

Audit Committee Meeting
April 8, 2025

Briefing Material



Audit Committee Meeting Agenda

Tuesday, April 8, 2025, 1:30 PM Central Daylight Savings Time

Video/Audio Conference Call

Audio Toll Free Dial In Number: 1.346.248.7799

Meeting ID: 2222127774 Password: 537081973

1. Consideration and possible action on consent agenda item *
 - A. Summary of the official minutes of the October 22, 2024 meeting
2. Consideration and possible action on the independent audit of the financial statements for the year ended December 31, 2024*
 - A. Report from Committee Chair, Dean Frigo, on the exit conference with the independent auditors
 - B. Report from the auditors *
3. Consideration and possible action regarding expansion of, or revision to, the 2025 Audit Plan in response to certain findings in the 2024 financial statements audit
4. Consideration and possible action regarding the scope of the audit of the financial statements of the TLHIGA for the year ending December 31, 2025
5. Consideration and possible action regarding recommending the engagement of the independent auditor for the upcoming audit of the financial statements of the TLHIGA for the year ending December 31, 2025 *
6. Consideration and possible action regarding the implementation of the new accounting standards
 - A. GASB 102-Certain Risk Disclosures
 - B. GASB 103-Financial Reporting Model Improvements*
7. Consideration and possible action regarding the review of the necessity of obtaining proposals for a firm to perform a network penetration test
8. Executive Session
 - A. Consultation with counsel regarding the draft 2024 audited financial statements, authorized by Section 551.071 of the Texas Government Code
9. Consideration and possible action on items discussed in Executive Session

10. Consideration and possible action regarding the review of the TLHIGA's 2024 operating expenses and the final budget variance report
11. Consideration and possible action regarding the Audit Committee's 2025 Calendar of Activities

* denotes items the Executive Director recommends actions be taken at this meeting

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All Texas Life, Accident, Health and Hospital Service Insurance Guaranty Association Board of Directors and Committee meetings are to be conducted in accordance with its Antitrust Compliance Policy and applicable laws.

Open Meeting Information

Status	Accepted
TRD	2025001673
Submitted Date/Time	03/24/2025 10:37 AM CDT
Agency	Texas Life and Health Insurance Guaranty Association
Committee	Audit
Meeting Date	04/08/2025
Meeting Time	01:30 PM
Address	1717 West 6th Street, Ste 230
City	Austin
State	TX
Additional Information	Bart A. Boles, Executive Director - 1717 West 6th Street, Suite 230, Austin, TX 78703 - Tel: 800-982- 6362

Agenda

The Audit Committee Meeting will be held as a videoconference/teleconference. Attendees also have the option to attend the meeting in-person at 1717 West 6th Street, Suite 230, Austin, TX 78703.

Teleconference meeting access information:

Dial in Number (Toll Free): 1.346.248.7799

Meeting ID: 2222127774

Password: 537081973

Additionally - to obtain a complete PDF copy of the meeting material please go to www.txlifega.org.

Consideration and possible action on:

- 1) Consent agenda;
- 2) Independent Audit of the financial statements for the year ended December 31, 2024;
- 3) Expansion of, or revision to, the 2025 Audit Plan in response to certain findings in the 2024 financial statements audit;
- 4) Scope of the audit of the financial statements of the TLHIGA for the year ending December 31, 2025;
- 5) Engagement of the independent auditor for the upcoming audit of the financial statements of the TLHIGA for the year ending December 31, 2025;
- 6) Implementation of the new accounting standards;
- 7) Review of the necessity of obtaining proposals for a firm to perform a network penetration test;
- 8) Executive Session;
- 9) Items discussed in Executive Session;
- 10) Review of the TLHIGA's 2024 operating expenses and the final budget variance report;
- 11) Committee's 2025 Calendar of Activities.

Item 1

Consideration and possible action on consent agenda item

A. Summary of the official minutes of the October 22, 2024, meeting



CONSENT AGENDA

The following routine, recurring item has been placed on the consent agenda and the related materials were distributed in advance to the Committee for its review:

1. The draft summary of the official minutes of the October 22, 2024, Committee meeting (included on pages 1-2 through 1-5).

The following is a draft resolution to approve the consent item:

RESOLVED, that the Audit Committee of the Board of Directors of the Texas Life and Health Insurance Guaranty Association approves the written summary of the official minutes of its October 22, 2024 meeting.



