription plans provided that no one other than an **employee** may subscribe to such insurance or plans, unemployment insurance, social security benefits, workers' compensation and disability benefits.
- I. **Employee benefit wrongful act** means any actual or alleged negligent act, error, or omission in the **administration** of the **employee benefit program**.
- J. **Employment practice liability** shall mean any actual or alleged negligent error or omission resulting in loss to:
1. A person arising out of any:
 - a. Refusal to employ that person;
 - b. Termination of that person's employment; or
 - c. Employment related practices, policies, acts or omission, including, but not limited to, coercion, demotion, evaluation, **retaliation**, reassignment, discipline, defamation, harassment, failure to promote, humiliation, discrimination; or acts or omissions as described in 1.c. herein directed at a **whistle-blower**; or

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

2. The spouse, child, parent, brother or sister of that person as a consequence of loss to that person to whom any of the employment-related practices described in paragraphs. 1.a., 1.b., or 1.c. above apply.

This coverage applies:

- a. Whether **you** may be liable as an employer or in any other capacity; and
 - b. To any obligation to share damages with or repay someone else who must pay damages because of the injury.
- K. First aid** means the immediate and emergency care given to an ill or injured person before regular medical aid can be obtained.
- L. Hired automobile** means an **automobile** used under contract on **your** behalf or loaned to **you**, provided such **automobile** is not owned by **you** or registered in **your** name or in the name of any of **your employees** or servants.
- M. Hostile fire** means a fire that becomes uncontrollable or breaks out from where it was intended to be.
- N. Insured contract** means:
1. A contract for a lease of premises including but not limited to premises rented or loaned to **you**;
 2. A sidetrack agreement;
 3. Any easement or license agreement;
 4. An obligation, as required by ordinance;
 5. An elevator maintenance agreement;
 6. That part of any other contract or agreement pertaining to **your** business under which **you** assume the tort liability of another party to pay for **bodily injury** or for **property damage**, or for a **wrongful act** from a **personal injury offense** to a third person or organization. Tort liability means a liability that would be imposed by law in the absence of any contract or agreement; or

An **insured contract** does not include that part of any contract or agreement:

That indemnifies an architect, engineer, or surveyor, his agents or **employees**, for injury or damage arising out of:

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

- a. Preparing, approving or failing to prepare or approve maps, drawings, opinions, reports, surveys, change orders, designs, or specifications; or
 - b. Giving directions or instructions, or failing to give them, if that is the primary cause of the injury or damage.
- O. Joint powers authority(ies)** means two (2) or more public agencies joined together by a joint agreement in order to jointly exercise any power common to the contracting parties, including, but not limited to the power to create risk pooling and joint purchase of private insurance.
- P. Land subsidence** means the movement of land or earth, including, but not limited to, sinking or settling of land, earth movement, earth expansion and/or contraction, landslide, slipping, falling away, caving in, eroding, earth sinking, and earth rising or shifting or tilting.
- Q. Leased worker** means a person leased to **you** by a labor leasing firm under an agreement between **you** and the labor leasing firm, to perform duties related to the conduct of **your** business.
- R. Loading or unloading** means the handling of property:
 - 1. While it is in or on an aircraft; or
 - 2. While it is being moved from an aircraft to the place where it is finally delivered.

But **loading or unloading** does not include the movement of property by means of a mechanical device, other than a hand truck, that is not attached to the aircraft.
- S. Municipality** means a legally incorporated or duly authorized association of inhabitants of a limited area limited to the following: city, town, county, village, township, borough, hamlet, burgh, or state.
- T. Nuclear facility** means:
 - 1. Any **nuclear reactor**;
 - 2. Any equipment or device or used for:
 - a. Separating the isotopes of uranium or plutonium,
 - b. Processing or utilizing **spent fuel**, or
 - c. Handling, processing or packaging nuclear **waste**;

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

3. Any equipment or device used for the processing, fabricating, or alloying of **special nuclear material** if at any time the total amount of such material in **your** custody at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233, or any combination thereof, or more than 250 grams of uranium 235;
 4. Any structure, basin, excavation, premises or place prepared or used for the storage or disposal of nuclear **waste**; or
 5. The site on which 1. and 2. above are located, all operations conducted on those sites, and all premises used for such operations.
- U. **Nuclear material** means **source material, special nuclear material** or **by-product material**.
- V. **Nuclear reactor** means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material.
- W. **Occurrence** means an accident, including continuous, repeated, or related exposure to substantially the same general harmful conditions, which results in **bodily injury** or **property damage** neither expected or intended from **your** standpoint.
- X. **Owned automobile** means an **automobile** owned by **you** or under long term lease to **you**.
- Y. **Pollutants** means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and **waste** material. **Waste** material includes materials which are intended to be or have been recycled, reconditioned or reclaimed.
- Pollutants** shall not include potable water, water distributed to the consumer intended to be potable water, agricultural water, or water furnished to commercial users, or water used for fire suppression. **Pollutants** shall also not include smoke or fumes from a **hostile fire**.
- Z. **Products-completed operations hazard** means all **bodily injury** and **property damage** occurring away from premises **you** own or rent and arising out of **your product** or **your** work except:
1. Products that are still in **your** physical possession; or
 2. Work that has not yet been completed or abandoned.

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

Your work will be deemed completed at the earliest of the following times:

1. When all of the work called for in **your** contract has been completed;
2. When all of the work to be done at the site has been completed if **your** contract calls for work at more than one site; or
3. When that part of the work done at a job site has been put to its intended use by any person or organization other than another contractor or subcontractor working on the same project.

Work that may need service, maintenance, correction, repair or replacement, but which is otherwise complete, will be treated as completed.

This hazard does not include **bodily injury** or **property damage** arising out of:

1. The transportation of property, unless the injury or damage arises out of a condition in or of a vehicle created by the **loading or unloading** of it; or
2. The existence of tools, uninstalled equipment or abandoned or unused materials.

