

Texas Automobile Insurance Plan Association Governing Committee Meeting
Friday, August 17, 2018 - 9:00 A.M.
Omni Austin Hotel Southpark, 4140 Governor's Row, Austin, TX 78744
Dress: Business Casual

1. Call to Order
2. Introductions
3. Reading of the Anti-Trust Statement
4. Recognition of Terry Fain's Service to TAIPA
5. Audit/Finance Committee Report
 - A. Report on 2017 Audit (Exhibit 1)
6. Review and Approval of the Minutes of the March 23, 2018 Meeting (Exhibit 2)
7. Chair's Report
 - A. TAIPA Administrative Rules and Possible Amendment (Exhibit 3)
 - B. Committee Reorganization and Elimination of Certain Committees Created by Past Board Action (Exhibit 4)
 - C. Approval of Producer Members for Producer Review Panel
 - D. Possible AIA/PCI Merger
8. Manager's Report
 - A. Application Count Update as of July (Exhibit 5)
 - B. Financial Update as of June (Exhibit 6)
 - C. Line of Credit Renewal
 - D. Plan of Operation Filing: Refunds
 - E. Employee Handbook Updates (Exhibit 7)
9. Operations Subcommittee Report
 - A. Over/Under Report (Exhibit 8)
 - B. Surcharges on TAIPA Policies (Exhibit 9)
 - C. Procedures Related to Insurers Discontinuing Writing (Exhibit 10)
10. Report of Counsel
 - A. TAIPA Rates
11. 2019 Meeting Dates (Exhibit 11)
12. Next Meeting—November 16, 2018 at Omni Austin Southpark
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, if permitted under Chapter 551, Government Code.



Audit Committee
Texas Automobile Insurance Plan Association
Austin, Texas

We have audited the financial statements of Texas Automobile Insurance Plan Association as of and for the year ended December 31, 2017, and have issued our report thereon dated June 29, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 5, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Texas Automobile Insurance Plan Association solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Texas Automobile Insurance Plan Association is included in Note A to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is related to the defined benefit plan detailed in Note B of the financial statements. Management's estimate is based on information provided by the plan's actuaries.

We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. We noted no such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Texas Automobile Insurance Plan Association's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated June 29, 2018.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Texas Automobile Insurance Plan Association, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Texas Automobile Insurance Plan Association's auditors.

This report is intended solely for the information and use of the Audit Committee, Governing Committee, and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to Texas Automobile Insurance Plan Association.

Atchley & Associates, LLP
Austin, Texas
June 29, 2018

TAIPA

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

NICOLE MORGAN
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June 29, 2018

Atchley & Associates, LLP
1005 La Posada Drive
Austin, Texas 78752

This representation letter is provided in connection with your audits of the financial statements of Texas Automobile Insurance Plan Association (the Organization) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and the supplementary comparison of revenues and expense versus budget. We confirm that we are responsible for the fair presentation in financial statements of financial position, results of activities, and cash flows in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 5, 2018, for the preparation and fair presentation of the financial statements referred to above in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. We have no knowledge of any uncorrected misstatements in the financial statements.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Lines of credit or similar arrangements.
 - b. All leases and material amounts of rental obligations under long-term leases.
 - c. All significant estimates and material concentrations known to management that are required to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the balance sheet date that could change

materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.

- d. Concentrations of credit risk.

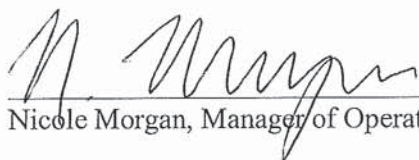
Information Provided

9. We have provided you with:
- a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
10. All transactions have been recorded in the accounting records and are reflected in the financial statements.
11. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
12. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:
- a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
13. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements received in communications from employees, former employees, regulators, or others.
14. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
15. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
16. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
17. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Organization's ability to record, process, summarize, and report financial data.
18. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
- a. The Organization has no significant amounts of idle property and equipment.