**SUMMARY OF THE OFFICIAL MINUTES OF THE
OCTOBER 22, 2024 MEETING OF THE
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

A meeting of the Audit Committee (the “Committee”) of the Board of Directors (the “Board of Directors” or the “Board”) of the Texas Life and Health Insurance Guaranty Association (the “Association” or “Guaranty Association” or “TLHIGA”) was called to order by the Committee Chair, Dean Frigo, at 9:03 AM Central Time on October 22, 2024. The meeting was held as a videoconference and teleconference meeting in accordance with Section 463.059 of the Texas Insurance Code and was conducted in accordance with the Texas Open Meetings Act.

All Audit Committee members whose names are set forth below were present for all or part of the meeting and a quorum was present for all votes.

Dean Frigo
Pati McCandless
Mark Williams

Also, in attendance for all, or part, of the meeting were the following employees of the TLHIGA or contractors of the TLHIGA:

Employees: Bart Boles Jarett Terry Topping Haggerty Brandy Nichols
General Counsel: Jacqueline Rixen

Also, in attendance for all, or part, of the meeting were:

Dan Price, Shanley & Price LLC
Shawn Martin, Texas Department of Insurance (“TDI”)

Chair Frigo noted that proper notice of the meeting was filed on October 10, 2024 and published in the Texas Register in accordance with the Texas Open Meetings Act. He directed that a copy of the notice be attached and be made a part of this written summary of the official minutes of the meeting. Chair Frigo declared a quorum of the Committee was present in accordance with the Texas Open Meetings Act.

This is a written summary of the proceedings of the meeting of the Audit Committee of the Board of Directors of the Texas Life and Health Insurance Guaranty Association on October 22, 2024. The official minutes are recorded digitally. The compact disc(s) or digital recordings relating to the open portion of the meeting and all related non-confidential written materials provided to the Committee for such meeting are kept in secure storage at the Association’s office. The compact disc(s) or digital recordings relating to the Executive Session portion of the meeting and all related confidential written material related to the Executive Session portion of the meeting are custodied with the Association’s bank. Details regarding matters described in this summary can be obtained by reviewing the official minutes. The non-confidential written material related to the meeting provided to the Committee should be deemed an attachment to this summary.

Item 1 Consideration and possible action on consent agenda item

The Committee considered the written summary of the official minutes of its last meeting that was held on April 9, 2024.

Upon a motion made by Director Williams and seconded by Director McCandless, the Committee unanimously adopted the following resolution:

RESOLVED, that the Audit Committee of the Board of Directors of the Texas Life and Health Insurance Guaranty Association approves the written summary of the official minutes of its April 9, 2024, meeting.

Item 2 Consideration and possible action regarding the scope of the audit of the financial statements of the TLHIGA for the year ending December 31, 2024.

Mr. Boles reported that the Committee is given the opportunity to review and make changes to the scope of the audit of the financial statements before the audit plan is approved, in accordance with its Charter. He noted that in 2006 when the TLHIGA was doing a great deal of in-house adjudication regarding premium billing collections and claims handling, the Committee recommended the audit include an examination of the TLHIGA's in-house adjudication practices. He also noted that in 2017, upon the recommendation of the Committee, the Board of Directors authorized a consulting engagement for an enhanced internal control review of cash receipts, disbursements and investment transactions which was conducted in conjunction with the 2017 year-end financial audit.

Mr. Boles reported the TLHIGA currently administers a very small volume of claims in-house so review of TLHIGA in-house process may not currently be useful. Mr. Boles stated that the Committee may want to consider expanding the scope of the audit of the financial statements for the year ending December 31, 2025 to include the review of in-house claims adjudication and external claims controls and monitoring.

The Committee discussed the scope of the 2024 annual financial audit process in detail and determined no expansion to the scope of the 2024 annual financial audit was needed.

Item 3 Consideration and possible action regarding recommending the engagement of the independent auditor for the upcoming audit of the financial statements of the TLHIGA for the year ending December 31, 2024

Mr. Boles stated that an auditor may only conduct the audit of the TLHIGA financial statements for seven consecutive years. He said the current auditor, Bhakti Patel of CliftonLarsonAllen, has conducted the TLHIGA audit of financial statements for the past five years.