AA. Property damage means:

1. Physical injury to or destruction of tangible property, including all resulting loss of use of that property; or
2. Loss of use of tangible property that is not physically injured or destroyed.

BB. Public entity refers to that **municipality**, governmental body, department, or unit, which is a **Named Insured** in the Declarations.

CC. Retained limit refers to the amount stated in the Declarations. This amount may consist of a self insured retention, **underlying insurance**, or a combination thereof. If there are policies of **underlying insurance** and they do not apply to the **occurrence, wrongful act**, and/or **employee benefit wrongful act**, you shall retain this amount as self-insurance as stated in the Declarations with respect to:

1. **Bodily injury** or **property damage** arising out of each such **occurrence** or series of continuous, repeated or related **occurrences**;
2. Each such **wrongful act** or series of continuous, repeated or related **wrongful acts**; or

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

3. Each such **employee benefit wrongful act** or series of continuous, repeated, or related **employee benefit wrongful acts**.

The **retained limit**, with respect to a self-insured retention, shall include defense costs. The **retained limit**, however, shall not include salaries of **your employees**, **your** office expenses, or expenses of any claims servicing organization that **you** have engaged.

DD. Retaliation means a **wrongful act** of **yours** relating to or alleged to be in response to any of the following activities:

1. The disclosure or threat of disclosure by your employee to a superior or to any governmental agency of any act by you which is alleged to be a violation of any federal, state, local, or foreign law, common or statutory, or any rule or regulation promulgated thereunder;
2. The actual or attempted exercise by **your employee** of any right that such **employee** has under law, including rights under worker's compensation laws, the Family and Medical Leave Act, the Americans with Disabilities Act or any other law relating to **employee** rights;
3. The filing of any **claim** or **suit** under the Federal False Claims Act of any other federal, state, local, or foreign **whistle-blower** law; or
4. Strikes of **your employee**.

EE. Source material, special nuclear material and by-product material have the meaning given them in the Atomic Energy Act of 1954 or in any amendatory law thereof.

FF. Spent fuel means any fuel element or fuel component, solid or liquid, which has been used in or exposed to radiation in a **nuclear reactor**.

GG. Suit means a civil proceeding in which damages are alleged because of **bodily injury** or **property damage**, **wrongful act** or **employee benefit wrongful act** to which this insurance applies. **Suit** includes:

1. An arbitration proceeding in which such damages are claimed and to which **you** must submit or do submit with **our** consent; or
2. Any other alternative dispute resolution proceeding in which such damages are claimed and to which **you** submit with **our** consent.

HH. Ultimate net loss means the sum actually paid or payable due to a **claim** or **suit** for which **you** are liable either by a settlement to which **we** agreed or a final judgment, and

shall include defense costs. Such sum will include proper adjustments for recoveries and salvage.

II. Underlying insurance refers to the policies listed in the Schedule of **Underlying Insurance** and includes:

1. Any renewal or replacement of such policies;
2. Any other insurance available to the **you**; and
3. Any other valid and collectible risk financing mechanism provided under a **joint powers authority**.

JJ. Underlying insurer means any insurer which provides a policy listed in the Schedule of **Underlying Insurance** and includes any insurer which provides any renewal or replacement of such policies and any insurer which provides any other insurance available to **you**.

KK. Waste means any **waste** material containing **by-product material** and arising out of the operation by any person or organization of any **nuclear facility** included within the definition of **nuclear facility**.

LL. Whistle-blower means an **employee**, who discloses or threatens to disclose to a superior or any governmental agency, or who gives testimony relating to any action by **you**, which may be a violation of public policy as reflected in legislation, administrative rules, regulations or decisions, judicial decisions, or professional codes of ethics.

MM. Wrongful act means:

Any actual or alleged error or misstatement, omission, negligent act, or breach of duty including misfeasance, malfeasance, and nonfeasance by **you**, including, but not limited to, those constituted by:

1. Any violation of antitrust statutes;
2. Any negligent ministerial act;
3. Any faulty preparation or approval of maps, plans, reports, surveys, designs, bid documents, bid specifications, other specifications, or inaccuracies due to estimates of probable costs, but only if any of the afore listed services are provided by any **insured** for another **insured**;

4. **Employment practice liability**; or
5. Discrimination on any basis, including, but not limited to: race, creed, religion, ethnic background, national origin, age, handicap, sex or sexual orientation; but not intentionally committed by **you** or at **your** direction.

Wrongful act also means any **personal injury offense** or **advertising injury offense**.

Advertising injury offense means any act, error, or omission constituted by one or more of the following:

1. Oral or written publication of material that slanders or libels a person or organization, or disparages a person or organization's goods, products, or services;
2. Oral or written publication of material that violates a person's right of privacy;
3. Misappropriation of advertising ideas or style of doing business; or
4. Infringement of copyright, title or slogan.

Personal injury offense means any act, error, or omission constituted by one or more of the following:

1. False arrest, detention or imprisonment;
2. Malicious prosecution;
3. Oral or written publication of material that slanders or libels a person or organization, or disparages a person or organization's goods, products, or services;
4. The wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room, dwelling, or premises that a person occupies by or on behalf of its owner, landlord or lessor;
5. Violation of an individual's right to privacy; or
6. Assault and battery.

NN. Your Product means:

1. Any goods or products, other than real property, manufactured, sold, handled, distributed or disposed of by:

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

- a. **You;**
 - b. A person or organization whose business or assets **you** have acquired; and
2. Containers, other than vehicles, materials, parts or equipment furnished in connection with such goods or products;

Your product includes:

3. Warranties or representations made at any time with respect to the fitness, quality, durability, performance or use of **your product**;
4. The providing of or failure to provide warnings or instructions;
5. Work or operations performed by **you** or on **your** behalf; and
6. Materials, parts or equipment furnished in connection with such work or operations.

