

Texas Automobile Insurance Plan Association Governing Committee Meeting  
Friday, March 27, 2015 - 9:00 A.M.  
Austin Marriott South, 4415 S. IH-35 Frontage Rd., Austin, TX 78744  
Dress: Business Casual

1. Call to Order
2. Introductions
3. Reading of the Anti-Trust Statement
4. Election of Officers
5. Review and Approval of the Minutes of the November 21, 2014 Meeting (Exhibit 1)
6. Manager's Report
  - A. Application Count Update
    - a. Year End 2014 (Exhibit 2)
    - b. As of February 2015 (Exhibit 3)
  - B. Financial Update
    - a. Year End 2014 (Exhibit 4)
    - b. As of January 2015 (Exhibit 5)
  - C. Application System Update
  - D. Plan of Operation Filings: Burglary/Theft Fee, Producer Performance Standard, "Mandatory EASi", and Refunds for Cancellations
  - E. Conflict of Interest Policy
7. Strategic Planning Subcommittee Report
  - A. Current Staffing
  - B. 2015 Recommendations
  - C. Enterprise Risk Management
8. Operations Subcommittee Report
  - A. Over/Under Report (Exhibit 6)
9. Audit/Finance Committee Report
  - A. Audit Engagement Letter (Exhibit 7)
10. Rate Task Force Subcommittee
  - A. TAIPA Rates
11. Report of Counsel
  - A. TDI Rule on SB 1567 (Named Driver Policies)
  - B. 2015 Legislation
12. Next Meeting—August 21, 2015 (To be held by teleconference)
13. Personnel Matters
14. Adjournment

The Governing Committee may take action on any matter of business identified in this notice. Portions of the meeting will be conducted as a closed meeting, as permitted under Chapter 551, Government Code.

TAIPA Governing Committee Meeting  
November 21, 2014

**TAIPA GOVERNING COMMITTEE MEETING MINUTES  
NOVEMBER 21, 2014 AT 9:00 AM  
OMNI AUSTIN HOTEL SOUTHPARK**

**ATTENDEES:**

**VOTING MEMBERS:**

Mary Carol Awalt, Public Member (Via teleconference)  
Bill Brooks, Texas Farm Bureau Casualty  
George Cooper, State Farm  
Kevin Curry, Travelers (Via teleconference)  
Pete Hamel, Producer Member  
Melanie Hartwell, USAA  
Laura Hausman, Public Member (Via teleconference)  
Carmelita Hogan, Public Member  
Stephen Hylka, Safeco/Liberty Mutual (Via teleconference)  
Becky Jackson, Public Member  
Dick Lonquist, Public Member  
Kit Morris, Producer Member (Via teleconference)  
Thomas Rolling, Farmers (Chair)  
Fred Strauss, Allstate  
David Weber, Hochheim Prairie

**COUNSEL:**

Mike Jones, Thompson, Coe, Cousins & Irons

**TAIPA STAFF:**

James Langford (Association Manager) (Via teleconference)  
Nicole Morgan (Minute Taker)  
Stacy Midkiff

**OTHERS:**

Alisha Darden, Public Member Alternate (Via teleconference)  
Marianne Baker, TDI (Via teleconference)  
Doug Beck, Farmers (Via teleconference)  
Terry Fain, Public Member Alternate  
John Lusardi, Universal Casualty (Via teleconference)  
Joe Matetich, OPIC  
Ramon Montalvo, Producer Member Alternate (Via teleconference)  
David Nardecchia, OPIC

**ITEM 1: CALL TO ORDER**

Thomas Rolling called the meeting to order at 9:00 AM.

**ITEM 2: READING OF ANTI-TRUST STATEMENT**

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James Langford read the Anti-Trust Statement:

“The creation and operation of the Texas Automobile Insurance Plan Association is set forth in Chapter 2151 of the Texas Insurance Code. The Association is a non-profit corporate body composed of all authorized insurers. The organization was created to provide a means by which insurance may be assigned to an authorized insurer for a person required by the Texas Motor Vehicle Safety-Responsibility Act to show proof of financial responsibility for the future. Members of the Association and of its Governing Committee, when involved in meetings or other activities of the Association, are bound to limit their discussions and actions to matters relating to the business of the Association, and shall not discuss or pursue the business interest of individual insurers or others.”

Introductions were made.

**ITEM 3: REVIEW AND APPROVAL OF THE MINUTES OF THE AUGUST 22, 2014 MEETING (EXHIBIT 1)**

It was moved by Dick Lonquist and seconded by Fred Strauss to:

“Accept the minutes as presented.”

The motion carried unanimously.

**ITEM 4: MANAGER’S REPORT**

**A. APPLICATION COUNT UPDATE AS OF OCTOBER 2014 (EXHIBIT 2)**

TAIPA received 359 applications in October 2014, compared to 415 in October 2013, which is a decline of about 13.5%. TAIPA has received 3,439 applications year-to-date in 2014, compared to 4,530 in 2013, which is a decline of about 24%. Based on current volumes, we estimate we will receive 3,900 applications in 2014. The number of applications received each month in 2014 has been fairly consistent, which may indicate that we are approaching the “bottom” of application volumes.

**B. FINANCIAL UPDATE AS OF SEPTEMBER 2014 (EXHIBIT 3)**

TAIPA expected to be at 75% of the budget used at the end of September and is currently under-budget at 68.55%. The items that are currently over-budget were explained. At this point, we estimate we will end the year about 3% under-budget.

**C. 2015 REQUESTS FOR PROPOSAL**

TAIPA’s RFP procedure states that contracts in place for five years are to be evaluated by the Governing Committee if they are over \$20,000 or for certain categories of expenses. The contracts for legal counsel, auditor, and actuary are due for review. The Governing Committee discussed each of these categories last year and reached a consensus to continue with them for another year. TAIPA recommends continuing with each for another year, as legal counsel and the actuary are currently working on an alternative ratemaking strategy for Private Passenger, and as we have a very good relationship with the auditors.

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It was asked if the rates have changed for our attorneys. They have not.

It was asked if it will be necessary to continue the relationship with our actuary once he finishes creating the spreadsheets that will be used for the new ratemaking process. The Rate Task Force Subcommittee is still working with the actuary to create the spreadsheets, as not all of the data is available yet. As such, the actuary's work will continue into 2015. After that work is done, we will still need an actuary to create a rating indication based on the spreadsheets, although it wouldn't necessarily have to be the current actuary. There was discussion regarding sending out an RFP once the Rate Task Force Subcommittee has completed their work on the current filing, as we will have received feedback from TDI on the new process and will then know more about what the ratemaking process will look like in the future.

The Governing Committee's consensus was to forgo the legal and auditor RFP's for 2015, and to revisit the actuary RFP after the Rate Task Force Subcommittee has completed their work on this filing.

#### **D. 2015 BUDGET (EXHIBIT 4)**

TAIPA requests a 2015 budget of \$1,091,800, which is a 7.1% reduction from 2014. TAIPA has reduced many budget categories due to decreasing application volumes. We have also reduced the legal and actuary categories due to the expectation of a streamlined ratemaking process. The two categories with an increase are for a 3% salary increase, and for our scheduled rent increases.