The Committee and staff reviewed the engagement letter and discussed the effectiveness, appropriateness, and fees of the current auditors.

Upon a motion made by Director McCandless and seconded by Director Williams, the Committee recommended the following resolution be presented for adoption by the Board of Directors:

RESOLVED, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association approves the selection of CliftonLarsonAllen, LLP as the independent certified public accounting firm for the TLHIGA.

FURTHER RESOLVED, that the Board of Directors authorizes the Chair of the Audit Committee, on behalf of the Texas Life and Health Insurance Guaranty Association to engage the independent certified public accounting firm of CliftonLarsonAllen, LLP, to conduct an audit examination as of and for the year ending December 31, 2024.

Item 4 Consideration and possible action regarding the implementation of the new accounting standard GASB 101-Compensated Absences in 2024

Mr. Terry reported there are new accounting standards to be implemented in 2024. The first is the Governmental Accounting Standards Board (“GASB”) Statement No. 101-Compensated Absences that went into effect for fiscal year beginning after December 15, 2023. He stated for TLHIGA, GASB 101 went into effect for the 2024 fiscal year, which is calendar year 2024.

Mr. Terry reported GASB Statement 101 requires liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. He stated that the second part of GASB 101 does not apply to the TLHIGA because its employees are paid at the same time they work (current) so there is no leave that has been used but not paid.

Mr. Terry reported on the TLHIGA’s three different types of leave:

- Vacation leave accumulates and is attributable to services rendered and is used or paid out per the TLHIGA leave policy which includes a rollover cap at 40 hours. The TLHIGA uses 100% pay rate to calculate the liability for vacation leave.
- Sick leave accumulates and is attributable to services rendered and is estimated to be 50% used and is not paid out per the TLHIGA leave policy with an unlimited rollover. The TLHIGA uses 50% pay rate to calculate the liability for sick leave.
- Paid time off (“PTO”) accumulates and is attributable to services rendered and is limited to 16 hours per year and is estimated to be 100% used and is not paid out per the TLHIGA leave policy and there is no rollover. The TLHIGA uses 100% pay rate to calculate the liability for PTO.

Mr. Terry stated he used the above calculations to define the liability which includes, per GASB, any payroll taxes. He stated that as of August 31, 2024 the calculated liability is \$73,414.91 and as of December 31, 2024 the liability will be no more than \$60,541.40, assuming all employees have 40 hours of rollover and the sick leave remains at current levels. Mr. Terry reported that it is a high estimate and more than likely it will be lower because some employees may take sick leave before the end of the year and some employees may not rollover 40 hours of vacation leave.

Mr. Terry reported that with any new accounting standard, the TLHIGA must consider materiality and the impact on the TLHIGA's financial statements. He reported \$100,000 is the TLHIGA current materiality level of liabilities.

The Committee decided to adopt GASB 101.

Mr. Terry reported the second new accounting standard GASB Statement No. 100-Accounting Changes and Error Corrections that became effective for fiscal years beginning after June 15, 2023. He stated for TLHIGA, GASB 100 went into effect for the 2024 fiscal year, which is calendar year 2024.

Mr. Terry reported that according to GASB, GASB 100 defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change.

Mr. Terry stated management has reviewed this new standard and concluded that it has no impact on the TLHIGA financial statements. He said the auditor has included \$0 charge for the review of GASB 100 which indicates they also do not see an impact of the TLHIGA's financial statements for GASB 100. Mr. Terry stated as with all accounting standards, management will continue to review transactions for future applicability.

Mr. Terry reported GASB has promulgated two new standards that are required to be adopted in 2025 and 2026. He stated GASB 102-Certain Risk Disclosures will be adopted in 2025 and GASB 103-Financial Reporting Model Improvements will be adopted in 2026. Mr. Terry stated both standards have the potential to have an impact on the TLHIGA's financial statements with GASB 103 likely having a substantial impact that may require an additional engagement to ensure proper implementation. He stated having early auditor engagement will be key in a smooth implementation of both standards.

Item 5 Consideration and possible action regarding a change in the Committee's schedule

Mr. Boles stated in response to the implementation of GASB 101 and in anticipation of the upcoming new GASB standards mentioned in Item 4, management is recommending that the Committee consider changing the timing of the engagement of the auditor for the annual financial audit. He stated management is recommending that the Committee review the auditor's engagement letter and make its recommendation to the Board at the Committee's April meeting each year.