SECTION III. LIMITS OF INSURANCE

A. The Limits of Insurance shown in the Declarations and the rules below state the most we will pay in excess of **your retained limit** regardless of the number of:

1. **Insureds.** However, in the event that there are multiple **municipalities** as **Named Insureds**, **our** Limits of Insurance shall apply separately to each **municipality** insured under this Policy;
2. **Claims** made or **suits** brought; or
3. Persons or organizations making **claims** or bringing **suits**.

B. The **retained limit** shown in the Declarations applies:

1. Only to damages for **occurrences**, losses for **wrongful acts**, or losses for **employee benefit wrongful acts** covered under this Policy; and
2. Separately to each **occurrence, wrongful act, or employee benefit wrongful act** or series of continuous, repeated, or related **occurrences, wrongful acts, or employee benefit wrongful acts**; and

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

3. Separately to each **municipality** insured under this Policy in the event that there are multiple **municipalities** as **Named Insureds**.
- C. **Our** duty to pay any sums that **you** become legally obligated to pay arises only after there has been a complete expenditure of **your retained limit** by means of payments for judgments, settlements, or defense costs. **Your retained limit** shall not be exhausted by **your** office expenses, **employees'** salaries, or expenses of any claims servicing organization that **you** have engaged. **We** will then be liable only for that portion of damages in excess of **your retained limit** up to **our** Limits of Insurance.
- D. If the limits of insurance of the **underlying insurance** are less than **your retained limit**, **you** shall bear the risk of the difference. If such limits, however, are greater than **your retained limit**, this Policy is in excess of the greater limits.
- E. The Per **Occurrence** or **Wrongful Act** or **Employee Benefit Wrongful Act** Limit of Insurance is the most **we** will pay for the sum of all damages because of **bodily injury** or **property damage** arising out of a single **occurrence** or all losses arising out of a single **wrongful act** or all losses arising out of a single **employee benefit wrongful act**.
- F. All **occurrences** arising out of continuous, repeated, or related **occurrences** shall be treated as one **occurrence**. All **wrongful acts** or **employee benefit wrongful acts** arising out of continuous, repeated, or related **wrongful acts** or **employee benefit wrongful acts** shall be treated as one **wrongful act** or one **employee benefit wrongful act**. The Limits of Insurance in effect when the first **claim** or **suit** is made and reported to **us** shall apply.
- G. The Aggregate Limits are the most **we** will pay for the total of all damages:
1. Under the **products-completed operations hazard** arising out of all **occurrences**; or
 2. For all losses arising out of all **wrongful acts**; or
 3. For all losses arising out of all **employee benefit wrongful acts**;
- and subject to SECTION III. A. above, if there are multiple **municipalities** as **Named Insureds**.
- H. The Limits of Insurance apply separately to each consecutive annual period. The Policy Period begins with the effective date shown in the Declarations. If the Policy Period is extended after issuance for an additional period of less than twelve (12) months, the additional period will be deemed part of the last preceding period.

SECTION IV. WHO IS AN INSURED

Insured means each of the following:

- A. The **Named Insured** designated in the Declarations;
- B. Those individuals who were or now are elected or appointed officials of the **Named Insured**, including members of its governing body or any other agencies, districts, authorities, committees, trustees, boards, commissions, or similar entity of the **Named Insured**, while acting on behalf of the **Named Insured**;
- C. Any of **your employees**, servants, or volunteers while acting within the course and scope of their employment or duties as volunteers;
- D. Any and all legally authorized **joint power authority(ies)** representing any listed **Named Insured** under this Policy. The following are also **insureds** with respect to such **joint power authority(ies)**:
 - 1. The **municipality** agencies participating as member agencies in the **joint power authority(ies)**, and any and all districts, authorities, committees, trustees, boards, commissions, or similar entity subject to the direction or control of such agencies or for which the board members act as governing body. The member agency includes all departments and constituent agencies of the member agency; and
 - 2. Any person(s) who are past or present elected or appointed officers, **employees**, or authorized volunteers of the member agencies, whether or not compensated while acting on behalf of the member agencies and within their scope of employment or volunteer capacities, including acting on boards at the direction of the agencies.
- E. Any person:
 - 1. Designated in paragraphs A. through D. with respect to any **automobile** not owned by **you** that is used in **your** operations as a **public entity**; and
 - 2. Using any **owned automobile** or **hired automobile** or any person legally responsible for the use thereof, provided that the **automobile** is being used with **your** permission.

The coverage granted by this provision, however, does not apply to:

- 1. Any person operating an **automobile** while working in a business that sells, services, repairs, delivers, tests, parks, or stores **automobiles**; or

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

2. The owner or lessee of any **hired automobile**, other than the **insured** or any agent or **employee** of such owner or lessee.

SECTION V. EXCLUSIONS

We will not defend or pay under this Policy for **claims** or **suits** against you:

- A. For **bodily injury** or **property damage**, arising out of a **wrongful act** or **employee benefit wrongful act** whether causing or contributing to such **bodily injury** or **property damage**. However, if **bodily injury** or **property damage** arises out of an **occurrence**, coverage applies only to the **occurrence** and is subject to the terms and conditions of this Policy;
- B. Arising out of the ownership, maintenance, loading or unloading, use or operation of any aircraft, airfields, runways, hangars, buildings or other properties in connection with aviation activities.

However, in connection with airfields, runways, hangars, buildings or other properties in connection with aviation activities, this exclusion shall not apply to those areas open to the public for the purpose of entering, leaving, or using the airport facilities, including parking lots and garages;
- C. For which **you**, or any carrier as **your** insurer, may be held liable under any workers' or unemployment compensation law, disability benefits law or any similar law;
- D. Arising out of the liability of **your employee** for **bodily injury** to another of **your employee(s)** injured in the course of his or her employment. However, this exclusion does not apply to liability assumed by **you** under any **insured contract**;
- E. Arising out of any **advertising injury offense** due to:
 1. Breach of contract, other than misappropriation of advertising ideas under an implied contract;
 2. The failure of goods, products or services to conform with advertised quality or performance;
 3. The wrong description of the price of goods, products, or services; or
 4. Operations by an **insured** whose primary business is advertising, broadcasting, publishing or telecasting.