- b. The Organization has no plans or intentions to discontinue operations or to discontinue any significant services.
 - c. Provision has been made to reduce all assets that have permanently declined in value to their realizable values.
 - d. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.
20. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.
 - b. For pension obligations, postretirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through December 31, 2017.
21. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
 - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - d. Agreements to repurchase assets previously sold.
 - e. Security agreements in effect under the Uniform Commercial code.
 - f. Other liens or encumbrances on assets and all other pledges of assets.
 - g. Uninsured losses or loss retentions (deductibles) attributable to events occurring through December 31, 2017, and/or for expected retroactive insurance premium adjustments applicable to periods through December 31, 2017.
 - h. Liabilities that are subordinated to any other actual or possible liabilities of the Organization.
 - i. Assets and liabilities measured at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification.
 - j. Concentrations of credit risk.
 - k. Reclassifications between net asset classes
22. The Organization has satisfactory title to all owned assets.
23. We have complied with all aspects of contractual agreements, grants, and donor restrictions that would have a material effect on financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and Uniform Guidance, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.

24. We have received a determination from the Internal Revenue Service that we are exempt from federal income taxes as a Section 501(c)(6) not-for-profit corporation, and we have complied with the IRS regulations regarding this exemption.
25. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. When supplementary information is not presented with the audited financial statements, we will 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.
26. We are responsible for determining that significant events or transactions that have occurred since the statement of financial position date and through the date of this letter have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the statement of financial position date and through the date of this letter that would require recognition or disclosure in the financial statements. We further represent that, as of the date of this letter, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.
27. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Texas Automobile Insurance Plan Association



Nicole Morgan, Manager of Operations/Financial Management

TEXAS AUTOMOBILE INSURANCE
PLAN ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

Governing Committee
Texas Automobile Insurance
Plan Association

Report on the Financial Statements

We have audited the accompanying financial statements of the Texas Automobile Insurance Plan Association (TAIPA) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity'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 the entity's internal control. Accordingly, we express no such opinion. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TAIPA as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of comparison of revenues and expenses versus budget is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Atehley & Associates, LLP

Austin, Texas

June 29, 2018

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 155,571	\$ 91,425
Accounts receivable	-	150
Prepaid expenses	29,252	25,005
Security deposits	5,379	-
Total current assets	190,202	116,580
Property and Equipment		
Furniture and equipment	38,921	38,921
Computer equipment	23,762	23,762
Leasehold improvements	50,007	50,007
Computer software and program development costs	34,858	34,858
	147,548	147,548
Less accumulated depreciation	(126,116)	(110,909)
	21,432	36,639
Total assets	\$ 211,634	\$ 153,219
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 11,638	\$ 7,495
Accrued vacation	25,315	39,113
Accrued payroll liabilities	52,412	8,415
Other accrued liabilities	6,334	6,137
Total current liabilities	95,699	61,160
Other Liabilities		
Accrued pension benefit costs	183,909	314,442
Deferred lease benefit	3,826	17,564
Total other liabilities	187,735	332,006
Net Assets (Deficiency)		
Accumulated effect of pension adjustment	(1,014,779)	(1,192,111)
Unrestricted	942,979	952,164
Total net assets (deficiency)	(71,800)	(239,947)
Total liabilities and net assets (deficiency)	\$ 211,634	\$ 153,219

The accompanying notes are an integral part of these financial statements.

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Member assessments	\$ 997,100	\$ 1,000,400
Assessment penalties	3,458	5,259
Interest income	609	290
Total revenues	<u>1,001,167</u>	<u>1,005,949</u>
Expenses		
Salaries and related expenses	645,973	633,453
Professional services	143,340	133,073
Occupancy expenses	129,078	133,528
Postage and delivery	19,572	19,548
Governing committee	18,092	18,042
Office supplies and expense	15,904	18,092
Depreciation and amortization	15,208	15,430
Miscellaneous	8,106	6,698
Computer supplies and expense	5,200	7,656
Staff education and seminars	3,930	8,087
Operating committee	2,500	4,630
Staff expense	1,946	2,473
Dues and subscriptions	1,503	1,636
Total expenses	<u>1,010,352</u>	<u>1,002,346</u>
Other revenues (expenses)		
Pension minimum liability adjustment	177,332	78,938
Total other revenues (expenses)	<u>177,332</u>	<u>78,938</u>
Net change in unrestricted net assets	168,147	82,541
Net assets (deficiency) at beginning of year	<u>(239,947)</u>	<u>(322,488)</u>
Net assets (deficiency) at end of year	<u>\$ (71,800)</u>	<u>\$ (239,947)</u>

The accompanying notes are an integral part of these financial statements.