Mr. Terry reported the reasons for this change include:

- Should the Committee or Board need to change auditor for any reason, trying to find a new auditor two months before the end of the year would be extremely difficult.

- New GASB standards may require an additional engagement that may cause difficulty if the engagement is performed by a different firm than the one performing the audit.
- Per auditing standards, the auditor cannot perform any review of accounting standards or other accounting questions before an engagement is authorized and both parties agree to the terms.
- Should the TLHIGA need to engage a firm for an issue outside the financial audit, it would have to disclose that engagement if there was a different firm performing the audit which could be construed as “auditor shopping”.

Mr. Terry reported management has reviewed this timing change with the current auditor and they have expressed no issue with the change. He said they are willing to provide the engagement letter for the April meeting, or any other. He also said the auditor confirmed that executing the engagement letter earlier would allow them the freedom to review issues brought to them during the year. Mr. Terry stated the auditor did caution that they are still restricted on issuing any opinions until after they have completed their audit but can comment on methodologies and interpreting standards.

Mr. Terry reviewed with the Committee the three options proposed by management:

- Option One - The simplest option is to move the auditor engagement item from the Committee’s October meeting to the April meeting. The Committee’s April meeting would then include the audit results review for the prior year’s financial statements, the review of the prior year’s budget variance report, and the engagement of the auditor. Some of the other April agenda items could be moved to the October meeting. The Committee’s charter states: “Independent auditors are ultimately responsible to the Board of Directors. The Audit Committee shall review the independence and performance of auditors and annually recommend to the Board of Directors the appointment or discharge of the independent auditors.” As there is no mention of when the engagement is reviewed and recommended in the Charter, this would not require a change to the Committee’s Charter.
- Option Two - The Committee could move its October meeting to July and perform all its Fall duties at the July meeting, including reviewing the engagement and recommending engagement to the Board. The Committee’s Charter does reference the review of the budget assumptions at the October meeting so this change would require changes to both the Charter and the Audit Plan. The Board of Directors would then need to approve the changes to the Committee’s Charter. Should the Committee choose to move the October meeting to July, management will draft changes to the Committee’s Charter for review at the Committee’s April 2025 meeting. Any change would then be submitted to the Board of Directors at its April 2025 meeting.
- Option Three - The Committee can keep the current schedule and deal with any substantial change from new standards on a case-by-case basis with separate engagements as needed.

The Committee reviewed the options provided by management and chose to follow Option One.

Item 6 Executive Session

Chair Frigo did not call an Executive Session.

Item 7 Consideration and possible action on items discussed in Executive Session

Not applicable.

Item 8 Consideration and possible action regarding the Audit Plan for calendar year 2025

The Committee reviewed the 2025 Audit Plan provided in the meeting briefing book.

Mr. Terry reported on the changes in the Committee's schedule, as recommended in Item 5 of this meeting, which moves certain items from its October meeting to its April meeting:

- Review the engagement proposal from the independent certified public accountant and make recommendation to the Board of Directors on engagement of an auditor;
- Make a determination as to the type of audit(s), including, but not limited to, those audit types identified in § 31.204(2)-(4) of Title 28 of the Texas Administration Code (compliance audit or review, economy and efficiency audit or review, effectiveness audit or review, internal controls audit or review), in addition to the annual financial audit to be conducted as of and for the year ending December 31, 2025;
- Consider possible expansion of scope for the year ending December 31, 2025, audit to include specific financial and/or managerial policies and procedures;
- Review the independence and performance of the auditor and recommend to the Board of Directors the appointment or discharge of the independent auditors;
- Review the fees and other significant compensation paid to the independent auditors; and
- Review and approve any consulting engagements to be performed by the independent auditor, or other consulting firms, as well as any other engagements undertaken at the request of management that are beyond the scope of the audit engagement.

Mr. Terry reported on the item which moves from its April meeting to its October:

- Assess the adequacy of the Audit Committee's Charter.

Upon a motion made by Director Williams and seconded by Director McCandless, the Committee recommended the following resolution be presented for adoption by the Board of Directors:

RESOLVED, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association hereby adopts the Audit Plan for Calendar Year 2025 for the Texas Life and Health Insurance Guaranty Association.