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

F. For **property damage**:

1. To property owned by **you**; or
2. To aircraft in **your** care, custody or control or as to which **you** are for any purpose exercising physical control.

G. Arising from liability **you** assume in a contract or agreement. This exclusion does not apply to liability for damages:

1. Assumed in a contract or agreement that is an **insured contract** provided the **bodily injury** or **property damage** occurs subsequent to the execution of the contract or agreement; or
2. That **you** would have in the absence of the contract or agreement;

H. 1. For **bodily injury** or **property damage** due to an **occurrence** or loss due to a **wrongful act** which would not have occurred in whole or in part but for the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of **pollutants** at any time;

2. For any loss, cost, or expense arising out of any:

- a. Request, demand or order that any **insured** or others test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of **pollutants**; or
- b. **Claim** or **suit** by, or on behalf of, a governmental authority for damages because of testing for, monitoring, cleaning up, removing, containing, treating, detoxifying or neutralizing, or in any way responding to, or assessing the effects of **pollutants**.

However, 2.b. shall not apply to such loss, cost, or expense arising from any spill, release, or other hazardous condition at or from the premises, equipment, or location(s) which **you** do not own, rent, control or occupy.

However, this exclusion shall not apply to the following:

- i. Any liability arising out of **bodily injury** or **property damage** due to an **occurrence** or loss due to a **wrongful act** by **you** arising out of heat, smoke, or fumes from a **hostile fire**;

- ii. Any liability arising out of explosion, lightning, windstorm, vandalism or malicious mischief, collapse, riot and civil commotion, flood, earthquake or collision, upset, or overturn of an **automobile** or equipment;
- iii. Any liability arising out of police use of mace, oleoresin capsicum (o.c.), pepper gas or tear gas;
- iv. Weed abatement or spraying; or
- v. Any liability arising out of the **products-completed operations hazard**.

All **bodily injury** or **property damage** due to an **occurrence** or loss due to a **wrongful act** arising from i., ii., iii., iv., or v. above arising out of the same, interrelated, associated, repeated or continual discharge, dispersal, release or escape of **pollutants** shall be deemed one **occurrence** or **wrongful act**. The commencement of such discharge, dispersal, release or escape of **pollutants** shall be recorded and reported to the Risk Manager or designated Department Head within a seventy-two (72) hour period.

It is further agreed that regardless of whether any **suit** or **claim** against **you** has been made, **you** shall give written notice to **us** or any of **our** authorized brokers within forty (40) calendar days of the Risk Manager's or designated Department Head's recorded entry of such discharge, dispersal, release or escape of **pollutants** which may result in liability for **bodily injury** or **property damage** due to an **occurrence** or loss due to a **wrongful act** as described in i., ii., iii., iv., or v. above;

- I.
 - 1. Arising out of the manufacture of, mining of, use of, sale of, installation of, removal of, distribution of, or exposure to asbestos products, asbestos fibers, or asbestos dust; or
 - 2. For any of **your** obligations to indemnify any party because of damage arising out of **bodily injury** or **property damage** due to an **occurrence** or loss due to a **wrongful act** at any time as a result of the manufacture of, mining of, use of, sale of, installation of, removal of, distribution of, or exposure to asbestos, asbestos products, asbestos fibers, or asbestos dust; or
 - 3. For any of **your** obligations to defend any **claim** or **suit** against **you** seeking damages arising out of **bodily injury** or **property damage** due to an **occurrence** or loss due to a **wrongful act**, if such **claim** or **suit** results from or is contributed to any combination of the following: manufacture of, mining of, use of, sale of, installation of, removal of, distribution of, or exposure to asbestos, asbestos products, asbestos fibers, or asbestos dust.

Copyright © 1995, American International Group, Inc. All rights reserved.
 Includes copyrighted material of Insurance Services Office, Inc., with its permission.
 Copyright © 1994, Insurance Services Office, Inc.

We also shall not pay any cost related to the defense, investigation, and settlement of any such **claim** or **suit** as described in 1., 2., or 3. above;

J. For liability:

1. With respect to which **you** are an **insured** under a nuclear energy liability policy by the Mutual Atomic Energy Liability Underwriters, the American Nuclear Insurers, or the Nuclear Insurance Association of Canada, or any successor organizations, or would be an **insured** under any such policy but for its termination upon exhaustion of its limit of liability; or
2. Arising out of the hazardous properties of **nuclear material** with respect to which (a) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (b) **you** are, or had this Policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization; or
3. Arising out of the hazardous properties of **nuclear material**, if:
 - a. The **nuclear material** is at any **nuclear facility** owned by, or operated by **you** or on **your** behalf or has been discharged or dispersed therefrom;
 - b. The **nuclear material** is contained in **spent fuel** or **waste** at any time possessed, handled, used, processed, stored, transported or disposed of by **you** or on **your** behalf ; or
 - c. The damage or loss arises out of the furnishing by **you** of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any **nuclear facility**, but if such facility is located within the United States of America, its territories or possessions, or Canada, this exclusion c. applies only to damage or loss to such **nuclear facility** and any property located at the facility;

We also shall not pay any cost related to the defense, investigation, and settlement of any **claim** or **suit**.

- K. Arising out of the failure or inability to supply or provide an adequate supply of electricity, fuel, or water arising out of the interruption of the electrical power, fuel, or water supply;
- L. Arising out of a **wrongful act** by **you** or on **your** behalf in the handling of **claims** or **suits** within **your retained limit** whenever **you** investigate, defend, or settle such **claims** or **suits** or elect a third party to investigate, defend or settle such **claims** or **suits**;
- M. Arising out of the effecting or failure to effect insurance contracts;
- N. Arising out of the Employee Retirement Income Security Act of 1974 or amendments thereto;
- O. Arising out of an alleged willful commission of a crime by **you** or other dishonest, fraudulent, or malicious act. At **our** discretion, however, **we** will pay for defense costs until final adjudication, judgment, or settlement to which **we** have agreed. If the judgment or final adjudication is adverse to **you**, **you** will reimburse **us** for all costs associated with the defense.