TAIPA also recommends funding the pension at a lower amount than we have in recent years. Since 2012, we have chosen to fund the pension at a higher amount than required each year (about \$22,000). We were at about 81% funding before we began contributing at the higher amount, and as of January 1, 2014, we are funded at 95%. Based on actuary estimates, we will become fully funded in 2017. As such, we do not believe we need to continue to fund at \$22,000/month, but will instead fund at \$18,000/month, which is halfway between what we were funding from 2012-2014 and what the actuaries require for 2015.

It was moved by George Cooper and seconded by Bill Brooks to:

“Approve the recommended budget of \$1,091,800, with an assessment of \$1,000,000.”

The motion carried unanimously.

#### **E. APPLICATION SYSTEM UPDATE**

TAIPA staff has completed their initial testing of the EASi 2.0 system, as well as four rounds of retesting. There are no outstanding issues that need to be resolved before going live. EASi 2.0 will be ready to go live after AIPSO's December 1, 2014 deployment. However, AIPSO is still working on the integration between the 2.0 website and TAIPA's current APS. TAIPA and AIPSO will test the integration in December, and may need to continue the testing in January 2015. At this point, we expect to go live in February 2015. Once we begin the integration testing and see how that goes, we will be able to nail down the exact launch date.

TAIPA has not yet received formal approval from TDI on our proposed Plan of Operation changes to make EASi mandatory, but we have been informed the approval should be coming

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soon. Our hope is to make EASi mandatory about 30 days after EASi 2.0 goes live. Once a date is selected, we will send communications out to the producers, and thanks to Pete Hamel, we will have IIAT help with those communications.

AIPSO staff has begun work on the programming of the new APS and the conversion process that will be used to move TAIPA's data into the new system. AIPSO plans to begin rolling out modules to TAIPA staff for testing in February 2015. The target launch date for APS is July 1, 2015, as AIPSO has requested that we make the switch at the beginning of a quarter.

**F. PLAN OF OPERATION FILINGS: "MANDATORY EASi", BURGLARY/THEFT FEE, PRODUCER PERFORMANCE STANDARD, REFUNDS FOR CANCELLATIONS**

In early October, TDI issued a Notice of Filing regarding three of TAIPA's pending filings (all filings except refunds for cancellations). Comments were due to TDI by November 6, 2014. As of today, we have not yet received approval, but have been informed that there were no comments, and that TDI is working on the approval.

The filing for cancellation refunds is still pending. TDI will revisit the issue after they are finished with the proposed rule for named driver policies.

**G. CURRENT STAFFING**

There are no proposed changes to staffing.

**ITEM 5: OPERATIONS SUBCOMMITTEE REPORT**

**A. OVER/UNDER REPORT (EXHIBIT 5)**

Bill Brooks stated the Over/Under Report includes a coversheet showing companies that had amounts removed from storage or put into storage during the last quarter. There were no other items of note.

**ITEM 6: STRATEGIC PLANNING SUBCOMMITTEE REPORT**

**A. ENTERPRISE RISK MANAGEMENT**

The Strategic Planning Subcommittee does not yet have anything to report. They will meet in the first quarter of 2015 to discuss enterprise risk management, as well as to undertake their annual strategic planning review. They do not foresee having any recommendations regarding strategic planning, but do hope to have recommendations regarding TAIPA's enterprise risk management.

**ITEM 7: RATE TASK FORCE SUBCOMMITTEE REPORT**

**A. TAIPA RATES**

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At the August Governing Committee Meeting, the Rate Task Force Subcommittee reported that they hoped to complete their work by the November meeting. However, this has not proved possible because some of the data is not available yet, but will be in the coming weeks. The Rate Task Force Subcommittee will report on their work at the next Governing Committee meeting.

**ITEM 8: REPORT OF COUNSEL**

**A. SB 1567: NAMED DRIVER POLICIES**

Michael Jones reminded the Governing Committee about Senate Bill 1567, which stipulates that before the agent or insurer can accept any premium for a named driver policy, the agent must make a disclosure to the insured both orally and in writing, which states: "WARNING: A NAMED DRIVER POLICY DOES NOT PROVIDE COVERAGE FOR INDIVIDUALS RESIDING IN THE INSURED'S HOUSEHOLD THAT ARE NOT NAMED ON THE POLICY." When TDI sent out the proposed rule to implement the bill, they included named non-owner policies in addition to named driver policies, which thus includes TAIPA. TDI had a hearing on the proposed rule and received many comments. At this time, TDI is still reviewing all of the comments and hope to have the final rule published in the next month or so. There has also been some speculation that the Texas Legislature will revisit this issue during the next session. TAIPA will not take any action until either a rule or new legislation comes out.

**ITEM 9: 2015 MEETING DATES (EXHIBIT 6)**

The 2015 dates are shown in Exhibit 6.

**ITEM 10: PERSONNEL MATTERS**

Acting under authority of Government Code 551.074, the Governing Committee commenced a closed meeting at 9:39 AM. The open meeting resumed at 10:20 AM. No action was taken.

**ITEM 11: ADJOURNMENT**

There being no further business to discuss, it was moved by Fred Strauss and seconded by George Cooper to:

"Adjourn the meeting."

The motion carried unanimously. The meeting adjourned at 10:21 AM.

