

**Texas Automobile Insurance Plan Association Governing Committee Meeting
Agenda for Friday, March 22, 2019 – 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 Tom Rolling’s Service to TAIPA
5. Election of Officers
6. Review and Approval of the Minutes of the November 16, 2018 Meeting (Exhibit 1)
7. Chair’s Report
 - A. AIA/PCI Merger
8. Manager’s Report
 - A. AIA/PCI Merger and Proposed change of Plan of Operations (Exhibit 2)
 - B. Application Count Update
 - a. For Yearend 2018 (Exhibit 3)
 - b. As of February, 2019 (Exhibit 4)
 - C. Financial Update - For Yearend 2018 (Exhibit 5)
 - D. Conflict of Interest Policy (Exhibit 6)
 - E. Administrative Rules (Exhibit 7)
9. Audit/Finance Committee Report
 - A. Audit Engagement Letter (Exhibit 8)
10. Operations Subcommittee Report
 - A. Over/Under Report (Exhibit 9)
 - B. Procedures Related to Insurance Discontinuing Writing
11. Report of Counsel
 - A. TAIPA Rates
 - B. Legislative Session Update
12. Next Meeting – August 16, 2019 at Omni Austin Hotel Southpark
13. Personnel Matters
 - A. TAIPA Staffing
 - B. Defined Benefits (Pension Plan)
 - C. Manager’s Review
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

TAIPA Governing Committee Meeting
November 16, 2018

**TAIPA GOVERNING COMMITTEE MEETING MINUTES
NOVEMBER 16, 2018 AT 9:00 AM
OMNI AUSTIN HOTEL SOUTHPARK**

ATTENDEES:

VOTING MEMBERS:

Mary Carol Awalt, Public Member
Bill Brooks, Texas Farm Bureau
Todd Feltman, State Farm
Pete Hamel, Producer Member
Laura Hausman, Public Member (Via teleconference)
Carmelita Hogan, Public Member
Leslie Hurley, Public Member
Stephen Hylka, Liberty Mutual/Safeco (Via teleconference)
Becky Jackson, Public Member
Corise Morrison, USAA (Via teleconference)
Anise Mulkey, Travelers
Adam Payton, Producer Member
Thomas Rolling, Farmers
Michael Schalk, Allstate
David Weber, Hochheim Prairie (Chair)

COUNSEL:

Michael Jones, Thompson, Coe, Cousins & Irons

TAIPA STAFF:

Stacy Dutton (Association Manager)
Mimi Leece
Nicole Morgan (Minute Taker)

OTHERS:

Doug Beck, Farmers (Via teleconference)
Alisha Darden, Public Member Alternate
Kimberly Donovan, OPIC
John Lusardi, Assigned Risk Solutions, Ltd. (Via teleconference)
Laura Machado, TDI
Ramon Montalvo, Producer Member Alternate
John Mooney, TDI
Matthew Snyder, Farmers
Kate Thompson, TDI

ITEM 1: CALL TO ORDER

David Weber called the meeting to order at 9:00 AM.

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ITEM 2: INTRODUCTIONS

Introductions were made.

ITEM 3: READING OF THE ANTI-TRUST STATEMENT

Stacy Dutton 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.”

ITEM 4: REVIEW & APPROVAL OF THE MINUTES OF THE AUG. 17, 2018 MEETING (EXHIBIT 1)

It was moved by Todd Feltman and seconded by Bill Brooks to:

“Approve the minutes.”

The motion carried unanimously.

ITEM 5: CHAIR’S REPORT

David Weber presented the Chair’s Report.

A. TAIPA ADMINISTRATIVE RULES (EXHIBIT 2)

At the last Governing Committee meeting, the Administrative Rules were presented and a few possible amendments were discussed. It was asked that any additional proposed amendments be submitted by October 1st. We did not receive any other proposed amendments. The exhibit shows the proposed changes discussed at the last meeting, which include:

- Adding the prior Chair as part of the officer group (assuming they remain on the board)
- Adding the TAIPA liaison position
- Adding the Strategic Planning Subcommittee as a standing subcommittee

It was moved by Pete Hamel and seconded by Adam Payton to:

“Adopt the rules.”

The motion carried unanimously.

B. POSSIBLE AIA/PCI MERGER

This item was also discussed during the last Governing Committee meeting, as we have members from both associations on the board. AIA and PCI are still expected to merge in early 2019. However, they plan to have the legal entities for both exist for at least 1-2 years, which means we will not have to rush to make changes to our Plan of Operation, and can instead take time to look at our options. Mike Jones suggested that if we are going to take the time to address this change, we might want to look at our overall process and see if it needs any changes. It may even be worth referring the issue to the Operations Subcommittee if the merger is finalized by the next Governing Committee meeting. It was asked that any suggestions for the nominations process be sent to David Weber, Stacy Dutton, and Mike Jones.

C. LEGISLATIVE SESSION

The next legislative session starts in January 2019, and bill filing is due by Monday. TAIPA has to monitor the bills not only for any that affect TAIPA directly, but also for any bills regarding the automobile insurance industry that could affect TAIPA indirectly. If any bills are expected to affect TAIPA, it will be presented at the next Governing Committee meeting.

D. DEFINED BENEFIT (PENSION) PLAN

One of the benefits the TAIPA employees receive is a defined benefit plan, which gives them an annuity for the rest of their lives after they retire, if they're vested. The liability shown on TAIPA's financials for the defined benefit plan is currently about \$180,000. The trend has been for companies to move away from defined benefit plans because of how big the liability can be. TAIPA has so few employees now that this liability could theoretically last forever because the defined benefit liability lasts as long as the lifespan of the employees.

Leslie Hurley entered the meeting.

Employees certainly enjoy the benefit of having a defined benefit plan, so when a company looks at eliminating one, they're not obligated to replace it with another benefit, but it's often the right thing to do. Many companies choose to give an additional 401K contribution, which is a known contribution amount, unlike the defined benefit plan where the liability can go up or down each year and is more of an unknown.

TAIPA's plan currently has 14 former employees drawing from the plan, eight former employees who are no longer with TAIPA but aren't yet drawing because they haven't reached retirement age, three current employees that are part of the plan but not yet drawing, and one in the vesting waiting period.

There are a couple of options when freezing the plan—a hard freeze or a soft freeze. A hard freeze essentially stops all future benefits from accruing. It doesn't take anything away from the employees that's already been earned, but they won't accrue any new

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benefits. From an organizational standpoint, it gives you set numbers. A soft freeze enables current employees to continue to accrue additional benefits, but any new employees would not be able to receive any benefits. From an organizational standpoint, it does eliminate some of the surety we'd be looking to create around a set liability. Aside from freezing the plan, you can also actually eliminate the plan, or can amend your plan to affect some of the people who are part of the plan but yet not drawing. For example, you could buy-out the eight former employees who aren't yet drawing.

If the board wants to move forward with possibly freezing or eliminating the plan, TAIPA would need to spend money to hire actuaries to perform a review and present the various options to the board. We would also need to pay legal fees for the pension plan attorneys to draft any plan amendments. We've included money in the budget for these items as a placeholder. If the board doesn't want to move forward, that's fine too. It seems worth considering now given our low volume. Say that 10 years down the road, volume increases for some reason and TAIPA has to hire new employees; we would be taking on additional liabilities for years and years for those new employees. This liability will be on TAIPA's financials forever and ever unless the board takes some sort of action. Is this something the board wants to study? Do they want to create a subcommittee? The Chair's preference is to have the whole board study it because it's a big decision, and because it seems to make more sense to have the actuaries give their presentations just once to the entire board, rather than give them multiple times. However, the Chair will defer to whatever the board members want.

Stacy Dutton added that TAIPA is part of a defined benefit plan with AIPSO and other similar mechanisms. Any changes we make will have to be approved by the other members of the plan.