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ 168,147	\$ 82,541
Adjustments to reconcile change in net assets to net cash flows		
Depreciation and amortization	15,208	15,430
Change in operating assets and liabilities -		
Accounts receivable	150	-
Prepaid expenses	(4,247)	13,511
Security deposits	(5,379)	-
Accounts payable	4,142	(3,332)
Accrued vacation	(13,798)	563
Accrued payroll liabilities	43,997	443
Other accrued liabilities	197	(16,363)
Accrued pension benefit costs	(130,533)	(129,229)
Deferred lease benefit	(13,738)	(11,652)
	64,146	(48,088)
INVESTING ACTIVITIES		
Purchases of property and equipment	-	(6,637)
	-	(6,637)
Net cash flows from investing activities	-	(6,637)
Net change in cash and cash equivalents	64,146	(54,725)
Cash and cash equivalents - beginning of year	91,425	146,150
Cash and cash equivalents - end of year	\$ 155,571	\$ 91,425

The accompanying notes are an integral part of these financial statements.

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Texas Automobile Insurance Plan (the Plan) was formed in January 1952 for the purposes of (1) making automobile liability insurance (both bodily injury and property damage) available to drivers in Texas who cannot obtain such insurance in the voluntary market, and (2) establishing a procedure for the equitable distribution of these risks among all automobile insurance companies admitted to do business in Texas.

During 1993, the Texas Legislature established the Texas Automobile Insurance Plan Association (TAIPA). TAIPA provides a means by which insurance may be assigned to an authorized insurer and essentially provides the same function as the Plan. The TAIPA Plan of Operation became effective as of January 1, 1995, at which time the Plan was abolished.

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Financial Statement Presentation

TAIPA's financial statements follow the requirements of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958. Under FASB ASC 958, TAIPA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. For 2017 and 2016, TAIPA had no temporarily or permanently restricted net assets.

Unrestricted net assets - Funds received that are not subject to stipulations or restrictions have expired or been satisfied.

Temporarily restricted net assets - Funds received that are subject to restriction either for use during a specific time period or for a particular purpose.

Permanently restricted net assets - Funds received that are subject to restrictions that they be maintained permanently by the organization.

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets Released From Restrictions

When a restriction is fulfilled or when a time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Cash and Cash Equivalents

TAIPA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Equipment

TAIPA reports property and equipment at historical cost if purchased, or at fair value if donated, less accumulated depreciation. Property and equipment purchased in excess of \$1,000 are capitalized. Repairs and maintenance costs are expensed as incurred while betterments and improvements are capitalized. Provision for depreciation is recognized using primarily the straight-line method over the estimated useful lives of the depreciable assets which is generally five to ten years. Upon the sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in the statement of activities.

Revenue Recognition

Member assessments and the related penalties are recognized as revenues as they are earned.

Concentrations of Credit Risk

TAIPA maintains its cash with high credit quality financial institutions which are members of the Federal Deposit Insurance Corporation. Occasionally, balances on deposit exceed federally insured limits; however, management believes there is no significant uninsured risk related to these deposits.

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

TAIPA is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(6). Accordingly, no provision for federal income taxes has been provided in these financial statements.

TAIPA has adopted FASB ASC 740, *Accounting for Uncertainty in Income Tax*. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the positions will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. As of December 31, 2017 and 2016, TAIPA has not recognized liabilities for uncertain tax positions or associated interest and penalties.

TAIPA's federal exempt organization returns for the years ended December 31, 2014, and after are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statement of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statement of activities the amount of the change in each of these two classes of net assets. The standard will also require presentation of expenses by their functional classifications and enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. TAIPA is currently evaluating the impact the standard will have on its financial statements.

Subsequent Events

The management of TAIPA has evaluated subsequent events for disclosure through the date of the independent auditors' report, the date the financial statements were available to be issued.

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE B - EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

TAIPA is a member of the Insurance Company Supported Organization (ICSO) 401(k) Savings Plan. After one year of employment, all full-time employees are eligible to become plan participants. Employees may contribute up to 16% of their annual compensation to the plan. The employer matches employee contributions at the rate of \$.75 per \$1.00 of employee contributions up to a maximum of 6% of annual compensation. Payments to the plan were \$19,251 and \$16,441 for 2017 and 2016, respectively.