George Cooper  
Signature of Secretary

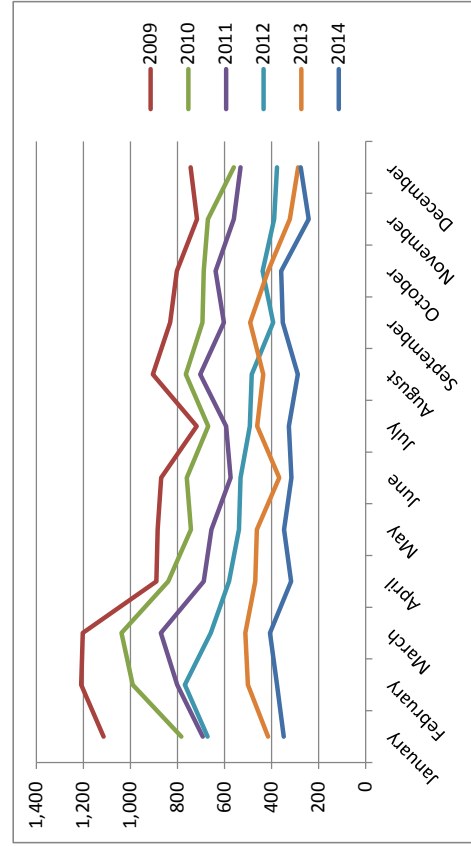
December 11, 2014  
Date Signed

GEORGE COOPER  
Printed Name of Secretary

<b>Monthly Total (December 2014)</b>		
	<b>Private Passenger</b>	<b>Commercial</b>
<b>EASi Applications</b>	<b>236</b>	<b>25</b>
<b>Paper Applications</b>	<b>14</b>	<b>2</b>
<b>Total Applications Received</b>	<b>250</b>	<b>27</b>
<b>Applications Assigned</b>	226	25
<b>Applications Suspended</b>	24	0
<b>Applications Rejected</b>	0	2
<b>Applications Deficient</b>	24	3
<b>Applications with SR-22s</b>	69	0
<b>Total Applications Received in December 2013:</b>		<b>287</b>
<b>Total Applications Received in December 2014:</b>		<b>277</b>
<b>Year to Date Total (as of December 2014)</b>		
	<b>Private Passenger</b>	<b>Commercial</b>
<b>EASi Applications</b>	<b>3371</b>	<b>332</b>
<b>Paper Applications</b>	<b>201</b>	<b>55</b>
<b>Total Applications Received</b>	<b>3572</b>	<b>387</b>
<b>Applications Assigned</b>	3276	352
<b>Applications Suspended</b>	292	31
<b>Applications Rejected</b>	4	4
<b>Applications Deficient</b>	398	75
<b>Applications with SR-22s</b>	958	0
<b>Total Applications Received YTD (as of December 2013):</b>		<b>5,140</b>
<b>Total Applications Received YTD (as of December 2014):</b>		<b>3,959</b>
<b>YTD Percent Change from Dec. 2013 to Dec. 2014:</b>		<b>-22.98%</b>
<b>Application Assignment History*</b>		
<b>1994:</b> 716,036	<b>2001:</b> 53,477	<b>2008:</b> 12,896
<b>1995:</b> 461,059	<b>2002:</b> 66,153	<b>2009:</b> 10,299
<b>1996:</b> 214,744	<b>2003:</b> 74,506	<b>2010:</b> 8,725
<b>1997:</b> 95,461	<b>2004:</b> 47,434	<b>2011:</b> 7,364
<b>1998:</b> 55,041	<b>2005:</b> 31,517	<b>2012:</b> 5,898
<b>1999:</b> 47,108	<b>2006:</b> 23,634	<b>2013:</b> 4,708
<b>2000:</b> 44,945	<b>2007:</b> 16,780	<b>2014:</b> 3,628

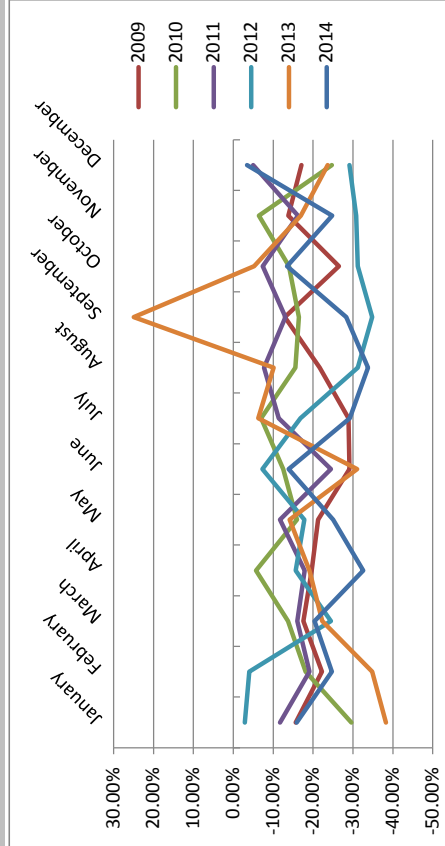
\*Application Assignment History based on applications assigned, not received.

### Trend of Applications Received from 2009 to 2014



	2009	2010	2011	2012	2013	2014
January	1,114	784	692	672	415	349
February	1,209	990	801	769	501	377
March	1,203	1,038	871	658	511	407
April	890	839	689	581	470	317
May	884	743	656	539	463	347
June	869	760	574	532	367	316
July	719	669	593	493	462	327
August	905	764	704	484	435	288
September	831	694	603	393	491	352
October	802	689	638	438	415	359
November	717	671	561	389	323	243
December	744	560	532	377	287	277
<b>Total</b>	<b>10,887</b>	<b>9,200</b>	<b>7,914</b>	<b>6,325</b>	<b>5,140</b>	<b>3,959</b>

### Percent Change in Applications Received



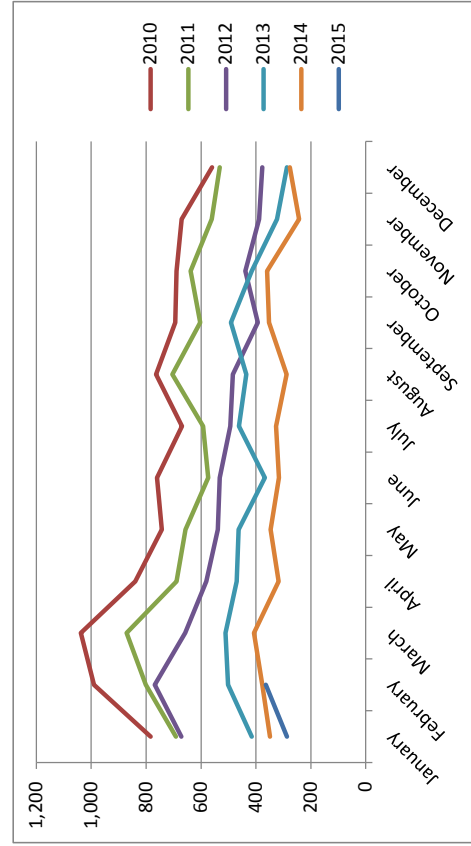
	2009	2010	2011	2012	2013	2014
January	-15.67%	-29.62%	-11.74%	-2.89%	-38.24%	-15.90%
February	-22.20%	-18.11%	-19.09%	-4.00%	-34.85%	-24.75%
March	-17.55%	-13.72%	-16.09%	-24.46%	-22.34%	-20.35%
April	-19.68%	-5.73%	-17.88%	-15.68%	-19.11%	-32.55%
May	-21.28%	-15.95%	-11.71%	-17.84%	-14.10%	-25.05%
June	-29.12%	-12.54%	-24.47%	-7.32%	-31.02%	-13.90%
July	-28.88%	-6.95%	-11.36%	-16.86%	-6.29%	-29.22%
August	-21.65%	-15.58%	-7.73%	-31.25%	-10.12%	-33.79%
September	-12.89%	-16.49%	-13.11%	-34.83%	24.94%	-28.31%
October	-26.49%	-13.98%	-7.40%	-31.24%	-5.25%	-13.49%
November	-13.82%	-6.42%	-16.24%	-30.78%	-16.97%	-24.77%
December	-17.06%	-24.73%	-5.00%	-29.14%	-23.67%	-3.48%
<b>Total YTD</b>	<b>-20.72%</b>	<b>-15.49%</b>	<b>-13.98%</b>	<b>-20.08%</b>	<b>-18.72%</b>	<b>-22.98%</b>