It was asked if it's the will of the board that we move forward with the actuarial work of reviewing the defined benefit plan. The Chair stated he believes that all the members of the board would want to make sure TAIPA is financially stable. He said the only real negative of reviewing the defined benefit plan is that the employees would have to deal with something new, which is scary. The tradeoff would be that if the defined benefit plan is taken away, that an additional 401K contribution be given to them. An additional 6% was included in the 2019 budget, assuming the board does want to move forward. Putting the money into a 401K shifts control to the employees.

It was asked what the approval process looks like for making changes to our plan since we're in the plan with AIPSO and other organizations. The fiduciaries would have to approve our changes, not the organizations themselves. It was asked if we've told them we're thinking about making these changes. We have not, we have only told Principal, who administers the plan. It was asked if the other organizations should be contributing to the cost of this review, if they are benefiting from it. They will not be included in this review; the fiduciaries will just have to approve this, but it shouldn't be a big deal as they have approved others.

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A member stated that AIPSO's board recently approved some changes to their pension program. Essentially, it was a soft freeze as a transition, as well as a long-term plan for the organization. TAIPA may be able to speak with them as a reference or background.

As stated previously, we did include money for this in the 2019 budget. When we come to the budget agenda item, if the board wants to move forward with this, they can approve the budget as presented. If the board wants to hold off on the review at this time, the budget can be adopted without the expenses provisioned for the defined benefit plan review. At this point, if the board wants to address the pension liability, there is not much more research that can be done without moving forward to engage the actuaries to determine what the various options and impacts will be.

ITEM 6: MANAGER'S REPORT

Stacy Dutton presented the Manager's Report.

A. APPLICATION COUNT UPDATE AS OF OCTOBER 2018 (EXHIBIT 3)

TAIPA received 270 applications in October 2018, compared to 268 in October 2017. Year-to-date, TAIPA has received 2,969 applications in 2018, compared to 3,061 in 2017, which is a decrease of 92 applications or about 3%. We expect to receive 3,400-3,500 applications this year, which would be slightly below our 2017 volume, but higher than our 2016 volume. This is consistent with the "bottoming out" trend we've been seeing over the past couple of years. We expect there to be some fluctuations year to year, with volume mostly hovering around this level.

B. FINANCIAL UPDATE AS OF SEPTEMBER 2018 (EXHIBIT 4)

TAIPA would expect to be at 75% of the budget used at the end of September, and is under-budget at about 66%. The items that are currently over-budget were explained. We expect to end the year about 7% under-budget.

C. 2019 REQUESTS FOR PROPOSAL

TAIPA's RFP procedure states that the Association Manager should annually identify any vendors with poor performance or with contracts in place five years or more. Of those, the Governing Committee reviews any contracts valued at \$20,000 or more, or any contracts in the following categories of expenses: legal counsel, auditors, actuary, application processing system, and quota system.

Last year, the Governing Committee made a consensus to continue with TAIPA's legal counsel, auditors, and actuary for another year. We recommend the same this year because we don't see any compelling reasons to change vendors. No other vendors are up for review this year.

The Governing Committee agreed by consensus to continue the current relationships with the attorneys, auditors, and actuary for 2019.

D. 2019 BUDGET (EXHIBIT 5)

Nicole Morgan presented this item.

The budget assumptions shown on the first page of the exhibit were discussed. For the most part, the 2019 budget is very similar to the 2018 budget, with the standard increases in line items you'd expect to see increases in each year, like employee insurance costs, salaries due to proposed merit-based raises, etc. The most noteworthy assumption is the one regarding TAIPA's pension plan, which was reported on during the Chair's Report. About \$30,000 was included in the 2019 budget for the actuarial costs, legal costs, 401K plan amendments costs, and an additional 401K contribution for employees from July-December. If the board does want to move forward with the pension plan work described in the Chair's Report, that money is already included in the budget. If they do not wish to move forward, they would need a motion to accept the budget, minus those amounts provisioned.

TAIPA requests a 2019 budget of \$866,800, which is an increase of \$20,000 or about 2.3% from the 2018 budget. The major increases and decreases in line items were explained. There is no capital budget request for 2019.

TAIPA requests a 2019 assessment of \$800,000, which is a decrease of \$25,000 from the 2018 assessment. To arrive at this amount, we propose applying \$60,500 of the excess cash at yearend to reduce the total assessment amount. Even after using this excess cash, we expect to have about \$100,000 on hand at yearend 2018, enough cash to cover about a month and a half of 2019 budget. We do believe this amount of carryover will be sufficient, as we typically receive about 20% of the annual assessment by mid-January, which increases to about 70% received by the end of the month. If necessary, we do have the \$300,000 line of credit with Frost, although we do not foresee using it.

It was asked which categories include the \$30,000 for the pension plan review. The affected categories are: Employee Benefits (for the additional 401K contribution), and Consultants-Other (for the actuarial and legal work).

It was moved by Thomas Rolling and seconded by Bill Brooks to:

“Adopt the 2019 budget and assessment.”

The motion carried unanimously.

E. PLAN OF OPERATION FILING: REFUNDS

As discussed during previous Governing Committee meetings, TAIPA staff filed Plan of Operation amendments with TDI to comply with Senate Bill 698, as well as the rule that TDI promulgated. We received notice last Friday that our amendments have been approved. TAIPA staff will send out a bulletin about the approval on Tuesday, November 20th.

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F. EMPLOYEE HANDBOOK UPDATES

Revisions to the TAIPA Employee Handbook were presented at the last Governing Committee meeting. It was requested that TAIPA's HR attorney review the revisions to see if he approved, or if he had any additional changes. He did not have any changes. The revised handbook will be distributed to the employees.

G. 2019 MEETING DATES (EXHIBIT 7)

The 2019 meeting dates are March 22nd, August 16th, and November 22nd. All meetings will be held at the Omni Austin Southpark. A conference line will be available for those who are unable to attend the meetings in-person.

ITEM 7: OPERATIONS SUBCOMMITTEE REPORT

Nicole Morgan presented the Operations Subcommittee Report.

A. OVER/UNDER REPORT (EXHIBIT 7)

The only item of note is that a few companies had their under-assignments put into storage since the last report. The details are shown on the last page of the exhibit.

B. PROCEDURES RELATED TO INSURERS DISCONTINUING WRITING

At the last Governing Committee meeting, the board approved the Operations Subcommittee to move forward with pursuing Plan of Operation amendments that would provide options for how companies that discontinue writing can address their unfulfilled quota obligations. TAIPA staff has been working on the research, but it's not yet complete. Our hope is to schedule an Operations Subcommittee meeting in the first quarter of 2019, and to have something ready to present to the Governing Committee at the March Governing Committee meeting.

ITEM 8: REPORT OF COUNSEL

Mike Jones presented the Report of Counsel.

A. TAIPA RATES

TAIPA made our annual rate filing on September 10th. TDI had a lot of questions this round regarding the commercial filing. Mike Miller had to make a few changes to his loss cost presentation, but none of them had any effect on the rate recommendations he made. OPIC also had a few questions regarding how the market works and if TAIPA is really the market of last report. TAIPA's filing was initially made with an effective date of February 1, 2019 with the hope of receiving the Commissioner's approved order in October. We decided to change the effective date to March 1, 2019 since approval was received on November 9th, and the companies need at least 90 days before the effective date to do the programming work. The final Private Passenger rate changes ended up

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being: +5.0% for BI, +4.8% for PD, +2.4% for PIP, +4.5% for UM BI/PD. The final Commercial rate changes ended up being: +4.3% for BI, +3.3% for PD, and +3.5% for PIP. TAIPA will send out a bulletin regarding the rate changes on Tuesday, November 20th.

ITEM 9: PERSONNEL MATTERS

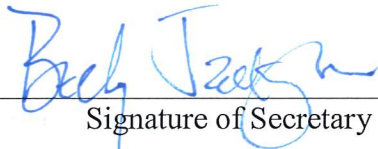
There was nothing to discuss.