This exclusion shall not apply to any vicarious liability that any **insured** has with regard to the managerial, advisory, supervisory, or controlling obligations over the actions of another **insured**.

- P. Arising out of **your wrongful act** for gain, profit, or advantage to which **you** are not legally entitled. At **our** discretion, however, **we** will pay for defense costs for any **claim** or **suit** arising from an alleged willful commission of a crime by **you** or other dishonest, fraudulent or malicious act, for any **claim** or **suit** arising out of **your wrongful act** for gain, profit, or advantage to which **you** are not legally entitled until final adjudication, judgment or settlement to which **we** have agreed. If the judgment or final adjudication is adverse to **you**, **you** will reimburse **us** for all costs associated with the defense;

This exclusion shall not apply to any vicarious liability that any **insured** has with regard to the managerial, advisory, supervisory, or controlling obligations over the actions of another **insured**;

- Q. For **personal injury offense** or **advertising injury offense**:

1. Arising out of oral or written publication of material, if done by or at the direction of the **insured** with knowledge of its falsity; or
2. Arising out of oral or written publication of material whose first publication took place before the beginning of the Policy Period. All **personal injury offense** or

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

advertising injury offense arising out of publication of the same or similar material subsequent to the beginning of the Policy Period is also excluded;

- R. Arising out of the purchase, sale, or offer of sale, or solicitation of any security, debt, bank deposit or financial interest or instrument;
- S. Arising out of any representations made at any time in relation to the price or value of any security, debt, bank deposit, or financial interest or instrument, including, but not limited to, advice given to any person to participate in any plan included in the **employee benefit program**;
- T. Arising out of any depreciation or decline in price or value of any security, debt, bank deposit or financial interest or instrument;
- U. Arising out of an insufficiency of funds to meet any obligation under any **employee benefit program**;
- V. Arising out of act, error, or omission by the **insured** to effect and maintain insurance or bonding for plan property or assets of **employee benefit program**;
- W. Arising out of failure of performance or performance under any contract by an insurer of benefits subject to the **employee benefit program**;
- X. For any **property damage** arising out of **land subsidence** for any reason whatsoever;
- Y. Arising out of direct condemnation of property or exercise of power of eminent domain by **you** or on **your** behalf, or inverse condemnation, or any taking of property by **you** which is compensable under the Fifth or Fourteenth Amendments to the United States Constitution, or any taking of property by **you** which is compensable under law of the State in which the **claim** or **suit** is made;

This exclusion shall not apply to physical injury or to destruction of tangible property, including all resulting loss of use of such property for which **you** may be legally responsible and for which recovery is sought for **claims** or **suits** for inverse condemnation, by whatever name called; provided, however, that in any case which a **claim** or **suit** for inverse condemnation, by whatever name called, is made against **you**, coverage shall only exist for physical injury to or destruction of tangible property, including all resulting loss of use of that property, and there shall be no coverage for reduced value of property (diminution of value), attorney fees, expert fees, severance damages, relocation costs or any other form of relief, however denominated;

- Z. Arising out of the rupture, bursting, over-topping, flooding, cracking, seepage, under-seepage, accidental discharge or partial or complete structural failure of any **dam**;

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

- AA. For **wrongful acts** arising out of refund of taxes, fees, or assessments;
- BB. Arising out of exposure to or transmission of any actual or suspected Human Immunodeficiency Virus (HIV), Acquired Immune Deficiency Syndrome (AIDS), or AIDS Related Complex (ARC);
- CC. For liability arising out of, or in connection with, the operation of any hospital, clinic, or health care facility, owned or operated by the **insured**, including, but not limited to:
1. The rendering or failure to render:
 - a. Medical, surgical, dental, x-ray or nursing service or treatment, or the furnishing of food or beverages in connection therewith;
 - b. Any service or treatment related to physical or mental health or of a professional nature;
 - c. Any cosmetic or tonsorial service or treatment; or
 2. The furnishing of or dispensing of drugs or medical, dental or surgical supplies or appliances.
- This exclusion shall not apply to any liability arising out of:
- a. Occupational physical examinations, paramedics, ambulance operations, or emergency medical technicians;
 - b. **Employment practice liability**; or
 - c. **First aid** to any person;
- DD. For liability arising out of or in connection with any transit authority, transit system, or public transportation system owned, operated, or regulated by any **insured**. This exclusion shall not apply to transit or public transportation systems operating over non-fixed routes, including, but not limited to, Dial-a-Ride, senior citizen transportation, or handicapped persons transportation or to contingent liability coverage where such services are contracted;
- EE. For injunctions, equitable relief, or any other form of relief other than the payment of money damages; or
- FF. For liability arising out of or in connection with the operation of any school, owned or operated by **you**.

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

VI. GENERAL CONDITIONS

A. Appeals

If **you** or **your underlying insurers** do not appeal a judgment in excess of **your retained limit**, **we** have the right to make such an appeal. If **we** elect to appeal, the cost incurred will be at **our** expense and not included within **our** Limits of Insurance. **Our** liability on such an award or judgment shall not exceed **our** Limits of Insurance as stated in the Declarations.

B. Arbitration

In the event of a disagreement as to the interpretation of this Policy, the disagreement shall be submitted to binding arbitration before a panel of three (3) arbitrators. Within thirty (30) days of a written request for arbitration by either **you** or **us**, each party will choose an arbitrator. If the two arbitrators are unable to agree within one (1) month upon the third arbitrator, such arbitrator shall at the request of either party be selected by the American Arbitration Association in accordance with its rules and procedures.