<b>Monthly Total (February 2015)</b>		
	<b>Private Passenger</b>	<b>Commercial</b>
<b>EASi Applications</b>	<b>313</b>	<b>29</b>
<b>Paper Applications</b>	<b>19</b>	<b>3</b>
<b>Total Applications Received</b>	<b>332</b>	<b>32</b>
<b>Applications Assigned</b>	<i>308</i>	<i>28</i>
<b>Applications Suspended</b>	<i>23</i>	<i>4</i>
<b>Applications Rejected</b>	<i>1</i>	<i>0</i>
<b>Applications Deficient</b>	<i>40</i>	<i>3</i>
<b>Applications with SR-22s</b>	<i>93</i>	<i>0</i>
<b>Total Applications Received in February 2014:</b>		<b>377</b>
<b>Total Applications Received in February 2015:</b>		<b>364</b>
<b>Year to Date Total (as of February 2015)</b>		
	<b>Private Passenger</b>	<b>Commercial</b>
<b>EASi Applications</b>	<b>543</b>	<b>68</b>
<b>Paper Applications</b>	<b>33</b>	<b>7</b>
<b>Total Applications Received</b>	<b>576</b>	<b>75</b>
<b>Applications Assigned</b>	<i>533</i>	<i>68</i>
<b>Applications Suspended</b>	<i>42</i>	<i>7</i>
<b>Applications Rejected</b>	<i>1</i>	<i>0</i>
<b>Applications Deficient</b>	<i>68</i>	<i>20</i>
<b>Applications with SR-22s</b>	<i>154</i>	<i>0</i>
<b>Total Applications Received YTD (as of February 2014):</b>		<b>726</b>
<b>Total Applications Received YTD (as of February 2015):</b>		<b>651</b>
<b>YTD Percent Change from Feb. 2014 to Feb. 2015:</b>		<b>-10.33%</b>
<b>Application Assignment History*</b>		
<b>1994:</b> 716,036	<b>2001:</b> 53,477	<b>2008:</b> 12,896
<b>1995:</b> 461,059	<b>2002:</b> 66,153	<b>2009:</b> 10,299
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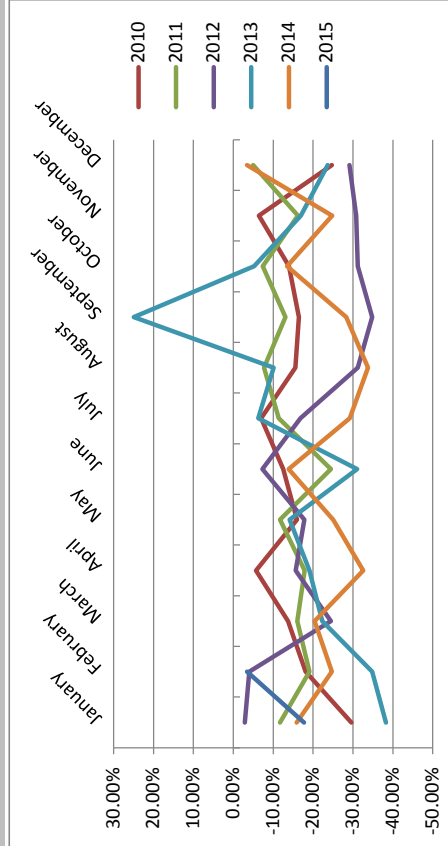
### Trend of Applications Received from 2010 to 2015



	2010	2011	2012	2013	2014	2015
January	784	692	672	415	349	287
February	990	801	769	501	377	364
March	1,038	871	658	511	407	
April	839	689	581	470	317	
May	743	656	539	463	347	
June	760	574	532	367	316	
July	669	593	493	462	327	
August	764	704	484	435	288	
September	694	603	393	491	352	
October	689	638	438	415	359	
November	671	561	389	323	243	
December	560	532	377	287	277	
<b>Total</b>	<b>9,200</b>	<b>7,914</b>	<b>6,325</b>	<b>5,140</b>	<b>3,959</b>	<b>651</b>

Estimate of Applications to be Received in 2015: 4,210

### Percent Change in Applications Received



	2010	2011	2012	2013	2014	2015
January	-29.62%	-11.74%	-2.89%	-38.24%	-15.90%	-17.77%
February	-18.11%	-19.09%	-4.00%	-34.85%	-24.75%	-3.45%
March	-13.72%	-16.09%	-24.46%	-22.34%	-20.35%	
April	-5.73%	-17.88%	-15.68%	-19.11%	-32.55%	
May	-15.95%	-11.71%	-17.84%	-14.10%	-25.05%	
June	-12.54%	-24.47%	-7.32%	-31.02%	-13.90%	
July	-6.95%	-11.36%	-16.86%	-6.29%	-29.22%	
August	-15.58%	-7.73%	-31.25%	-10.12%	-33.79%	
September	-16.49%	-13.11%	-34.83%	24.94%	-28.31%	
October	-13.98%	-7.40%	-31.24%	-5.25%	-13.49%	
November	-6.42%	-16.24%	-30.78%	-16.97%	-24.77%	
December	-24.73%	-5.00%	-29.14%	-23.67%	-3.48%	
<b>Total YTD</b>	<b>-15.49%</b>	<b>-13.98%</b>	<b>-20.08%</b>	<b>-18.72%</b>	<b>-22.98%</b>	<b>-10.33%</b>

**Texas Auto Ins. Plan Assoc.**  
**ACTUAL VS. BUDGET**  
 For the period ended December 31, 2014

	2014 Year To Date Budget	Variance	2014 Annual Budget	% Used	
<b>REVENUE</b>					
Assessments & Penalties	1,006,328	6,328	1,000,000	100.63%	
Other Revenue	663	663	0	0.00%	
<b>TOTAL</b>	<b>1,006,991</b>	<b>6,991</b>	<b>1,000,000</b>	<b>100.70%</b>	
<b>EXPENDITURES</b>					
Salaries	384,730	-1,430	383,300	100.37%	Within range.
Emp. Benefits & Other Ins. Exp.	126,403	258,097	384,500	32.87%	Line includes \$10,831 adjustment for vacation accrual and \$249,108 for pension liability. Without adjustments, line was at 94.85% (insurance costs did not increase as much as expected).
Office Equipment Expense	17,571	2,029	19,600	89.65%	Did not need to make many repairs to machines; signed new copier lease at a lower price.
Printing & Stationary Exp.	2,124	576	2,700	78.66%	Did not need to print as many assignment notices or envelopes as expected due to decrease in applications.
Computer Expenses	10,755	2,045	12,800	84.02%	Did not need to renew contracts on several software packages, as they aren't needed with new IT consultants.
Postage & Shipping Exp.	18,340	7,760	26,100	70.27%	Did not mail out as much as expected due to decrease in applications.
Telephone Expense	9,975	-75	9,900	100.75%	Within range.
Rent Expense	100,976	-1,876	99,100	101.89%	Line includes \$1,903 adjustment for deferred lease payment. Without adjustment, line was at 99.97% (within range).
Taxes	7,067	-4,867	2,200	321.23%	Had to pay proxy tax of \$5,556 due to not notifying members about the nondeductible portion of their assessments due to 2013 lobbying expenses.
Other Office Expenses	6,997	2,903	9,900	70.68%	Did not have to write-off as many assessments as expected.
Governing Committee	17,113	5,387	22,500	76.06%	Lodging, meals, and mileage were less than expected for all meetings.
Operation Sub-committee	1,250	750	2,000	62.50%	Budgeted for two Ops Sub meetings, but only held one (also held one Strategic Planning meeting and one Rate Task Force meeting).
Producer Review Panel	0	3,500	3,500	0.00%	Did not need a Producer Review Panel meeting in 2014.
Employee Meetings, Seminars & Staff Travel	9,107	4,793	13,900	65.52%	Employees did not take as many classes this year as initially expected.
Legal Expenses	31,644	18,356	50,000	63.29%	Daily Assoc. needs, Governing Committee, Ops Sub, and Rate Change work all required fewer hours than budgeted; did not need a Review Panel meeting.
Audit Expense	22,478	523	23,000	97.73%	Within range.
Dues, Subscriptions & Publications	1,751	149	1,900	92.14%	Renewals for some subscriptions were less than expected.
TAIPA Tradition, Visitor Meals & Gifts	3,225	375	3,600	89.58%	Spent less than expected on staff meals.