ITEM 10: ADJOURNMENT

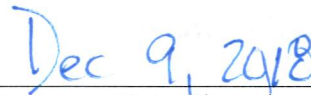
There being no further business to discuss, it was moved by Thomas Rolling and seconded by Todd Feltman to:

“Adjourn the meeting.”


The motion carried unanimously. The meeting adjourned at 9:46 AM.



Signature of Secretary



Date Signed



Printed Name of Secretary



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February 28, 2019

Ms. Stacy Dutton
Association Manager
Texas Automobile Insurance Plan Association
805 Las Cimas Parkway
Building III, Suite 210
Austin, TX 78746-4400

Via email

Dear Ms. Dutton:

I am writing on behalf of the National Association of Mutual Insurance Companies (“NAMIC”) regarding changes being proposed to the composition of the Texas Automobile Insurance Plan Association (“TAIPA”) Governing Committee.

Earlier this year, the American Insurance Association (“AIA”) and the Property Casualty Insurers Association of America (“PCI”) merged to form the American Property Casualty Insurance Association (“APCIA”). Pursuant to Section 36 of the TAIPA Plan of Operations, AIA and PCI each are to select an insurer member of the TAIPA Governing Committee (See Section 36.A.1.a.).

It is our understanding that TAIPA is proposing to amend its Plan of Operation to allow APCIA to select one member insurer to the Governing Committee and to open the selection process to another trade association. We would like to formally request that NAMIC be considered as a new trade association that selects an insurer to the TAIPA Governing Committee.

NAMIC was incorporated in Indiana in 1920, but the history of the organization began in the mid-1890s. NAMIC is headquartered in Indianapolis, Indiana and has an office in Washington, D.C. For more than 120 years NAMIC has been serving in the best interests of mutual insurance companies – large and small – across the United States.

NAMIC has more than 1,400 member companies serving more than 170 million auto, home, and business policyholders. NAMIC member companies write \$253 billion in annual premiums, and have 54 percent of homeowners, 43 percent of automobile, and 35 percent of the business insurance markets. In Texas, NAMIC has 215 member companies doing business here, including 55 companies domiciled in the state. NAMIC members make up 35.13% of the total market share in Texas.



NAMIC would be proud to be named to select an insurer member to the TAIPA Governing Committee to fill the position vacated by the AIA and PCI merger. If you have any additional questions about NAMIC, please feel free to contact me at (512) 267-4817 or at pmartin@namic.org.

Thank you for your time and consideration of NAMIC for the TAIPA Governing Committee.

Sincerely,

Paul Martin
Regional Vice President
Southwest Region

CC: David T. Weber, Chairman – TAIPA Governing Committee, david.weber@hpfm.com

CURRENT PLAN LANGUAGE SECTION 36 A

Sec. 36. ADMINISTRATION

A. Governing Committee Composition

The Association is administered by a Manager and a Governing Committee consisting of fifteen members.

1. Eight members shall represent the interests of insurers. To be eligible to act as a representative of insurers, a person must be a full time employee of an authorized insurer. Representatives of the insurers shall be elected by the members of the Association as follows:

- a. One insurer member shall be selected by each of the following trade associations:

American Insurance Association (AIA)

Association of Fire & Casualty Companies in Texas (AFACT)

Property Casualty Insurers Association of America (PCI)

- b. One insurer member shall be selected to represent members of the Association which are not affiliated with any of these trade associations.
- c. Four insurer members shall be elected to represent the membership at large.

Insurer members of the Governing Committee shall be selected to represent the trade associations and unaffiliated insurers as prescribed under Section 36.B. The four member insurers to serve at-large shall be elected by ballot of the members of the Association at the annual meeting.

~~CURRENT~~ PROPOSED PLAN LANGUAGE SECTION 36 A

Sec. 36. ADMINISTRATION

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- a. One insurer member shall be selected by each of the following trade associations:

American Property Casualty Insurance Association (~~AIA~~APCIA)

Association of Fire & Casualty Companies in Texas (AFACT)

~~Property Casualty Insurers National~~ Association ~~of America (PCI~~of Mutual Insurance Companies (NAMIC)

- b. One insurer member shall be selected to represent members of the Association which are not affiliated with any of these trade associations.
- c. Four insurer members shall be elected to represent the membership at large.

Insurer members of the Governing Committee shall be selected to represent the trade associations and unaffiliated insurers as prescribed under Section 36.B. The four member insurers to serve at-large shall be elected by ballot of the members of the Association at the annual meeting.

PROPOSED PLAN LANGUAGE SECTION 36 A

Sec. 36. ADMINISTRATION

A. Governing Committee Composition

The Association is administered by a Manager and a Governing Committee consisting of fifteen members.

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- a. One insurer member shall be selected by each of the following trade associations:

American Property Casualty Insurance Association (APCIA)

Association of Fire & Casualty Companies in Texas (AFACT)

National Association of Mutual Insurance Companies (NAMIC)

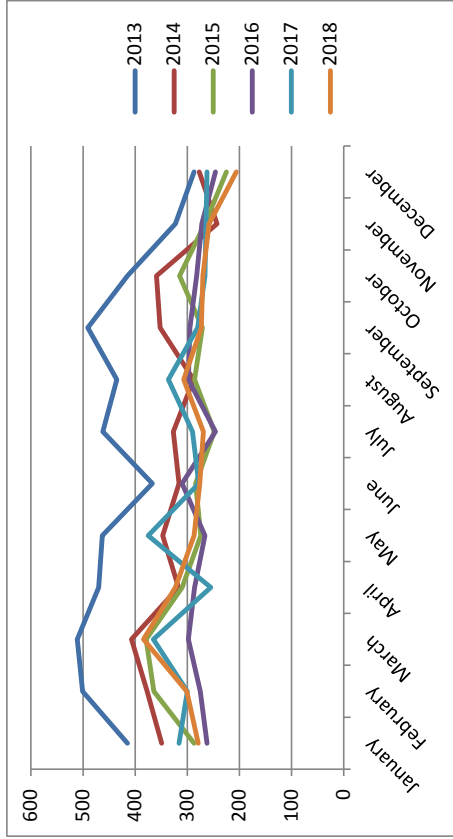
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Insurer members of the Governing Committee shall be selected to represent the trade associations and unaffiliated insurers as prescribed under Section 36.B. The four member insurers to serve at-large shall be elected by ballot of the members of the Association at the annual meeting.

Monthly Total (Dec. 2018)		
	Private Passenger	Commercial
EASi Applications	176	30
Paper Applications	0	0
Total Applications Received	176	30
Applications Assigned	<i>170</i>	<i>28</i>
Apps Returned for Correction	<i>6</i>	<i>2</i>
Applications Deficient	<i>13</i>	<i>3</i>
Applications with SR-22s	<i>7</i>	<i>0</i>
Total Applications Received in Dec. 2017:	262	262
Total Applications Received in Dec. 2018:	206	206
Year to Date Total (as of Dec. 2018)		
	Private Passenger	Commercial
EASi Applications	3070	363
Paper Applications	0	0
Total Applications Received	3070	363
Applications Assigned	<i>2990</i>	<i>348</i>
Apps Returned for Correction	<i>80</i>	<i>8</i>
Applications Deficient	<i>215</i>	<i>39</i>
Applications with SR-22s	<i>124</i>	<i>2</i>
Total Applications Received YTD (as of Dec. 2017):	3,587	3,587
Total Applications Received YTD (as of Dec. 2018):	3,433	3,433
YTD Percent Change from Dec. 2017 to Dec. 2018:	-4.29%	-4.29%
Application Assignment History*		
1994: 716,036	2002: 66,153	2010: 8,725
1995: 461,059	2003: 74,506	2011: 7,364
1996: 214,744	2004: 47,434	2012: 5,898
1997: 95,461	2005: 31,517	2013: 4,708
1998: 55,041	2006: 23,634	2014: 3,628
1999: 47,108	2007: 16,780	2015: 3,217
2000: 44,945	2008: 12,896	2016: 3,089
2001: 53,477	2009: 10,299	2017: 3,508