FURTHER RESOLVED, that the Board of Directors authorizes the Senior Accountant to file the Audit Plan for Calendar Year 2025 with the Commissioner of Insurance after final approval by the Chair of the Audit Committee.

Item 9 Consideration and possible action regarding the TLHIGA’s commercial insurance coverages

Mr. Boles reported on the TLHIGA’s commercial insurance coverages and the renewal quotes.

The Committee reviewed the coverages and did not recommend any additions to the TLHIGA’s insurance coverages.

Item 10 Consideration and possible action regarding the development of the TLHIGA’s 2025 Operating and Capital Expenditures Budgets

Mr. Boles stated the TLHIGA’s projected 2025 Operating Budget report has no substantial changes compared to the previous year.

Mr. Terry reviewed the TLHIGA’s budget assumptions for 2025 in detail.

Item 11 Consideration and possible action regarding the Audit Committee’s Calendar of Activities and planning for 2025

After discussion, it was determined that the next meeting will be held on April 8, 2025 at 1:30PM CDST.

Adjournment

There being no further business, the meeting was adjourned at 10:08 A.M. local time.

Certification

The undersigned certifies that the foregoing is a true and accurate written summary of the proceedings of the October 22, 2024 meeting of the Audit Committee of the Board of Directors, approved by the Audit Committee at its meeting held on April 8, 2025.

Dean Frigo, Audit Committee Chair

Item 2

Consideration and possible action on the independent audit of the financial statements for the year ended December 31, 2024

- A. Report from Committee Chair, Dean Frigo, on the exit conference with the independent auditors
- B. Report from the auditors



April 8, 2025 Audit Committee Meeting

INDEPENDENT AUDIT OF THE FINANCIAL STATEMENTS

Audit Committee Chair, Dean Frigo, will report on his exit conference with the independent auditor, as well as any other issues arising from the annual financial audit.

Bhakti Patel, audit partner with CliftonLarsonAllen, LLP, will attend the Committee's April 8, 2025, meeting to review and discuss their draft audit report on the December 31, 2024 financial statements and other reports that her firm has prepared. Confidential drafts of the audited financial statements, including the auditor's opinion, Management Discussion and Analysis (MD&A) and footnote disclosures were distributed separately to the Committee and counsel.

A draft resolution with a recommendation to the Board of Directors regarding the 2024 financial audit is presented on page 2-2 for the Committee's consideration after its review of the reports and discussion with the auditor.



April 8, 2025 Audit Committee Meeting

**RESOLUTION RECOMMENDING ACCEPTANCE
OF THE 2024 FINANCIAL AUDIT**

The Audit Committee recommends the following resolution be presented to the Board of Directors for consideration and possible adoption.

RESOLVED, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association accepts the year-end 2024 financial audit report as presented.

Item 3

Consideration and possible action regarding expansion of, or revision to, the 2025 Audit Plan in response to certain findings in the 2024 financial statements audit



2025 AUDIT PLAN

On pages 3-2 through 3-4 is the 2025 Audit Plan (“the Plan”) recommended by the Audit Committee and adopted by the Board of Directors on October 29, 2024. It was subsequently filed with the Texas Commissioner of Insurance, as statutorily required.

The Committee will review and discuss the Plan to ensure the Committee is fulfilling all its duties and responsibilities and to determine whether any expansion or amendment of the Plan is warranted based on the draft audit report of the TLHIGA’s December 31, 2024, financial statements.



AUDIT PLAN

For Calendar Year 2025

The Audit Committee of the Board of Directors for the Texas Life and Health Insurance Guaranty Association (“TLHIGA”), in accordance with 28 TAC §31.205 and its adopted Audit Committee Charter, has developed the following Audit Plan for calendar year 2025.

The Audit Plan consists of elements related to the conduct and review of the financial statements audit for the year ending December 31, 2024 (“2024 Audit”), other audit projects related to the operations of the TLHIGA, plans for and scope of the 2025 annual financial audit, as well as other aspects of the Committee’s responsibilities as set forth in the Charter of the Audit Committee. In this Audit Plan, the term "audit" refers to the annual financial audit as well as any additional audits or reviews that may be conducted.