Defined Benefit Plan

TAIPA is a member of The Pension Plan for Insurance Organizations (the Pension). The Pension is a multiple-employer defined benefit plan. The trustee of the Pension is the Principal Trust Company, a member of the Principal Financial Group. The Pension's employer identification number is 27-0131295 and Plan Number 001. An employee is eligible to become a member at the beginning of the first twelve-month period during which 1,000 hours of service have been completed with 100% vesting after (a) five or more years of service or (b) four years of service and 1,000 hours. TAIPA's funding policy is to make monthly contributions in conformance with minimum funding requirements. For the year ending December 31, 2017, TAIPA funded more than the minimum funding requirements.

TAIPA has adopted the recognition provisions of ASC 715. As required by ASC 715, TAIPA recognizes a liability for the underfunded status of its defined benefit pension plan and adjusts the ending balance of unrestricted net assets for the transition obligation, prior service cost, and net loss that have not been recognized as components of net periodic pension cost. The following tables set forth the Plan's status and amounts per ASC 715 at December 31, 2017 and 2016.

	2017	2016
Components that have been recognized as changes to unrestricted net assets arising from the Plan but not yet reclassified as components of net periodic benefit costs for the year ended December 31:		
Service cost	\$ 37,314	\$ 33,633
Interest cost	162,274	170,369
Expected return on MRVA	(205,597)	(197,398)
Amortization of net prior service cost	5,736	5,736
Amortization of net actuarial loss (gain)	115,341	126,367
Net periodic benefit cost	\$ 115,068	\$ 138,707

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE B - EMPLOYEE BENEFIT PLANS - Continued

The status of the Plan for the years ended December 31:	<u>2017</u>	<u>2016</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 4,141,991	\$ 4,094,946
Service cost	37,314	33,633
Interest cost	162,274	170,369
Actuarial loss (gain)	249,685	93,147
Benefits paid	(250,104)	(250,104)
Plan amendments	-	-
Benefit obligation at end of year	<u>4,341,160</u>	<u>4,141,991</u>
Change in plan assets		
Fair value of plan assets at beginning of year	3,827,549	3,651,275
Actual return on plan assets	511,537	237,380
Employer contributions	68,269	188,998
Benefits paid	(250,104)	(250,104)
Fair value of plan assets at end of year	<u>4,157,251</u>	<u>3,827,549</u>
Funded status at end of year	<u>\$ (183,909)</u>	<u>\$ (314,442)</u>
Amounts recognized in the statement of financial position as of December 31:		
Noncurrent liabilities	<u>\$ 183,909</u>	<u>\$ 314,442</u>
Amounts recognized as changes in unrestricted net assets arising from a defined benefit plan as of December 31:		
Accumulated net loss (gain)	<u>\$ 1,014,779</u>	<u>\$ 1,192,111</u>

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE B - EMPLOYEE BENEFIT PLANS - Continued

	<u>2017</u>	<u>2016</u>
Other changes in plan assets and benefit obligations recognized as changes in unrestricted net assets not yet included in net periodic benefit cost for the years ended December 31:		
Net gain (loss)	\$ (115,341)	\$ (126,367)
Net prior service credit (cost)	(5,736)	(5,736)
Other adjustments	-	-
New actuarial losses	(56,255)	53,165
	<u>\$ (177,332)</u>	<u>\$ (78,938)</u>

The estimated net loss for the defined benefit pension plan that will be amortized into net periodic benefit cost over the next fiscal year is \$84,666.

The accumulated benefit obligation for the defined benefit pension plan was \$4,245,368 and \$4,052,543 as of December 31, 2017 and 2016, respectively.

Employer contributions expected to be paid during the year ending December 31, 2018, is \$65,981.

Weighted average assumptions used to develop benefit obligations were:

	<u>2017</u>	<u>2016</u>
Discount rate	3.50%	4.00%
Rate of compensation increases	3.00%	3.00%

Weighted average assumptions used to develop net periodic pension benefit costs were:

	<u>2017</u>	<u>2016</u>
Discount rate	4.00%	4.25%
Expected return on plan assets	5.50%	5.50%
Rate of compensation increases	3.00%	3.00%

TAIPA's target investment allocation is 60% equity securities and 40% debt securities and its asset diversifications as of December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Equity securities	37.3%	42.5%
Debt securities	57.0%	57.2%
Real Estate	4.9%	0.0%
Cash	0.8%	0.3%
	<u>100.0%</u>	<u>100.0%</u>