	2014	2014	2014	2014	2014
	Actual	Year To Date Budget	Variance	Annual Budget	% Used
System Consultants	37,836	38,200	364	38,200	99.05% Within range.
Consultants - Other	2,453	3,500	1,047	3,500	70.08% Did not need to use accounting system consultant.
Actuary	19,787	50,600	30,813	50,600	39.11% Budgeted for a full rate cycle to take place in 2014, but the process was not complete by yearend.
Other	0	0	0	0	0.00% No other expenses in 2014
<b>SUBTOTAL</b>	<b>831,580</b>	<b>1,162,800</b>	<b>331,220</b>	<b>1,162,800</b>	<b>71.52%</b> Without adjustments, line was at 91.84%.
Depreciation	12,912	13,000	88	13,000	99.32% Within range.
Amortization	0	0	0	0	0.00% No amortization in 2014.
Gain (Loss) on Disposition of Fixed Assets	0	0	0	0	0.00% Did not sell any assets in 2014.
<b>SUBTOTAL</b>	<b>12,912</b>	<b>13,000</b>	<b>88</b>	<b>13,000</b>	<b>99.32%</b>
<b>TOTAL OPERATING EXPENSE</b>	<b>844,492</b>	<b>1,175,800</b>	<b>331,308</b>	<b>1,175,800</b>	<b>71.82%</b> Without adjustments, line was at 91.93%.
<b>NET FROM OPERATIONS</b>	<b>162,499</b>	<b>-175,800</b>	<b>338,299</b>	<b>-175,800</b>	
Non-Operating Pension Costs	592,033	0	-592,033	0	0.00% Line reflects adjustment for increase in the pension liability.
<b>NET</b>	<b>-429,534</b>	<b>-175,800</b>	<b>-253,734</b>	<b>-175,800</b>	
<b>CAPITAL BUDGET</b>					
Software Development in Progress	16,250	0	-16,250	0	0.00% Accrual for customization of new APS (65% completion).
Office Furniture & Equipment	0	0	0	0	0.00% No furniture & fixture expenditures in 2014.
Computer Equipment	0	0	0	0	0.00% No computer equipment expenditures in 2014.
Computer Software	0	0	0	0	0.00% No computer software expenditures in 2014.
Leasehold Improvements	0	0	0	0	0.00% No leasehold improvement expenditures in 2014.
<b>TOTAL</b>	<b>16,250</b>	<b>0</b>	<b>-16,250</b>	<b>0</b>	<b>0.00%</b>

NOTE: Items that are considered "within range" are within 5% or \$5,000 of the expected year-to-date budget.

# *Texas Auto Ins. Plan Assoc.*

## Statement of Financial Position

As Of December 31, 2014

Unaudited

### ASSETS

Current Assets	
Cash and cash equivalents	\$ 206,508
Prepaid expenses	37,811
Total current assets	244,319
Property and Equipment	
Software development in progress	16,250
Furniture and equipment	38,921
Computer equipment	23,660
Leasehold improvements	50,007
Computer software	9,858
	138,697
Less accumulated depreciation	87,475
	51,222
Total assets	295,541

### LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	30,418
Accrued vacation	31,985
Accrued payroll liabilities	6,265
Total current liabilities	68,668
Other Liabilities	
Accrued pension benefit costs	520,304
Deferred lease benefit	38,783
Total other liabilities	559,087
Net (Deficiency) Assets	
Unrestricted	(332,214)
Total net assets	(332,214)
Total liabilities and net assets	\$ 295,541

# *Texas Auto Ins. Plan Assoc.*

## Statement of Activities

For the period ended December 31, 2014

Unaudited

### Changes in unrestricted net assets

	<b>Current YTD</b>
Revenues	
Member assessments	\$ 1,000,500
Interest income	663
Assessment penalties	5,828
Total revenues	1,006,991
Expenses	
Salaries and related expenses	511,132
Occupancy expenses	118,017
Professional Services	114,197
Depreciation & amortization	12,912
Postage and delivery	18,340
Office supplies and expense	19,694
Governing committee	17,113
Computer supplies & expenses	10,755
Operation Sub-committee	1,250
Staff education & seminars	9,107
Miscellaneous	6,997
Staff expense	3,225
Dues and subscriptions	1,751
Total operating expenses	844,492
Other revenues (expenses)	
<i>Pension minimum liability adjustment</i>	<i>(592,033)</i>
Total other revenue (expenses)	<i>(592,033)</i>
<i>Increase (decrease) in unrestricted net assets</i>	<i>(429,534)</i>
<i>Net assets (deficiency) at beginning of year</i>	<i>97,320</i>
<i>Net assets (deficiency) as of December 31, 2014</i>	<i>\$ (332,214)</i>

**Texas Auto Ins. Plan Assoc.**

**ACTUAL VS. BUDGET**

For the period ended January 31, 2015

	<b>Actual</b>	<b>2015 Year To Date Budget</b>	<b>Variance</b>	<b>2015 Annual Budget</b>	<b>% Used</b>	<b>Reason for Variance</b>
<b>REVENUE</b>						
Assessments & Penalties	83,342	83,333	8	1,000,000	8.33%	
Other Revenue	16	0	16	0	0.00%	
<b>TOTAL</b>	<b>83,358</b>	<b>83,333</b>	<b>25</b>	<b>1,000,000</b>	<b>8.34%</b>	
<b>EXPENDITURES</b>						
Salaries	32,970	33,192	222	398,300	8.28%	Within range.
Emp. Benefits & Other Ins. Exp.	29,681	28,033	-1,648	336,400	8.82%	Within range.
Office Equipment Expense	1,113	1,383	270	16,600	6.70%	Within range.
Printing & Stationary Exp.	0	75	75	900	0.00%	Have not had any assignment notices or envelopes printed yet.
Computer Expenses	426	825	399	9,900	4.31%	Within range.
Postage & Shipping Exp.	2,768	2,000	-768	24,000	11.53%	Within range.
Telephone Expense	1,025	1,108	83	13,300	7.71%	Within range.
Rent Expense	9,405	9,333	-72	112,000	8.40%	Within range.
Taxes	0	125	125	1,500	0.00%	Taxes are not due until later in the year.
Other Office Expenses	240	700	460	8,400	2.86%	Have not had to write-off many assessments to date; other events are later in the year.
Governing Committee	0	1,908	1,908	22,900	0.00%	No Governing Committee meetings held yet.
Operation Sub-committee	0	192	192	2,300	0.00%	No subcommittee meetings held yet.
Producer Review Panel	0	0	0	0	0.00%	Not expecting any Producer Review Panel meetings in 2015.
Employee Meetings, Seminars & Staff Travel	2,608	942	-1,666	11,300	23.08%	Already paid spring semester tuition for one employee.
Legal Expenses	2,626	2,917	291	35,000	7.50%	Within range.
Audit Expense	0	1,983	1,983	23,800	0.00%	Haven't had annual audit or incurred any consulting fees yet.
Dues, Subscriptions & Publications	251	133	-117	1,600	15.67%	Already paid for annual renewals of some subscriptions.