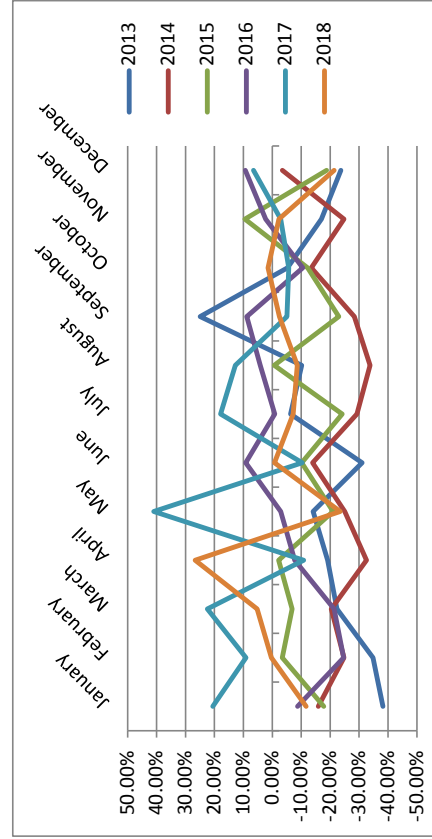
*Application Assignment History based on applications assigned, not received.

Trend of Applications Received from 2013 to 2018



	2013	2014	2015	2016	2017	2018
January	415	349	287	262	316	279
February	501	377	364	275	300	301
March	511	407	379	298	365	384
April	470	317	310	286	255	323
May	463	347	274	266	375	287
June	367	316	284	310	278	276
July	462	327	248	246	290	269
August	435	288	286	298	336	307
September	491	352	271	295	280	273
October	415	359	315	282	266	270
November	323	243	266	272	264	258
December	287	277	225	246	262	206
Total	5,140	3,959	3,509	3,336	3,587	3,433

Percent Change in Applications Received from 2013 to 2018

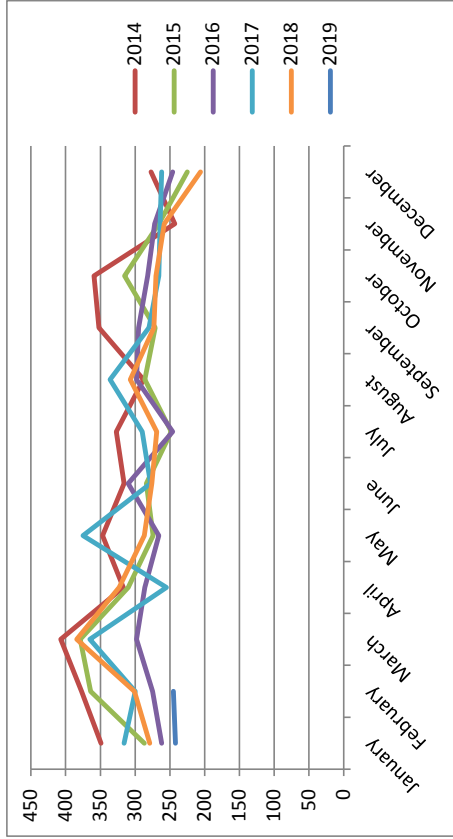


	2013	2014	2015	2016	2017	2018
January	-38.24%	-15.90%	-17.77%	-8.71%	20.61%	-11.71%
February	-34.85%	-24.75%	-3.45%	-24.66%	9.09%	0.33%
March	-22.34%	-20.35%	-6.88%	-21.37%	22.48%	5.21%
April	-19.11%	-32.55%	-2.21%	-7.74%	-10.84%	26.67%
May	-14.10%	-25.05%	-21.04%	-2.92%	40.98%	-23.47%
June	-31.02%	-13.90%	-10.13%	9.15%	-10.32%	-0.72%
July	-6.29%	-29.22%	-24.16%	-0.81%	17.89%	-7.24%
August	-10.12%	-33.79%	-0.69%	4.20%	12.75%	-8.63%
September	24.94%	-28.31%	-23.01%	8.86%	-5.08%	-2.50%
October	-5.25%	-13.49%	-12.26%	-10.48%	-5.67%	1.50%
November	-16.97%	-24.77%	9.47%	2.26%	-2.94%	-2.27%
December	-23.67%	-3.48%	-18.77%	9.33%	6.50%	-21.37%
Total YTD	-18.72%	-22.98%	-11.37%	-4.96%	7.52%	-4.29%

Monthly Total (Feb. 2019)		
	Private Passenger	Commercial
EASi Applications	218	27
Paper Applications	0	0
Total Applications Received	218	27
Applications Assigned	208	27
Apps Returned for Correction	10	0
Applications Deficient	17	5
Applications with SR-22s	7	0
Total Applications Received in Feb. 2018:		301
Total Applications Received in Feb. 2019:		245
Year to Date Total (as of Feb. 2019)		
	Private Passenger	Commercial
EASi Applications	440	47
Paper Applications	0	0
Total Applications Received	440	47
Applications Assigned	426	47
Apps Returned for Correction	14	0
Applications Deficient	33	8
Applications with SR-22s	16	0
Total Applications Received YTD (as of Feb. 2018):		580
Total Applications Received YTD (as of Feb. 2019):		487
YTD Percent Change from Feb. 2018 to Feb. 2019:		-16.03%
Application Assignment History*		
1995: 461,059	2003: 74,506	2011: 7,364
1996: 214,744	2004: 47,434	2012: 5,898
1997: 95,461	2005: 31,517	2013: 4,708
1998: 55,041	2006: 23,634	2014: 3,628
1999: 47,108	2007: 16,780	2015: 3,217
2000: 44,945	2008: 12,896	2016: 3,089
2001: 53,477	2009: 10,299	2017: 3,508
2002: 66,153	2010: 8,725	2018: 3,338

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

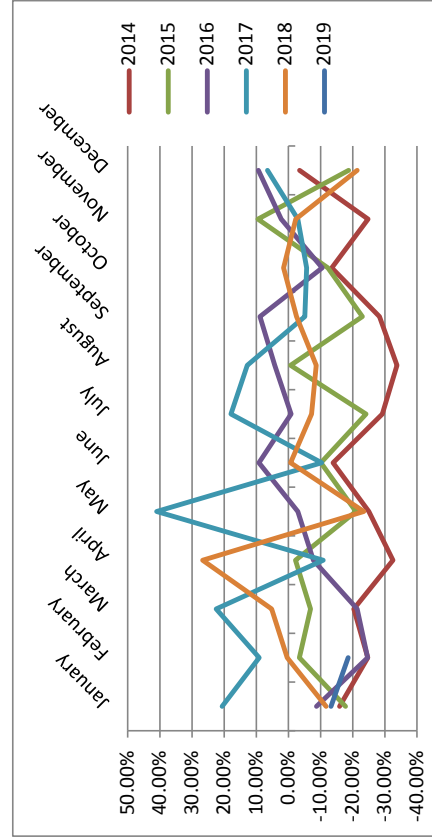
Trend of Applications Received from 2014 to 2019



	2014	2015	2016	2017	2018	2019
January	349	287	262	316	279	242
February	377	364	275	300	301	245
March	407	379	298	365	384	384
April	317	310	286	255	323	323
May	347	274	266	375	287	287
June	316	284	310	278	276	276
July	327	248	246	290	269	269
August	288	286	298	336	307	307
September	352	271	295	280	273	273
October	359	315	282	266	270	270
November	243	266	272	264	258	258
December	277	225	246	262	206	206
Total	3,959	3,509	3,336	3,587	3,433	487