The parties shall submit their cases to the panel by written and oral evidence at a hearing time and place selected by the third arbitrator. The panel shall be relieved of all judicial formality, shall not be obligated to adhere to the strict rules of law or of evidence, shall seek to enforce the intent of the parties hereto and may refer to, but are limited to, relevant legal principles. The decision of at least two (2) of the three (3) panel members shall be binding and final and not subject to appeal except for grounds of fraud and gross misconduct by the arbitrators. The award will be issued within thirty (30) days of the close of the hearings. Each party shall bear the expenses of its designated arbitrator and shall jointly and equally share with the other the expense of the third arbitrator and of the arbitration.

The arbitration proceedings shall take place in the State shown in Item 1. of the Declarations. The procedural rules applicable to this arbitration shall, except as provided otherwise herein, be in accordance with the Commercial Arbitration Rules of the American Arbitration Association.

C. Audit

We may audit and examine **your** books and records as they relate to this Policy at any time during the Policy Period and for up to three (3) years after the expiration or termination of this Policy.

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

D. **Bankruptcy or Insolvency**

Your bankruptcy, insolvency or inability to pay, or the bankruptcy, insolvency or inability to pay of any of **your underlying insurers** will not relieve **us** from the payment of any **claim** or **suit** covered by this Policy.

But under no circumstances will such bankruptcy, insolvency, or inability to pay require **us** to drop down or in any way replace **your retained limit** or assume any obligation associated with **your retained limit**.

E. **Cancellation/Change/Nonrenewal**

1. If this Policy has been in effect for more than sixty (60) days, **we** may not cancel this Policy unless for non-payment of premium. **You** may cancel this Policy at any time, by surrendering the Policy to **us** or to any of **our** authorized brokers or by mailing to **us** written notice stating when thereafter the cancellation shall be effective. If **we** cancel this Policy because **you** have failed to pay a premium when due, **we** may cancel this Policy by mailing written notice of cancellation to **you** at the address shown in the Declarations stating when, not less than twenty (20) days thereafter, such cancellation shall be effective. Mailing such notice to **you** at **your** mailing address shown in the Declarations will be sufficient to prove cancellation.
2. If this Policy has been in effect for less than sixty (60) days and is not a renewal, **we** may cancel this Policy by mailing or delivering to the first **Named Insured** written notice of cancellation at least seventy-five (75) days before the effective date of cancellation if there has been:
 - a. A material misstatement or misrepresentation, or
 - b. Failure to comply with underwriting requirements established by **us**.
3. The Policy Period will end on the day and hour stated in the cancellation/nonrenewal notice.
4. If **we** cancel, the final premium will be calculated pro rata based on the time this Policy was in force. The final premium will not be less than the pro rata share of the Minimum Premium as shown in the Declarations.

5. If **you** cancel, the earned premium shall be computed in accordance with the customary short rate table and procedure, which is subject to the annual Minimum Earned Premium.
6. A premium adjustment will be made at the time of cancellation or as soon as practicable thereafter, but the cancellation will be effective even if **we** have not made or offered any refund due **you**. **Our** check or **our** representative's check, mailed or delivered, shall be sufficient tender of any refund due **you**.
7. The first **Named Insured**, in the Declarations, will act on behalf of all other **insureds** with respect to the giving and receiving of notice of cancellation/change/nonrenewal and the receipt of any refund that may become payable under this Policy.
8. If **we** elect to renew this Policy and the renewal is subject to a premium increase of twenty-five percent (25%) or greater, or a reduction in Limits of Insurance, or a substantial reduction in coverage, then **we** shall mail written notice of the change(s) to the first **Named Insured** and **our** authorized broker (at the mailing address shown on this Policy) at least sixty (60) days before the expiration date of this Policy. If **we** fail to provide sixty (60) days notice, this Policy shall remain in effect for sixty (60) days after the date of mailing the notice or until the effective date of the replacement coverage is obtained by the first **Named Insured**, whichever occurs first. If the first **Named Insured** elects not to renew, and earned premium for the period of extension of the terminated Policy will be calculated pro rata at the lower of the current or previous year's rate. If the first **Named Insured** accepts the renewal, the premium increase, if any, and other changes, then such changes are effective the day following the expiration date of this current Policy.
9. **We** may nonrenew this Policy by giving written notice of nonrenewal to the first **Named Insured** and **our** authorized broker, (at the mailing address shown on this Policy) no less than ninety (90) days prior to the expiration date of the Policy. If **we** fail to mail or deliver the notice of nonrenewal, **we** will extend this existing Policy for an additional ninety (90) days. Notice of nonrenewal will not be required if: (a) **we** have offered renewal, (b) **you** have replaced coverage or (c) **you** have agreed in writing to replace coverage. If **we** provide such notice and extend this Policy for ninety (90) days or less, an additional notice of nonrenewal is not required.

F. **Conformance to Statute**

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

To the extent a term or condition of this Policy conflicts with a statute of the state within which this Policy is issued, this Policy shall be amended to conform to the minimum requirement of the statute.

G. **Duties in The Event of an Occurrence or Wrongful Act or Employee Benefit Wrongful Act or Claim or Suit**

1. General Reporting Requirements

- a. **You** must notify **us** as soon as practicable of an **occurrence**, **wrongful act**, or **employee benefit wrongful act** which may result in a **claim** or **suit** under this Policy. To the extent possible, notice should include:
 - i. How, when, and where the **occurrence**, **wrongful act**, or **employment benefit wrongful act** took place;
 - ii. Names and addresses of any injured persons and witnesses; and
 - iii. The nature and or location of any injury or damage arising out of the **occurrence**, loss arising out of the **wrongful act** or **employee benefit wrongful act**.
- b. If a **claim** is made or **suit** is brought against **you** that is reasonably likely to involve this Policy, **you** must notify **us** in writing as soon as practicable.
- c. **You** and any other involved **insured** must:
 - i. Cooperate with the **underlying insurers**;
 - ii. Comply with the terms and conditions of the **underlying insurance**; and
 - iii. Pursue all rights of contribution or indemnity against any person or organization who may be liable to **you** because of **bodily injury** or **property damage**, **personal injury offense**, **advertising injury offense**, **wrongful act** or **employee benefit wrongful act** under this Policy or any **underlying insurance**. This condition, however, shall not apply to the self insured retention of the **retained limit**.