	2015 Year To Date Actual	2015 Year To Date Budget	Variance	2015 Annual Budget	% Used	Reason for Variance
TAIPA Tradition, Visitor Meals & Gifts	125	292	167	3,500	3.57%	Within range.
System Consultants	2,809	3,583	774	43,000	6.53%	Within range.
Consultants - Other	573	250	-323	3,000	19.09%	Already paid annual fee to one consultant.
Actuary	0	1,000	1,000	12,000	0.00%	No actuary work to date.
Other	0	0	0	0	0.00%	No other expenses to date.
<b>SUBTOTAL</b>	<b>86,619</b>	<b>89,975</b>	<b>3,356</b>	<b>1,079,700</b>	<b>8.02%</b>	
Depreciation	1,003	1,008	5	12,100	8.29%	Within range.
Amortization	0	0	0	0	0.00%	No amortization expected in 2015.
Gain (Loss) on Disposition of Fixed Assets	0	0	0	0	0.00%	Have not sold any assets to date.
<b>SUBTOTAL</b>	<b>1,003</b>	<b>1,008</b>	<b>5</b>	<b>12,100</b>	<b>8.29%</b>	
<b>TOTAL OPERATING EXPENSE</b>	<b>87,622</b>	<b>90,983</b>	<b>3,361</b>	<b>1,091,800</b>	<b>8.03%</b>	
<b>NET FROM OPERATIONS</b>	<b>-4,264</b>	<b>-7,650</b>	<b>3,386</b>	<b>-91,800</b>		
Non-Operating Pension Costs	0	0	0	0	0.00%	Pension adjustment will not be made until year end.
<b>NET</b>	<b>-4,264</b>	<b>-7,650</b>	<b>3,386</b>	<b>-91,800</b>		
<b>CAPITAL BUDGET</b>						
Software Development in Progress	0	0	0	0	0.00%	No software development expenditures in 2015.
Office Furniture & Equipment	0	0	0	0	0.00%	No furniture & fixture expenditures in 2015.
Computer Equipment	0	0	0	0	0.00%	No computer equipment expenditures in 2015.
Computer Software	0	0	0	0	0.00%	No computer software expenditures in 2015.
Leasehold Improvements	0	0	0	0	0.00%	No leasehold improvement expenditures in 2015.
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>	

NOTE: Items that are considered "within range" are within 5% or \$5,000 of the expected year-to-date budget.



# *Texas Auto Ins. Plan Assoc.*

## Statement of Financial Position

As Of January 31, 2015

Unaudited

### ASSETS

Current Assets	
Cash and cash equivalents	\$ 856,321
Accounts receivable	261,310
Prepaid expenses	38,029
Total current assets	1,155,660
Property and Equipment	
Software development in progress	16,250
Furniture and equipment	38,921
Computer equipment	23,660
Leasehold improvements	50,007
Computer software	9,858
	138,697
Less accumulated depreciation	88,478
	50,219
Total assets	1,205,878

### LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	26,294
Accrued vacation	31,985
Accrued payroll liabilities	8,233
Deferred revenue	916,758
Total current liabilities	983,270
Other Liabilities	
Accrued pension benefit costs	520,304
Deferred lease benefit	38,783
Total other liabilities	559,087
Net (Deficiency) Assets	
Unrestricted	(336,479)
Total net assets	(336,479)
Total liabilities and net assets	\$ 1,205,878

# *Texas Auto Ins. Plan Assoc.*

**Statement of Activities**  
For the period ended January 31, 2015  
Unaudited

	<b>Current YTD</b>
Changes in unrestricted net assets	
Revenues	
Member assessments	\$ 83,342
Interest income	16
Total revenues	83,358
Expenses	
Salaries and related expenses	62,651
Occupancy expenses	10,430
Professional Services	6,007
Depreciation & amortization	1,003
Postage and delivery	2,768
Office supplies and expense	1,113
Computer supplies & expenses	426
Staff education & seminars	2,608
Miscellaneous	240
Staff expense	125
Dues and subscriptions	251
Total operating expenses	87,622
Other revenues (expenses)	
Total other revenue (expenses)	-
<i>Increase (decrease) in unrestricted net assets</i>	(4,264)
<i>Net assets (deficiency) at beginning of year</i>	(332,215)
<i>Net assets (deficiency) as of January 31, 2015</i>	\$ (336,479)

**TAIPA PP Over/Under Report**

**02/12/2015**

COMPANY

Year-End 2009

Year-End 2010

Year-End 2011

Year-End 2012

Year-End 2013

1st QTR 2014

2nd QTR 2014

3rd QTR 2014

PRIVATE PASSENGER	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
21ST CENTURY CENTENNIAL INS CO (SC)	374,290		100,816			177,367		248,568		252,406		261,383		251,372
ACE AMERICA		0		45			248,681		247,616		247,365		247,088	
ALFA SPECIALTY INS CORP		2		71			16							548
ALLSTATE INS CO		62,945		20,681			25,531							74,669
AMER MERCURY INS CO		2,471		2,559					602		742			1,443
ASSURANCEAMERICA INS CO				40			68				1,100			41
AutoOne INS CO (prev Penn General)		220,909		61,581					328,062		333,067		331,118	
COLONIAL LLOYDS		346		1,101			1,272							1,277
COMPANION PROP & CAS INS CO		0		8			44							311
ESURANCE PROP & CAS INS CO														5
FREESTONE INS CO														92
GENERAL CAS CO OF WISCONSIN														71
GOVERNMENT EMPLOYEES INS CO		38,449		13,521										61,369
HALLMARK COUNTY MUT INS CO				180			6,967		443,961		443,797		443,635	
HOMEOWNERS OF AMER INS CO		0		198			1,649							4,628

RWD

Exhibit 6, Page 1

RWD

**TAIPA PP Over/Under Report**

**02/12/2015**

COMPANY Year-End 2009

Year-End 2010

Year-End 2011

Year-End 2012

Year-End 2013

1st QTR 2014

2nd QTR 2014

3rd QTR 2014

PRIVATE PASSENGER	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
HOUSTON GENERAL INS EXCH (withdrawn & sold PP)		2,415		3,000		3,006		3,006		3,006		3,006		3,006
ICM INS CO				19		939		Withdrawn from the market until 2016		0		9		13
IMPERIAL FIRE & CAS		1,586		1,903		316		1,543		1,461		1,447		1,423
KNIGHTBROOK INS CO										12		46		208
LINCOLN GENERAL		101,427		51,328		51,337		51,337		51,337		51,337		51,337
MILEMETER INS CO		36		542		1,296		2,125		2,211		2,210		2,211
NATIONAL LIABILITY & FIRE (SC)		0		36,708		1,826		244,401		242,995		265,528		275,288
RLI INS CO														New to quota
SOMPO JAPAN INS CO (prev Yasuda F&M)		1,977		1,976		1,976		1,976		1,976		1,976		1,976
SOUTHLAND LLOYDS INS CO		235		274		292		293		293		293		293
STARR INDEMNITY & LIABILITY CO				1		147		678		939		946		954
STATE FARM MUT AUTO INS CO		128,622		18,467		56,449		168,680		196,216		192,255		197,513
TEXAS FARM BUREAU CAS INS CO		36,261		19,163		4,514		64,219		68,410		50,447		69,923
TOKIO MARINE & NICHIDO FIRE INS						5		5		5		5		5
UNIVERSAL NORTH AMERICA		725		(buy-out)		0								83
TOTALS	768,553	768,553	329,719	329,719	159,154	159,154	95,457	2,953,457	1,023,678	1,023,678	1,030,379	1,030,379	1,025,250	1,023,866