Estimate of Applications to be Received in 2019: 3,367

Percent Change in Applications Received from 2014 to 2019



	2014	2015	2016	2017	2018	2019
January	-15.90%	-17.77%	-8.71%	20.61%	-11.71%	-13.26%
February	-24.75%	-3.45%	-24.66%	9.09%	0.33%	-18.60%
March	-20.35%	-6.88%	-21.37%	22.48%	5.21%	5.21%
April	-32.55%	-2.21%	-7.74%	-10.84%	26.67%	26.67%
May	-25.05%	-21.04%	-2.92%	40.98%	-23.47%	-23.47%
June	-13.90%	-10.13%	9.15%	-10.32%	-0.72%	-0.72%
July	-29.22%	-24.16%	-0.81%	17.89%	-7.24%	-7.24%
August	-33.79%	-0.69%	4.20%	12.75%	-8.63%	-8.63%
September	-28.31%	-23.01%	8.86%	-5.08%	-2.50%	-2.50%
October	-13.49%	-12.26%	-10.48%	-5.67%	1.50%	1.50%
November	-24.77%	9.47%	2.26%	-2.94%	-2.27%	-2.27%
December	-3.48%	-18.77%	9.33%	6.50%	-21.37%	-21.37%
Total YTD	-22.98%	-11.37%	-4.96%	7.52%	-4.29%	-16.03%

Texas Auto Ins. Plan Assoc.
ACTUAL VS. BUDGET
 For the period ended December 31, 2018

	2018 Year To Date Actual	2018 Year To Date Budget	Variance	2018 Annual Budget	% Used	Reason for Variance
REVENUE						
Assessments & Penalties	831,050	825,000	6,050	825,000	100.73%	
Other Revenue	3,162	0	3,162	0	0.00%	
TOTAL	834,212	825,000	9,212	825,000	101.12%	
EXPENDITURES						
Salaries	322,505	327,000	4,495	327,000	98.63%	Within range.
Emp. Benefits & Other Ins. Exp.	137,472	171,900	34,428	171,900	79.97%	Line includes -\$1,554 adjustment for vacation accrual and -\$15,971 adjustment for current expense portion of pension liability. Without adjustments, line was at 90.17% due to insurance increases not being as high as expected.
Office Equipment Expense	11,978	14,400	2,422	14,400	83.18%	Ordered supplies only as needed; did not have to make any repairs to any equipment.
Printing & Stationary Exp.	1,778	2,800	1,022	2,800	63.49%	Ordered envelopes only as needed.
Computer Expenses	6,704	7,600	896	7,600	88.21%	Did not have to purchase many misc. computer supplies.
Postage & Shipping Exp.	19,183	25,400	6,217	25,400	75.52%	Budgeted for increase in postage costs based on 10% application volume increase, but volume actually decreased by 4%.
Telephone Expense	10,405	12,100	1,695	12,100	85.99%	Signed new phone/internet contract at the new office location at a much lower rate.
Rent Expense	77,153	76,900	-253	76,900	100.33%	Line includes \$7,283 adjustment for deferred lease benefit. Without adjustments, line was at 90.86% due to receiving operating expense refund from old building.
Moving Expense	7,010	9,500	2,490	9,500	73.79%	Cost for movers was less than expected.
Taxes	861	900	39	900	95.70%	Within range.
Other Office Expenses	6,079	9,700	3,621	9,700	62.67%	Did not have many assessment writeoffs; Frost Bank was expected to institute new fee structure, but never initiated any changes.
Governing Committee	19,623	28,100	8,477	28,100	69.83%	Not all members attended all meetings, which decreased costs for per diems/lodging/mileage/food/etc.
Subcommittee Meetings	1,750	2,500	750	2,500	70.00%	Not all members attended all meetings, which decreased costs for per diems.
Producer Review Panel	0	0	0	0	0.00%	No Producer Review Panel meetings scheduled.
Employee Meetings, Seminars & Staff Travel	6,836	14,400	7,564	14,400	47.47%	Employees did not take all the courses that were budgeted for.
Legal Expenses	38,471	43,700	5,229	43,700	88.03%	Didn't encounter any legal issues or have many major legal questions.
Audit Expense	21,203	23,000	1,797	23,000	92.19%	Cost of the annual audit was less than expected.

	2018 Year To Date Actual	2018 Year To Date Budget	Variance	2018 Annual Budget	% Used	Reason for Variance
Dues, Subscriptions & Publications	1,322	1,700	378	1,700	77.79%	Some subscription renewals cost less than expected.
TAIPA Tradition, Visitor Meals & Gifts	1,799	2,700	901	2,700	66.64%	Did not have as many employee life events as budgeted for; reduced costs of staff lunches.
System Consultants	47,392	51,000	3,608	51,000	92.93%	AFPSO estimated 198 hours of work on quota, actual was 165 hours; also did not have to request as much AFS programming as budgeted for.
Consultants - Other	3,651	4,000	349	4,000	91.27%	Accounting software upgrade did not require as many hours of consultant work as expected.
Actuary	8,500	8,500	0	8,500	100.00%	Within range.
Other	0	0	0	0	0.00%	No other expenses.
SUBTOTAL	751,675	837,800	86,125	837,800	89.77%	
Depreciation	3,485	4,000	515	4,000	87.13%	Cost of phone/internet cabling at new building was less than budgeted, so depreciation was also lower than expected.
Amortization	5,000	5,000	0	5,000	100.00%	Within range.
Gain (Loss) on Disposition of Fixed Assets	271	0	-271	0	0.00%	Within range.
SUBTOTAL	8,756	9,000	244	9,000	97.29%	
TOTAL OPERATING EXPENSE	760,431	846,800	86,369	846,800	89.80%	Without adjustments, total operating expense was at 91.01%.
NET FROM OPERATIONS	73,781	-21,800	95,581	-21,800		
Non-Operating Pension Costs	133,346	0	-133,346	0	0.00%	Line reflects adjustment for change in the pension liability
NET	-59,565	-21,800	-37,765	-21,800		
CAPITAL BUDGET						
Software Development in Progress	0	0	0	0	0.00%	No software development expenditures this year.
Office Furniture & Equipment	0	0	0	0	0.00%	No furniture & fixture expenditures this year.
Computer Equipment	0	0	0	0	0.00%	No computer equipment expenditures this year.
Computer Software	0	0	0	0	0.00%	No computer software expenditures this year.
Leasehold Improvements	2,222	4,000	1,778	4,000	55.55%	Cost of phone/internet cabling at new building. Cabling cost less than budgeted, so this is actually under-budget.
TOTAL	2,222	4,000	1,778	4,000	55.55%	

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, 2018

Unaudited

ASSETS

Current Assets	
Cash and cash equivalents	\$ 179,078
Accounts receivable	200
Prepaid expenses	22,347
Total current assets	201,625
Security Deposits	5,379
Property and Equipment	
Furniture and equipment	26,653
Computer equipment	8,124
Leasehold improvements	2,222
Computer software	25,000
	61,998
Less accumulated depreciation	47,100
	14,899
Total assets	221,903

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	11,663
Accrued vacation	23,761
Accrued payroll liabilities	9,277
Total current liabilities	44,701
Other Liabilities	
Accrued pension benefit costs	301,284
Deferred lease benefit	7,283
Total other liabilities	308,567
Net (Deficiency) Assets	
Unrestricted	(131,365)
Total net assets	(131,365)
Total liabilities and net assets	\$ 221,903

Texas Auto Ins. Plan Assoc.