- c. When we believe that a **claim** or **suit** may exceed the **retained limit**, we may join **you** and, if applicable, the **underlying insurer** in the investigation, settlement and defense of all **claims** and **suits** in connection with such **occurrence**, **wrongful act**, or **employee benefit wrongful act**. In such event, **we** and **you** will cooperate fully with each other.

2. Special Serious Claims Reporting Requirements

You shall give **us** prompt written notice of all **occurrences**, **wrongful acts**, or **employee benefit wrongful acts** for **claims** or **suits** of which **you** become aware which involve:

- a. A serious case where, in which **your** judgment or the judgment of **your** defense counsel, the exposure may exceed \$250,000;
 - b. A demand or demands totaling \$250,000. or more;
 - c. Death;
 - d. Paralysis, paraplegia, quadriplegia;
 - e. Loss of eye(s) or limb(s);
 - f. Spinal cord or brain injury;
 - g. Sensory organ or nerve injury, or neurological deficit;
 - h. Serious burns;
 - i. Substantial disability or disfigurement; or
 - j. Loss of work time of six months or more.
3. Such notice is to be sent with all pertinent facts as respect GENERAL CONDITIONS, paragraphs G.1. and 2. to:

C. V. Starr and Co.
C. V. Starr Claims
175 Water Street, 22nd Floor
New York, New York 10038

H. **First Named Insured**

The **insured** first named in Item 1. in the Declarations is authorized to act on behalf of all **Named Insureds** and other **insureds** with respect to the giving and receiving of notice of cancellation and to receiving any return premium that may become payable under this Policy. The **insured** first named in Item 1. in the Declarations is responsible for the payment of all premiums, but the **Named Insureds** jointly and severally agree to make such premium payments in full if the **insured** first named in Item 1. fails to pay the amount due within thirty (30)

days after **we** give a written demand for payment to the **insured** first named in Item 1.

I. **Inspection**

We have the right, but are not obligated, to inspect **your** premises and operations at any time. **Our** inspections are not safety inspections. They relate only to the insurability of **your** premises and operations and the premiums to be charged. **We** may give **you** reports on the conditions **we** find. **We** may also recommend changes. While they may help reduce **claims** or **suits**, **we** do not undertake to perform the duty of any person or organization to provide for the health or safety of **your employees** or the public. **We** do not warrant that **your** premises or operations are safe or healthful or that they comply with laws, regulations, codes, or standards.

J. **Legal Actions Against Us**

There will be no right of action against **us** under this insurance unless:

1. **You** have complied with all the terms and conditions of this Policy; and
2. The amount **you** owe has been determined with **our** consent or by actual trial and final judgment.

This insurance does not give anyone the right to add **us** as a defendant in an action against **you** to determine **your** liability.

K. **Other Insurance**

If other valid and collectible insurance or group coverage under a **joint powers authority** applies to a **claim** or **suit** that is also covered by this Policy, and subject to SECTION III. LIMITS OF INSURANCE of this Policy, this Policy will apply excess of the other insurance, whether this other insurance is primary, excess, contingent, or issued on any other basis. This provision, however, will not apply if the other insurance is specifically written to be excess of this Policy.

L. **Our Right of Approval**

We reserve the right to approve defense counsel for **claims** or **suits** likely to exceed **your retained limit**.

M. **Policy Changes**

This Policy contains all the agreements between **you** and **us** concerning this insurance. The first **Named Insured** in the Declarations is authorized to make changes in this Policy with **our** consent. This Policy can only be changed by a written endorsement **we** issue and make a part of this Policy.

Notice to any broker or knowledge possessed by a broker or any other person will not effect a waiver or change in any part of this Policy.

N. **Policy Period**

The Policy Period commences on the effective date shown in the Declarations. The period ends on the earlier of either the expiration date or the effective date of cancellation of this Policy. If **you** became an **insured** under this Policy after the effective date, the Policy Period begins on the date **you** became an **insured**.

O. **Policy Territory**

This Policy applies to **occurrences, wrongful acts, and employee benefit wrongful acts** anywhere in the world, but only if a **claim** is made and a **suit** is brought for such **occurrence, wrongful act, and employee benefit wrongful act** in the United States of America.

P. **Premium**

You shall be responsible for the payment of the Advanced Premium, as indicated in the Declarations, prior to the effective date of this Policy. The Advanced Premium is a deposit premium only, which shall be credited to the amount of the earned premium due at the end of the Policy Period. The earned premium for the Policy Period shall be computed by application of the rate shown in the Policy Declarations to the audited exposure base. If the total earned premium so computed is less than the Advanced Premium previously paid, **we** shall return to the **Named Insured** the unearned portion paid by the **Named Insured**. Earned premium in any Policy Period shall be subject to the Minimum Premium and the Minimum Earned Premium, as stated in the Declarations. If the total earned premium exceeds the Advanced Premium, the **Named Insured** shall remit to **us** the balance due in accordance with **our** regular payment terms and conditions.

Q. **Premium Audit**

You must keep records of the information **we** need for premium computation, and send **us** copies at such times as **we** may request.

Copyright © 1995, American International Group, Inc. All rights reserved.
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
Copyright © 1994, Insurance Services Office, Inc.

At the close of the Policy Period, we will compute the earned premium for that Policy Period.

No additional premium will be charged at audit unless the actual exposure base exceeds the estimated exposure base by more than 15%, and then only for the audited exposure base that exceeds 115% of the estimated exposure base as described above. This clause only applies to **Named Insureds** at the inception of this Policy and not to **Named Insureds** added subsequently.

R. **Separation of Insureds**

Except with respect to the Limits of Insurance Section of this Policy and any rights or duties specifically assigned to the first **Named Insured** designated in the Declarations, this insurance applies:

1. As if each **Named Insured** were the only **Named Insured**; and
2. Separately to each **insured** against whom a **claim** is made or **suit** brought.