RWD

RWD

RWD

RWD

RWD

RWD

RWD

RWD

**TAIPA PP Over/Under Report**

**02/12/2015**

COMPANY	Year-End 2009	Year-End 2010	Year-End 2011	Year-End 2012	Year-End 2013	1st QTR 2014	2nd QTR 2014	3rd QTR 2014
<b>PRIVATE PASSENGER</b>	<b>OVER</b>	<b>UNDR</b>	<b>OVER</b>	<b>UNDR</b>	<b>OVER</b>	<b>UNDR</b>	<b>OVER</b>	<b>UNDR</b>
PREMIUMS WRITTEN	4,906,293	4,237,673	3,381,187	3,079,634	2,690,098	626,457 1st qtr	544,629 2nd qtr	516,892 3rd qtr

TAIPA OTPP Over/Under Report

02/12/2015

Exhibit 6, Page 4  
R/RCV

COMPANY	Year End 2009	Year End 2010	Year End 2011	Year End 2012	Year End 2013	1st Qtr 2014	2nd Qtr 2014	3rd Qtr 2014								
OTHER THAN PP	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR								
ALASKA NATL		36		48		54		68		76		77		78		79
AMER CONTRACTORS INS RISK RET. GRP				5,329		6,495		10,584		13,111		14,162		15,152		15,884
AMER MERCURY INS CO		21,941		15,326		16,052		5,499		12,371		9,979		7,728		17,740
AMER MODERN HOME INS CO		85		85		85		100		428		745		1,044		1,265
AMER MODERN LLOYD'S		29,515		25,931		22,389		22,762		23,166		23,279		23,386		23,465
AMER NATIONAL PROP & CAS CO		437		755		1,032		323		128		269		401		499
AMER ROAD INS CO										70		89		107		120
AMER SERVICE INS CO INC.				8		23		25		26		26		26		26
ASSOCIATION INS CO								20		91		118		143		162
AUTOONE INS CO (prev Penn General)		379,647		66,176		219,499		388,603		415,745		416,278		415,665		415,637
BRITISH AMERICAN INS CO		15,503		15,388		14,946		15,193		15,565		15,672		15,772		15,846
CLARENDON NATIONAL INS CO		51,574		51,569		51,569		51,569		51,569		51,569		51,569		51,569
COLUMBIA INS CO		1,235		1,233		1,233		1,233		1,233		1,230		1,227		1,224
COLUMBIA MUT INS CO		(buy out)		0 (buy out)		0				0		New to quota		907		1,761
COREPOINTE INS CO (prev Chrysler & Daimlerchrysler)		40,297		39,316		39,649		39,160		39,102		39,357		39,597		39,774
GENERAL STAR NATIONAL INS CO						23		59		59		59		59		59
GOVERNMENT EMPLOYEES INS CO		5,081		9,698		13,838		17,837		21,366		20,685		20,045		19,571
GRAMERCY INS CO				11,077 (buy out)				9,371								9,371
HISCOX INS CO INC												New to quota				2

REST

TAIPA OTPP Over/Under Report

02/12/2015

COMPANY

Year End 2009

Year End 2010

Year End 2011

Year End 2012

Year End 2013

1st Qtr 2014

2nd Qtr 2014

3rd Qtr 2014

R/W/D

R/OV

Exhibit 6, Page 5

OTHER THAN PP	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
HOUSING ENTERPRISE INS CO INC				4		13		16		19		21		
HOUSTON SPECIALTY INS CO							New to quota	1		2		3		
LINCOLN GENERAL	269,471		50,217	73,630	73,631			73,631		73,631		73,631		73,631
MIDCONTINENT CAS CO	784,074		774,568	763,416	758,805		757,524		756,320		755,429			
MOTORISTS COMM MUT INS CO (prev Amer Hardware Mut Ins Co)	31,488		30,409	29,856	28,801		28,634		28,476		28,359			
NATIONAL LIABILITY & FIRE INS CO (SC)			597,786	1,258,536	1,492,370	1,513,719		1,509,106		1,505,527		1,512,246		
NAVIGATORS INS CO				20		189		369		539		665		
NORTH AMER SPECIALTY INS CO						24		26		28		30		
OKLAHOMA SURETY CO	685,290		685,107	684,987	684,808		684,514		684,457		684,414			
PENN MANUFACTURERS ASSN INS CO		0 (buy out)	0	1,024	606		472		346		253			
PREFERRED PROFESSIONAL INS CO			263	514		920		979		1,032		1,072		
REP WEST INS CO (REPUBLIC WESTERN INS CO)		0	5	13		32		35		37		39		
RIVERPORT INS CO			4	6		44		54		64		71		
SAFETY NATL CAS CORP				81		619		802		974		1,101		
SENECA INS CO		1	4	53	91	3		30		54		72		
STATE FARM MUT AUTO INS CO		207,368	165,126	162,606	176,180	194,206		189,015		183,953		187,717		
TEXAS FARM BUREAU CAS INS CO (prev Southern Farm Bur)		42,968	31,376	38,165	37,445	40,575		39,125		39,671		42,401		
TEXAS HOSPITAL INS EXCH		9,849	10,153	10,430	10,651	10,895		10,981		11,061		11,121		
TNUS INS CO							New to quota	5		9		12		

COMPANY	Year End 2009	Year End 2010	Year End 2011	Year End 2012	Year End 2013	1st Qtr 2014	2nd Qtr 2014	3rd Qtr 2014
OTHER THAN PP	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
TRIUMPHE CAS CO						40		78
ULLICO CAS CO					686	861		1,026
UNITRIN AUTO & HOME INS CO		31,357	32,159	32,159	32,159	32,159		32,159
VININGS INS CO					91	111		144
TOTALS	1,576,537	1,576,537	1,563,609	1,946,328	1,975,071	1,970,885	1,965,833	1,974,196
PREMIUMS CREDITED	3,040,994	2,391,554	1,696,221	1,702,128	1,987,161	578,307 1st qtr	544,629 2nd qtr	403,576 3rd qtr





February 24, 2015

Audit Committee  
Texas Automobile Insurance Plan Association  
1120 South Capital of Texas Highway  
CityView Bldg. 3, Ste. 105  
Austin, texas 78746

This letter is to explain our understanding of the arrangements for the services that Atchley & Associates, LLP (the Firm) is to perform for Texas Automobile Insurance Plan Association (TAIPA) for the year ending December 31, 2014. We ask that you either confirm or amend this understanding.