Statement of Activities

For the period ended December 31, 2018

Unaudited

Changes in unrestricted net assets

	Current YTD
Revenues	
Member assessments	\$ 825,700
Interest income	3,162
Assessment penalties	5,350
Total revenues	834,212
Expenses	
Salaries and related expenses	459,977
Occupancy expenses	95,430
Professional Services	119,217
Depreciation & amortization	8,485
Postage and delivery	19,183
Office supplies and expense	13,756
Governing committee	19,623
Computer supplies & expenses	6,704
Subcommittee meetings	1,750
Staff education & seminars	6,836
Miscellaneous	6,079
Staff expense	1,799
Dues and subscriptions	1,322
Total operating expenses	760,161
Other revenues (expenses)	
<i>Gain (loss) on disposition of assets</i>	(271)
<i>Pension minimum liability adjustment</i>	(133,346)
Total other revenue (expenses)	(133,617)
<i>Increase (decrease) in unrestricted net assets</i>	(59,565)
<i>Net assets (deficiency) at beginning of year</i>	(71,800)
<i>Net assets (deficiency) as of December 31, 2018</i>	\$ (131,365)

**Texas Automobile Insurance Plan Association
Conflict of Interest Policy**

Article I

Purpose

The purpose of the conflict of interest policy is to protect the Texas Automobile Insurance Plan Association's (TAIPA) interest when a transaction or arrangement might directly or indirectly benefit the private interest of a Governing Committee member or employee of TAIPA or might result in a possible excess benefit transaction. A contemporaneous benefit is maintaining public confidence in the efficient, economical, fair and non-discriminatory administration of TAIPA. It is the intent of this policy to prevent not only a conflict from occurring but the appearance of a conflict from occurring. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit organizations. The pertinent Texas statutes governing the operations of a Texas non-profit corporation are to be found in subchapter A of Title 1 and Chapter 22, Business Organizations Code.

Article II

Definitions

1. Interested Person

Any Governing Committee member, employee or member of a committee with Governing Committee delegated powers, who has a direct or indirect financial (ten percent or more of the voting stock of or a general partnership interest in) or other beneficial interest, as defined below, is an Interested Person.

2. Financial Interest

An Interested Person has a financial or other beneficial interest if the Interested Person has, directly or indirectly, through their business, employment, investment, or family:

- a. an ownership or investment interest in any entity with which TAIPA has or proposes to have a transaction or arrangement;
- b. a compensation arrangement with TAIPA or with any entity or individual with which TAIPA has or proposes to have a transaction or arrangement;
- c. serves as a board member of the entity which has or proposes to have a transaction or arrangement with TAIPA or a member of a committee which has board-delegated powers concerning the contract; or,
- d. a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which TAIPA is negotiating a transaction or arrangement. Compensation includes but is not limited to direct and indirect remuneration or financial gain or benefit as well as gifts or favors that are not

insubstantial. Compensation does not include incidental items, such as occasional meals.

Article III

Procedures

1. Duty to Disclose

In connection with any actual or possible conflict of interest, all Interested Persons must disclose the existence of the financial or beneficial interest and shall disclose all material facts to the Governing Committee members and members of committees with Governing Committee delegated powers considering the proposed transaction or arrangement.

An employee must identify any conflict of interest and disclose all material facts to the Association Manager. The Association Manager will report to the Governing Committee any employee conflicts of interest, including those of the Association Manager.

2. Determining Whether a Conflict of Interest Exists

After disclosure of the financial or beneficial interest and all material facts, and after any discussion with the Interested Person, the Interested Person shall leave the Governing Committee or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining members of the Governing Committee or committee members shall decide if a conflict of interest exists.

3. Procedures for Addressing the Conflict of Interest

An Interested Person may make a presentation to the Governing Committee or committee meeting, but after the presentation, the Interested Person shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.

4. Violations of the Conflicts of Interest Policy

- a. if the Governing Committee has reasonable cause to believe a member has failed to disclose actual or perceived conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose; and,
- b. if, after hearing the member's response and after making further investigation as warranted by the circumstances, the Governing Committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate corrective action.

Article IV

Records of Proceedings

The minutes of the Governing Committee and all committees with Governing Committee delegated powers shall contain:

- a. the names of the persons who disclosed or otherwise were found to have a financial or beneficial interest in connection with an actual or possible conflict of interest, the nature of the financial or beneficial interest, any action taken to determine whether a conflict of interest was present, and the Governing Committee's or committee's decision as to whether a conflict of interest in fact existed; and,
- b. the names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

Article V

Annual Statements

Each Governing Committee member, each employee of TAIPA and each member of a committee with Governing Committee delegated powers shall annually sign a statement which affirms such person:

- a. has received a copy of this conflict of interest policy;
- b. has read and understands this policy; and,
- c. has agreed to comply with this policy.

Article VI

Periodic Reviews

To ensure TAIPA operates in a manner consistent with its statutory and not for profit purposes and does not engage in activities that could violate state or federal laws, periodic reviews shall be conducted that shall, at a minimum, include the following subjects:

Whether partnerships, joint ventures, and arrangements with management organizations conform to TAIPA's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further TAIPA's purposes and do not result in real or perceived inurement, impermissible private benefit or in an excess benefit transaction.

CERTIFICATION

I have read the foregoing conflict of interest policy of TAIPA and agree to abide by its terms. I know of no possible conflict of interest except as described below:

I am employed by a member company.

I am a licensed insurance agent.

Signature

Date

Printed Name

TAIPA GOVERNING COMMITTEE

ADMINISTRATIVE RULES

1. **Governing Committee Meetings**

- 1.1 Regular Meetings. The Governing Committee will set its schedule of meetings for the coming year at its last meeting of each year. The schedule may be revised at any meeting.
- 1.2 Special Meetings. Special meetings may be called by the Chair or upon written request to the Chair by at least three members, one of whom must be a public member.
- 1.3 Notice of Meetings. Meetings will be called in accordance with the Texas Open Meetings Act.
- 1.4 Meeting Agenda. Meeting agendas are prepared by Manager in consultation with the Chair. Members may request the addition of an item on the agenda by a written request to the Manager at least 15 days prior to a scheduled meeting.
- 1.5 Voting. Any required votes by the Governing Committee will be voice vote unless a member requests voting by a show of hands or in writing. Proxy voting is not permitted.

2. **Officers**

- 2.1 Officers will include: Chair, 1st Vice-Chair, 2nd Vice-Chair, Secretary, and the Immediate Past Chair.
- 2.2 The Immediate Past Chair serves as an officer only if that person continues to serve on the Governing Committee after leaving the position of Chair. An immediate past Chair cannot serve as an officer if that person is removed or resigns from the Chair during that person's term. In the event the immediate past Chair does not remain on the Governing Committee after leaving the position of Chair, no other person will fill this position.
- 2.3 With the exception of the immediate past Chair, officers are to be elected at the first meeting of the Governing Committee following the annual meeting of members and serve until the following annual meeting of members.
- 2.4 At least one officer is to be a public member of the Governing Committee.
- 2.5 An officer may be removed at any meeting of the Governing Committee. An officer may resign at any time by giving written notice to the Governing Committee or to the Chair or to the Secretary. A resignation shall take effect at the date of the receipt of the notice or at a later time specified therein.

- 2.6 The Chair presides at all meetings of the Governing Committee and is responsible for the orderly conduct of such meetings. The Chair shall direct the Manager and staff of the Association in the preparation and publication of the Notice of Meeting and Agenda for all meetings of the Governing Committee. The Chair is authorized to appoint members to standing or special subcommittees. If the Chair will be absent from a meeting, the Chair may designate an officer to preside at such meeting. In the absence of such a designation, the officers shall serve in order of their seniority as set forth in Section 2.1.
- 2.7 The Vice-Chair succeeds to the office of Chair in the event of the resignation or removal of the Chair.
- 2.8 The Second Vice-Chair succeeds to the office of Chair in the event of the resignation or removal of the Chair and Vice-Chair.
- 2.9 The Secretary has the responsibility for the preparation of all minutes of the Governing Committee. In this responsibility, the Secretary will be assisted by the Manager and the staff of the Association. The Secretary is authorized to certify to actions of the Governing Committee.
- 2.10 The Chair, and such officers as the Chair may request, shall, subject to the control of the Governing Committee, generally interact with and direct the Manager of the Association. This may include day-to-day matters which may arise, and shall include giving performance reviews and making compensation adjustments.
- 2.11 Industry representatives serving as officers of the Association do so in their personal capacities. The office is not held by the member company by whom any officer is employed.
- 2.12 The officers may consult as a group in discharging their duties and responsibilities.
- 2.13 The officers have no authority to act for the Association, or to commit it to any obligation except as specifically authorized or directed by the Governing Committee.