S. **Subrogation**

If **you** have rights to recover all or part of any payment **we** have made under this Policy, those rights are transferred to **us**. **You** must do nothing after such payment to impair these rights and **you** must help **us** enforce them.

Any recoveries shall be applied as follows:

1. Any interest, including **yours**, that have been paid in an amount in excess of **our** payment under this Policy will be reimbursed first;
2. **We** then will be reimbursed up to the amount **we** have paid; and

3. Any interests, including **yours**, over which **our** insurance is **excess**, are entitled to claim the residue.

Expenses incurred in the exercise of rights of recovery shall be apportioned between the interests, including **yours**, in the ratio of their respective recoveries as finally settled.

T. Transfers of Your Rights and Duties

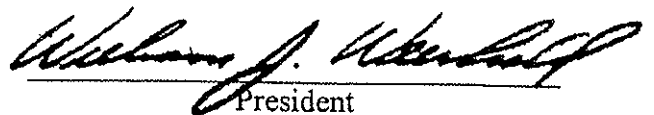
The interest of any **insured** is not assignable. **Your** rights and duties under this Policy may not be transferred without **our** written consent.

If **you** are declared legally bankrupt, **your** rights and duties will be transferred to **your** legal representative but only while acting within the scope of his duties as **your** legal representative.

IN WITNESS WHEREOF, we have caused this Policy to be signed by **our** President and Secretary and countersigned where required by law on the Declarations Page by **our** duly authorized representative.



Assistant Secretary
C.V. Starr & Co.
Underwriting Manager
for
The Insurance Company of
The State of Pennsylvania



President
C.V. Starr & Co.
Underwriting Manager
for
The Insurance Company of
The State of Pennsylvania

POTENTIAL RESTRICTIONS OF TERRORISM COVERAGE

The Terrorism Risk Insurance Act of 2002 (TRIA) established a program (Terrorism Risk Insurance Program) within the United States Department of the Treasury, under which the Federal Government shares, with the insurance industry, the risk of loss from terrorist attacks. This Program is scheduled to terminate on December 31, 2005 unless extended by the Federal Government.

Your enclosed policy incepts while the Federal Program is still in effect, but prior to a decision by the Federal Government concerning extension of the Federal Program. If the Federal Government does not extend TRIA during the term of your policy, then the treatment of terrorism under your policy will change.

If you have *not* purchased TRIA coverage for the additional premium quoted, two (2) terrorism exclusion endorsements will be attached to your policy, so long as they have been approved by the applicable state regulatory office. If regulatory approval has not been granted for your applicable state neither endorsement is available for attachment:

- The first exclusion serves to identify that TRIA may terminate during your policy period. If it does, the first exclusion will be replaced by the second exclusion. If TRIA is not terminated, the first exclusion also serves to exclude coverage for terrorism as defined by TRIA.
- The second exclusion serves to eliminate coverage for acts of "terrorism" and will essentially read *:

This insurance does not apply to loss, injury, damage, claim or suit, arising directly or indirectly as a result of, in connection with, or relating to "terrorism" including but not limited to:

1. Any action taken in hindering or defending against an actual or expected incident of "terrorism" regardless of any other cause or event that contributes concurrently or in any sequence to the injury or damage; and
2. Any contemporaneous or ensuing loss caused by explosion, fire, heat, vandalism, looting, theft, civil commotion, rebellion or insurrection.

However, this exclusion only applies if one or more of the following are attributable to an incident of "terrorism":

1. The total of damages and/or loss to all types of property exceeds \$25,000,000. In determining whether the \$25,000,000 threshold is exceeded, we will include the replacement cost, without deduction for depreciation, for all damage sustained by any property affected by the "terrorism" and business interruption losses sustained by owners or occupants of damaged property; or
2. Fifty or more persons sustain death or serious physical injury. For the purposes of this provision, serious physical injury means:
 - a. Physical injury that involves a substantial risk of death; or
 - b. Protracted and obvious physical disfigurement; or
 - c. Protracted loss of or impairment of the function of any bodily member or organ; or
3. The "terrorism" involves the actual, alleged or threatened use, release, escape, dispersal, application and or existence of:
 - a. Any nuclear reaction;
 - b. Radioactive materials or "nuclear materials" in any form and from any source;
 - c. Radionuclides;
 - d. Radiation emitted from any radioactive source whether natural or manmade; and/or
 - e. Electromagnetic pulses; or

4. The "terrorism" involves the actual, alleged or threatened use, release, escape, dispersal and/or application of pathogenic or poisonous chemical or "biological" materials, whether natural, manmade, living or dead.

Multiple incidents of "terrorism" that occur within a seventy-two hour period and appear to be carried out in concert or to have a related purpose or common leadership will be considered to be one incident.

This endorsement is subject to the approval of various states. Attachment of such an endorsement would provide for a return of the unearned pro-rata portion of any charge for terrorism coverage that you paid to us calculated based upon the date the TRIA program terminates relative to the number of days remaining until your policy's natural expiration.

DEFINITIONS - The following definitions shall apply:

"Terrorism" means the use or threatened use of force or violence against person or property, or commission of an act dangerous to human life or property, or commission of an act that interferes with or disrupts an electronic or communication system, undertaken by any person or group, whether or not acting on behalf of or in any connection with any organization, government, power, authority or military force, when the effect is to intimidate, coerce or harm:

- a. A government;
- b. The civilian population of a country, state or community; or
- c. To disrupt the economy of a country, state or community.

"Nuclear materials" means "source material," "special nuclear material" or "by-product material." "Source material," "special nuclear material," and "by-product material" have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof.

"Biological" materials includes all microorganisms, viruses, rickettsia, prions, nucleic acids, toxins, toxin-producing agents, and poisons produced by biological organisms.

* Actual endorsement wording may vary based on modifications required by the various state regulatory offices during their approval process.