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE B - EMPLOYEE BENEFIT PLANS - Continued

The following represents the estimated future benefit payments to be paid by the pension plan:

Fiscal Years Ending	
December 31, 2018	\$ 253,382
December 31, 2019	257,958
December 31, 2020	254,203
December 31, 2021	251,818
December 31, 2022	250,038
December 31, 2023-2027	1,288,154
Total	<u>\$ 2,555,553</u>

NOTE C - COMPENSATED ABSENCES

Employees of TAIPA are entitled to paid sick days and personal days off, depending on their length of service. Effective January 1, 2007, employees are eligible to receive monetary reimbursement for a maximum of 37 1/2 hours of unused All Purpose Leave from the prior year. The compensation will be paid prior to January 31st. The employees who have remaining All Purpose Leave available as of December 31 are able to carry up to 350 hours over to the following year. Any amount in excess of 350 hours will be forfeited each January 1st. Accrued leave in the amount of \$25,315 and \$39,113 has been recorded in the accompanying statements of financial position as of December 31, 2017 and 2016, respectively.

NOTE D - LEASE COMMITMENTS

TAIPA leases office space and certain equipment under noncancelable operating leases. The lease for office space terminates on April 30, 2023, while the leases for equipment expire through 2021. Minimum future obligations from leases in effect at December 31, 2017, are as follows:

Due in Years Ending	
December 31, 2018	\$ 85,326
December 31, 2019	50,524
December 31, 2020	44,943
December 31, 2021	42,227
December 31, 2022	42,960
	<u>\$ 265,980</u>

Lease expenses for operating leases were \$125,248 and \$129,180 for the years ended December 31, 2017 and 2016, respectively.

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE E - DEFERRED LEASE BENEFIT

TAIPA's office lease agreement contains provisions for future rent increases, rent free periods, or periods in which rent payments are reduced. Per FASB ASC 840, the total amount of rental payments due over the lease term is charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited to "deferred lease benefit", and is included in the accompanying statements of financial position.

NOTE F - LINE OF CREDIT

TAIPA renewed a bank line of credit totaling \$300,000, on September 7, 2017. Interest, calculated at the bank's prime rate, is payable monthly. At December 31, 2017, there was no outstanding balance on the line, and there were no borrowings on the line of credit during the years ended December 31, 2017 and 2016. The line of credit matures on September 6, 2018.

SUPPLEMENTAL
INFORMATION

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
SUPPLEMENTAL INFORMATION
COMPARISON OF REVENUES AND EXPENSES VERSUS BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2017

	Actual	Budget	Variance
Revenues			
Member assessments	\$ 997,100	\$ 1,000,000	\$ (2,900)
Interest income	609	-	609
Assessment penalties	3,458	-	3,458
Total Revenues	<u>1,001,167</u>	<u>1,000,000</u>	<u>1,167</u>
Operating Expenses			
Salaries	427,202	424,900	(2,302)
Employee benefits & other insurance	218,771	189,200	(29,571)
Rent	116,187	129,000	12,813
Telephone/internet access	12,079	12,300	221
Property taxes	812	1,300	488
Professional services			
Legal	44,980	49,600	4,620
Audit	22,283	23,100	817
Systems consultants	40,689	43,400	2,711
Consultants - other	26,888	19,900	(6,988)
Actuary	8,500	9,400	900
Depreciation and amortization	15,208	15,300	92
Postage & shipping	19,572	22,300	2,728
Office equipment & supplies	14,149	15,300	1,151
Printing & stationary	1,755	1,900	145
Governing Committee	18,092	23,700	5,608
Computer supplies	5,200	6,600	1,400
Operation Sub-committee	2,500	3,300	800
Employee meetings, seminars & travel	3,930	9,300	5,370
Other	8,106	7,100	(1,006)
Staff expense	1,946	2,700	754
Dues, subscriptions & publications	1,503	1,600	97
Total Operating Expenses	<u>1,010,352</u>	<u>1,011,200</u>	<u>848</u>
Other revenues (expenses)			
Pension minimum liability adjustment	177,332	(200,000)	377,332
	<u>177,332</u>	<u>(200,000)</u>	<u>377,332</u>
Change in Unrestricted Net Assets	<u>\$ 168,147</u>	<u>\$ (211,200)</u>	<u>\$ 379,347</u>