**The Objective and Scope of the Audit of the Financial Statements**

You have requested that we audit the financial statements of TAIPA, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and the supplementary comparison of revenues and expense versus budget. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

**The Responsibilities of the Auditor**

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements.

In making our risk assessments, we consider internal control relevant to TAIPA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of TAIPA's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate to the audit committee (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

Our services under this Engagement Letter do not include services for tax return preparation, tax advice, or representation in any tax matter. Nevertheless, we may discuss with you certain tax considerations or provide you with tax information that may be relevant to our services. Any such discussions or information would be based upon limited tax research, limited due diligence, and limited analysis regarding the underlying facts. Because additional research or a more complete review of the facts could affect our analysis and conclusions the information provided during these discussions should not be used as the basis for proceeding with any transaction or any tax return reporting.

### **The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework**

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance, acknowledge and understand that they have responsibility

- a. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and
- c. To provide us with:
  - (1) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
  - (2) Additional information that we may request from management for the purpose of the audit; and
  - (3) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, when appropriate, those charged with governance written confirmation concerning representations made to us in connection with the audit including among other items:

- a. That management has fulfilled its responsibilities as set out in the terms of this letter; and
- b. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for identifying and ensuring that TAIPA complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

Management is responsible for the preparation of the supplementary information in accordance with accounting principles generally accepted in the United States of America. Management agrees to include the auditor's report on the supplementary information in any document that contains the supplementary information and that indicates that the auditor has reported on such supplementary information. Management also agrees to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

The audit committee is responsible for informing us of its views about the risks of fraud within TAIPA, and its knowledge of any fraud or suspected fraud affecting TAIPA.

Because the Firm will rely on TAIPA and its management and audit committee to discharge the foregoing responsibilities, TAIPA holds harmless and releases the Firm, its partners, and employees from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of TAIPA's management which has caused, in any respect, the Firm's breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

#### **TAIPA's Records and Assistance**

If circumstances arise relating to the condition of TAIPA's records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion, issue a report, or withdraw from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in TAIPA's books and records. TAIPA will determine that all such data, if necessary, will be so reflected. Accordingly, TAIPA will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by TAIPA personnel is described in the attached client participation list, which outlines the specific schedules and analyses that should be completed by TAIPA personnel, including the dates when the information should be available to us. The participation list has been discussed with and agreed to by Nicole Morgan, Accounting Coordinator. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

If, in connection with our audit, you request us to perform accounting services necessary for the preparation of the financial statements (such as maintaining depreciation schedules, computing the provision for income taxes, drafting the financial statements, etc.), you agree to designate an appropriate individual to oversee the services, make all management decisions involved in those services, evaluate the adequacy and results of the services, and accept responsibility for the results of the services.

#### **Fees, Costs, and Access to Workpapers**

Our fees for the audit and accounting services described above are based upon the value of the services performed and the time required by the individuals assigned to the engagement, plus direct expenses. Our fee estimate and completion of our work is based upon the following criteria:

- a. Anticipated cooperation from TAIPA personnel
- b. Timely responses to our inquiries
- c. Timely completion and delivery of client assistance requests
- d. Timely communication of all significant accounting and financial reporting matters
- e. The assumption that unexpected circumstances will not be encountered during the engagement

If any of the aforementioned criteria are not met, then fees may increase. Interim billings will be submitted as work progresses and as expenses are incurred. We will notify you immediately of any circumstances we encounter which could significantly affect our initial estimate of fees, excluding direct out-of-pocket expenses, estimated to be \$17,500 for the audit and \$3,000 for consulting and reviewing monthly financial statements. All other provisions of this letter will survive any fee adjustment. In accordance with our firm policies, work may be suspended if your account becomes sixty or more days overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

You may terminate the arrangement at any time by written notice to us. Termination for any reason will not affect your obligation to pay us for fees and expenses incurred prior to termination or in transferring files to and otherwise cooperating with any successor auditor. All provisions of this arrangement will survive termination or cancellation, except that (a) we will not have any obligation to provide services after termination and (b) you will not have any obligation to pay us for any services that we perform after termination, except for costs incurred to cooperate with a successor auditor or regulatory agency subpoena or inquiry.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, TAIPA agrees it will compensate the Firm for any additional costs incurred as a result of TAIPA's employment of a partner or professional employee of the Firm.

In the event we are requested or authorized by TAIPA or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for TAIPA, TAIPA will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

In a legal action in which the Firm or its partners are not the defendants, we shall also be entitled to fees at \$400.00 per hour and reimbursements for testimony if we are subpoenaed as a witness in a subsequent litigation by third parties and such testimony involves the work we performed pursuant to this agreement. If we are ordered by a state or federal judge to permit the subsequent inspection and/or reproduction of files, records, and other documents relating to work performed by us pursuant to this agreement, then you agree that we may comply with these orders without prior notice to you.

### **Claim Resolution**

TAIPA and the Firm agree that no claim arising out of services rendered pursuant to this agreement shall be filed more than two years after the date of the audit report issued by the Firm or the date of this arrangement letter if no report has been issued. TAIPA waives any claim for punitive damages. The Firm's liability for all claims, damages and costs of TAIPA arising from this engagement is limited to the amount of fees paid by TAIPA to the Firm for the services rendered under this arrangement letter.

Indemnification is intended to protect the Firm and its principals and employees against being named in any lawsuit arising from this engagement as a result of having completed this engagement. You shall indemnify the Firm and its principals and employees and hold us harmless from all claims, liabilities, losses, and counsel fees and expenses unless it shall have been determined by a court of competent jurisdiction that we have acted negligently in the performance of the work covered by our engagement. In no event shall the Firm and its principals and employees be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.) even if we have been advised of their possible existence.

If a dispute arises out of or relates to this contract or engagement letter, or the obligations of the parties therein, and if the dispute cannot be settled through negotiation, the parties agree first to try in good faith to settle the dispute by mediation using the Commercial Mediation Rules of the American Arbitration Association (AAA) before resorting to arbitration, litigation, or some other dispute resolution procedure. Thereafter, any unresolved controversy or claim arising from or relating to this contract or the obligations of the parties hereunder shall be settled by arbitration administered using the American Arbitration Association or another mutually agreeable arbitration service using the AAA Arbitration Rules for Professional Accounting and Related Services Disputes and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

**Reporting**

We will issue a written report upon completion of our audit of TAIPA's financial statements. Our report will be addressed to the committee of TAIPA. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

This letter constitutes the complete and exclusive statement of agreement between the Firm and TAIPA, superseding all proposals, oral or written, and all other communications, with respect to the terms of the engagement between the parties.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

*Atchley & Associates, LLP*

Atchley & Associates, LLP

Confirmed on behalf of Texas Automobile Insurance Plan Association:

\_\_\_\_\_  
Audit Committee or Board Chair

\_\_\_\_\_  
Date

\_\_\_\_\_  
James Langford, Association Manager

\_\_\_\_\_  
Date

\_\_\_\_\_  
Nicole Morgan, Special Projects/Accounting Coordinator

\_\_\_\_\_  
Date