3. **Standing Subcommittees**

- 3.1 Purpose. The Chair shall appoint standing subcommittees to facilitate the work and responsibilities of the Governing Committee; study key issues; and make recommendations to the Governing Committee.
- 3.2 Subcommittees. The following subcommittees are created as standing committees:
 - (i) Operations. This subcommittee consists of one public member, one agent member and three company members. It has responsibility to review matters directed to it by the Governing Committee affecting the Plan of Operation or other business deemed necessary by the Governing

Committee and to make recommendations for action to be taken on those matters. It shall keep regular minutes of its meetings and report the same to the Governing Committee when required. In this responsibility, this subcommittee will be assisted by the Manager and the staff of the Association.

- (ii) **Audit & Finance.** This subcommittee is composed of three members, one of whom is a public member. It has the responsibility to assist the Governing Committee in its oversight of the Association's financial and accounting matters. It will also oversee the work of any independent auditor selected by the Governing Committee. If the Governing Committee wishes to change independent auditors, the subcommittee will be responsible to recommend independent auditors.
- (iii) **Nominations.** This subcommittee consists of one public member, one agent member and one company member. It has the responsibility to nominate members to serve as officers of the Association. It is to submit a slate of officers to be presented for election at the Governing Committee meeting following the annual meeting of members.
- (iv) **Strategic Planning.** This subcommittee consists of one public member, one agent member and three company members. It has the responsibility of meeting annually to discuss any significant changes expected in the near future, discuss current staffing levels, discuss if changes are needed to TAIPA's Enterprise Risk Management plan, and other related tasks.

- 3.3 **Task Forces.** A subcommittee may create a "Task Force" of its members to facilitate the business of that subcommittee.
- 3.4 **Telephone Meetings or Participation by Telephone.** Meetings of subcommittees may be held by means of conference telephone or other similar means of remote communications equipment by means of which all persons participating in the meeting can communicate with each other. Participation in such a meeting shall constitute presence in person at the meeting.
- 3.5 The Governing Committee may appoint special subcommittees to facilitate the work and responsibilities of the Governing Committee. A special subcommittee may hold telephonic meetings as provided in section 3.4.

4. TAIPA Liaison to Association Staff

- 4.1 The Governing Committee will select and appoint a Governing Committee member to serve as the TAIPA Liaison to employees of the association that will allow the employee to report activity directly to the TAIPA Liaison bypassing the Manager.

- 4.2 When appropriate and necessary, the TAIPA Liaison may bring matters before the Governing Committee for consideration or action by the Governing Committee.
- 4.3 Additional procedures and responsibilities of the TAIPA Liaison will be outlined in the TAIPA employee manual.

5. **Amendments**

- 5.1 These Administrative Rules are to continue in effect as an act of the Governing Committee until they are withdrawn or changed by further act of this or any succeeding Governing Committee of the Association.



March 1, 2019

Audit Committee
Texas Automobile Insurance Plan Association
805 Las Cimas Pkwy suite 210
Austin, TX 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 for the year ending December 31, 2018. 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 Texas Automobile Insurance Plan Association (TAIPA), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, the related notes to the financial statements, and the supplemental comparison of revenues and expenses 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. To evaluate subsequent events through the date the financial statements are issued or available to be issued, and to disclose the date through which subsequent events were evaluated in the financial statements. Management also agrees that it will not evaluate subsequent events earlier than the date of the management representation letter referred to below;
- c. 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
- d. 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 auditors' report on the supplementary information in any document that contains the supplementary information and that indicates that the auditors have 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 auditors' 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 Organization personnel is described in the attached client participation list, which outlines the specific schedules and analyses that should be completed by TAIPA personnel. The participation list has been discussed with and agreed to by Stacy Dutton, Association Manager. 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 Organization 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 audit fees, excluding direct out-of-pocket expenses, estimated to be \$17,750 to \$18,750. 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.

The estimate of fee includes \$1,000 related to additional procedure required due to the Organization's adoption of Financial Accounting Standards Board Accounting Standards Codification 958, Not-for-Profit Entities.

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 governing 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 TAIPA:

Audit Committee or Board Chair

Date

Stacy Dutton, Association Manager

Date

RCVR/CO
Restricted

Storage
2019
RCVR/CO

COMPANY YearEnd 2013 YearEnd 2014 YearEnd 2015 YearEnd 2016 YearEnd 2017 1st QTR 2018 2nd QTR 2018 3rd QTR 2018

PRIVATE PASSENGER	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
21ST CENTURY CENTENNIAL INS CO (SC)		248,568	273,200	279,672	280,342	315,137	309,087	238,148		205,230				
ACE AMERICA	247,616		246,672	245,800	244,859	Entered LAD								
AFFIRMATIVE INS CO					New to quota	2,831	2,831	2,831		2,831				2,831
ALLSTATE INS CO		89,144	85,156	93,356	90,642	Entered LAD								
AMER MERCURY INS CO	602		616	3,313	1,954	7,174	5,711	3,226		1,716				
ASSURANCEAMERICA INS CO		468	45	56	58	Entered LAD								
CLARENDON NATIONAL INS CO							New to quota (Sussex's quota)	Entered LAD						
COLONIAL LLOYDS		1,277	1,277	1,277	Entered LAD									
CRESTBROOK INS CO						Became grouped								
ESURANCE PROP & CAS INS CO			15	218	Became grouped									
FALCON INS CO				4	4	Entered LAD								
FREESTONE INS CO		1	171	443	443	443	443	443		443				443
GENERAL CAS CO OF WISCONSIN			72	73	76	Entered LAD								
GOVERNMENT EMPLOYEES INS CO		85,877	75,542	93,728	128,245	96,915	76,369	112,027		125,755				
HALLMARK COUNTY MUT INS CO	443,961				443,127	441,819	441,505	441,211		440,984				

COMPANY YearEnd 2013 YearEnd 2014 YearEnd 2015 YearEnd 2016 YearEnd 2017 1st QTR 2018 2nd QTR 2018 3rd QTR 2018

PRIVATE PASSENGER	YearEnd 2013		YearEnd 2014		YearEnd 2015		YearEnd 2016		YearEnd 2017		1st QTR 2018		2nd QTR 2018		3rd QTR 2018	
	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
HOMEOWNERS OF AMER INS CO		4,456		4,637		4,639		4,639		4,639		4,639		4,639		4,639
HOUSTON GENERAL INS EXCH		3,006		3,006		Went into Storage										
ICM INS CO		0		13		13		13		13		13		13		13
IMPERIAL FIRE & CAS	1,461		1,417		1,395		1,381		Became grouped							
INTEGON NATIONAL INS CO							New to quota	279,949		322,579		164,244		215,999		218,404
KNIGHTBROOK INS CO		12		Entered LAD												
LINCOLN GENERAL		51,337		51,337		Went into Storage										
MAIDSTONE INSURANCE COMPANY (prev AUTOONE INS CO)	328,062		330,062		330,051		330,044		330,040		330,039		330,038		330,038	
MILEMETER INS CO		2,211		2,211		2,211		Cert of Authority Cancelled								
NATIONAL LIABILITY & FIRE (SC)		242,995		260,661		294,194		Entered LAD								
NATIONWIDE MUT INS CO		23,688		Entered LAD												
ONEBEACON INS CO		3,705		Became grouped												
PACIFIC SPECIALTY INS CO		74		Entered LAD												
PALOMAR SPECIALTY INS CO				New to quota	16		Became grouped									
PHARMACISTS MUT INS CO						New to quota	3		Entered LAD	25						

Storage 2019 WD/CO Storage 2015 Storage 2018 Rcvr/CO Storage 2015 CO / Inactive

COMPANY YearEnd 2013 YearEnd 2014 YearEnd 2015 YearEnd 2016 YearEnd 2017 1st QTR 2018 2nd QTR 2018 3rd QTR 2018

PRIVATE PASSENGER	OVER		UNDR		OVER		UNDR		OVER		UNDR		OVER		UNDR	
	Storage 2015	Storage 2015	Storage 2018	Storage 2018	Storage 2015	Storage 2015	Storage 2018	Storage 2018	Storage 2015	Storage 2015	Storage 2018	Storage 2018	Storage 2015	Storage 2015	Storage 2018	Storage 2018
QBE INS CORP			62	Became grouped												
SOMPO JAPAN INS CO (prev Yasuda F&M)	1,976			1,976												
SOUTHLAND LLOYDS INS CO			293													
STARR INDEMNITY & LIABILITY CO			939													
STATE FARM MUT AUTO INS CO			196,216													
SUSSEX INS CO (prior Companion Pro & Cas Ins Co) Effective 12/31/2017, Sussex Ins Co merged into CLARENDON NATIONAL INS CO			240													
TEXAS FARM BUREAU CAS INS CO			68,410													
TOKIO MARINE & NICHIDO FIRE INS			5													
TREXIS ONE INS CORP (prev co ALFA SPECIALTY INS CORP)			689													
UNIVERSAL NORTH AMERICA																
WINDHAVEN NATIONAL INS. CO																
YOUNG AMERICA INS CO			5													
TOTALS	1,023,678	1,023,678	1,023,678	1,023,678	1,023,612	1,020,653	1,020,653	1,019,411	1,019,411	1,008,396	1,008,396	771,544	771,544	771,249	771,022	771,022
PREMIUMS WRITTEN		2,690,098		2,156,742		1,864,575		1,916,600		2,424,419		571,299	571,299	614,096	614,096	583,162
																3rd qtr

TAIPA OTPP Over/Under Report

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COMPANY

Year End 2013

Year End 2014

Year End 2015

Year End 2016

Year End 2017

1st QTR 2018

2nd QTR 2018

3rd QTR 2018

COMPANY	Year End 2013	Year End 2014	Year End 2015	Year End 2016	Year End 2017	1st QTR 2018	2nd QTR 2018	3rd QTR 2018
	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
ACCIDENT INS CO						132		147
ALASKA NATL		80		102	Entered CLAD			
AMALGAMATED CAS INS CO					531	Entered CLAD		
AMER BANKERS INS CO OF FLORIDA						Became ungrouped co has no Vol Premium (co w/ quota moved to Diamond State-Co is in a CLAD)		
AMER CONTRACTORS INS RISK RET. GRP		16,743		16,743	16,743	16,743	16,743	16,743
AMER MERCURY INS CO	12,371		15,785		4,296	13,859	16,342	17,683
AMER MODERN HOME INS CO		428						
AMER MODERN LLOYD'S		23,166						
AMER NATIONAL PROP & CAS CO		128		614		Entered CLAD		
AMER NATL COUNTY MUT INS CO					107	Became grouped		
AMER ROAD INS CO		70		135	248	Entered CLAD		
AMERICAN SAFETY CAS INS CO		3,165						
AMER SERVICE INS CO INC.		26		26	Became grouped			
AMERICAN BUILDERS INS CO (prev Association Ins Co)		91		183	320	Entered CLAD		
BRITISH AMERICAN INS CO		15,565		15,934		3,696	3,479	3,394
CLARENDON NATIONAL INS CO	51,569							
COLUMBIA INS CO	1,233		1,222					
COLUMBIA MUT INS CO		0		4,627	7,227			

Storage
2018 Ret.
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Storage
2015
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COMPANY	Year End 2013	Year End 2014	Year End 2015	Year End 2016	Year End 2017	1st QTR 2018	2nd QTR 2018	3rd QTR 2018
	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
COREPOINTE INS CO (prev Chrysler & DaimlerChrysler)		39,102		39,982		Entered CLAD		
GENERAL STAR NATIONAL INS CO		59		59		Removed from quota calculation		
GLOBAL LIBERTY INS CO OF NY			New to quota	34		Entered CLAD		
GOVERNMENT EMPLOYEES INS CO	21,366		25,707		26,691	25,871	22,579	21,282
GRAMERCY INS CO		9,371		9,371		9,371	9,371	
GREAT MIDWEST INS CO		2,507						
HARLEYSVILLE INS CO					New to quota	Became grouped- Nationwide in a CLAD		
HISCOX INS CO INC				2		Entered CLAD		
HOUSING ENTERPRISE INS CO INC		13		23		Entered CLAD 1st QTR 2017 *Canceled CLAD 4th QTR 2017		4
INTEGON NATIONAL INS CO					New to quota	1,673,492	1,683,792	1,685,368
LINCOLN GENERAL		73,631		73,631				
MAIDSTONE INSURANCE COMPANY (prev AUTOONE INS CO & Penn General)	415,745		414,900		414,900	414,900	414,900	414,900
MIDCONTINENT CAS CO	758,805		750,300		747,924	746,849	746,448	746,290
MOTORISTS COMM MUT INS CO (prev Amer Hardware Mut Ins Co)	28,801		27,828		27,561	27,288	27,189	27,150
NATIONAL BUILDERS INS CO		91		160		Became grouped		
NATIONAL LIABILITY & FIRE INS CO (SC)		1,513,719		1,535,081		Entered CLAD		
NAVIGATORS INS CO		189		1,579		Entered CLAD		

Storage 2017

Storage 2017

Storage-- 2015 Storage 2019

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Storage
2019

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COMPANY	Year End 2013	Year End 2014	Year End 2015	Year End 2016	Year End 2017	1st QTR 2018	2nd QTR 2018	3rd QTR 2018
	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
NORTH AMER SPECIALTY INS CO		24		32	40	70		
OKLAHOMA SURETY CO	684,575		684,364		683,103		680,183	679,814
PENN MANUFACTURERS ASSN INS CO	606					Entered New CLAD		
PREFERRED PROFESSIONAL INS CO		920		1,119	1,309	1,516		
QUALITAS INS CO					New to quota	Entered CLAD		
REP WEST INS CO (REPUBLIC WESTERN INS CO)		32		41	48	Entered CLAD		
RIVERPORT INS CO		44		79	83	83	83	83
RURAL TRUST INS CO					New to quota	Entered CLAD		
SAFETY NATL GAS CORP		619		Entered CLAD				
SAMSUNG FIRE & MARINE INS CO					New to quota	Entered CLAD		
SENECA INS CO		3		93	242	343		
STATE FARM MUT AUTO INS CO		194,206		185,682	154,516	137,542	132,069	127,972
TEXAS FARM BUREAU CAS INS CO (prev Southern Farm Bur)		40,575		45,183	43,806	41,727	31,711	33,165
TEXAS HOSPITAL INS EXCH		10,895		11,191	11,521	11,836	12,234	12,376
TIG INS CO							New to quota	54
TNUS INS CO				16	37	49		
TORUS NATIONAL INS CO (chg'd to Starstone Nat'l Ins Co 11/24/15)		400		Entered CLAD		Entered New CLAD		
TRANS PACIFIC INS CO					New to quota	Became grouped		
TRISTATE INS CO OF MN						Became grouped		

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COMPANY	Year End 2013	Year End 2014	Year End 2015	Year End 2016	Year End 2017	1st QTR 2018	2nd QTR 2018	3rd QTR 2018
	OVER	UNDR	OVER	UNDR	OVER	UNDR	OVER	UNDR
TRIUMPH CAS CO		139		Entered CLAD				
ULLICO CAS CO		1,291	1,291	1,291	1,291	1,291	1,291	1,291
UNITRIN AUTO & HOME INS CO		32,159	Went into Storage					
TOTALS	1,975,071	1,975,071	1,974,489	1,903,172	1,899,722	1,897,735	1,894,778	1,892,830
PREMIUMS CREDITED	1,987,161	1,993,432	1,923,849	1,777,884	1,942,623	337,838 1st qtr	497,214 2nd qtr	328,539 3rd qtr

Storage 2018
Storage-- 2015
RCVR/CO