Spring 2025 Audit Committee Functions

The Audit Committee, or its delegate, shall meet and interface with the independent auditor prior to the commencement of, and during, the audit, as necessary.

The Audit Committee will convene in accordance with its charter prior to the April 2025 meeting of the Board of Directors. At this meeting, the Committee will:

- Meet with the independent auditor to review the audited financial statements for the year ending December 31, 2024, and to discuss with the auditor the Report on Internal Controls and the Report to the Board of Directors,
- Review with the auditor: any significant audit findings by the auditor together with management’s response; any problems or difficulties that the auditor may have encountered in the course of the audit work; any restrictions on scope of activities or access to required information; any disagreements with management; any significant changes in the audit plan; and any significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures,
- Review the independent auditor's judgment related to the quality and appropriateness of the TLHIGA's accounting principles as applied in its financial reporting,
- Review the necessity to revise the Audit Plan for Calendar Year 2025,
- Review with the auditor its findings on any reviews or audits conducted in addition to, or as expansions of, the 2024 Audit,
- Review the engagement proposal from the independent certified public accountant and make recommendation to the Board of Directors on engagement of an auditor,

- Make a determination as to the type of audit(s), including, but not limited to, those audit types identified in § 31.204(2)-(4) of Title 28 of the Texas Administration Code (compliance audit or review, economy and efficiency audit or review, effectiveness audit or review, internal controls audit or review), in addition to the annual financial audit to be conducted as of and for the year ending December 31, 2025,
- Consider possible expansion of scope for the year ending December 31, 2025, audit to include specific financial and/or managerial policies and procedures,
- Review the independence and performance of the auditor and recommend to the Board of Directors the appointment or discharge of the independent auditors,
- Review the fees and other significant compensation paid to the independent auditors,
- Review and approve any consulting engagements to be performed by the independent auditor, or other consulting firms, as well as any other engagements undertaken at the request of management that are beyond the scope of the audit engagement,
- Review accounting pronouncements and changes with management, including the potential impact to the financial statements,
- Review the necessity to perform and engage, if necessary, a firm to perform a network penetration test,
- Review with the TLHIGA's counsel, any legal matters that may have a material impact on the financial statements, the TLHIGA's compliance policies and any material reports or inquiries received from regulators or government agencies, and

The Committee or its Chair shall also:

- Present the 2024 Audit to the Board of Directors at its April 2025 meeting and make any recommendations of the Committee for approval and submission to the Texas Commissioner of Insurance.

Fall 2025 Audit Committee Functions:

The Audit Committee will convene in accordance with its Charter prior to the October 2025 meeting of the Board of Directors. At this meeting the Committee will:

- Review with the independent auditor, the plan for the audit, including: audit scope, staffing, locations, reliance upon management and general audit approach, and
- Develop the Audit Plan for Calendar Year 2026, consistent with the rules and regulations of the Texas Department of Insurance, for filing with the Commissioner of Insurance.



The Committee or its Chair shall also:

- Present the Committee’s recommended Audit Plan for Calendar Year 2026 to the Board of Directors for review and consideration at the Board of Director's Fall meeting; recommend the engagement of the independent auditor for the 2025 financial audit and other reviews or audits to the Board of Directors,
- Ensure that the Audit Plan for Calendar Year 2026 approved by the Board of Directors is filed with the Commissioner of Insurance,
- Assess the adequacy of the Audit Committee’s Charter, and
- Meet with the independent auditor prior to the commencement of the audit.

Item 4

Consideration and possible action regarding the scope of the audit of the financial statements of the TLHIGA for the year ending December 31, 2025



SCOPE OF 2025 FINANCIAL AUDIT

The Audit Committee of the Board of Directors for the Texas Life and Health Insurance Guaranty Association, in accordance with its charter, will consider the scope of the annual financial audit that will be conducted for the year ending December 31, 2025.

The TLHIGA is statutorily required to have a financial audit performed each year. The Committee reviews the necessity to expand the scope of the audit to include other items that may warrant an enhanced review and may make a recommendation to the Board on such expansion.

Prior expansions have been recommended by the Committee and authorized by the Board. The Committee requested an expansion of the scope of the audit by the independent auditor for the year ended December 31, 2006, to include an examination of the in-house claims adjudication. Prior to this request, the Board of Directors and the Committee used agreed-upon procedure engagements to examine particular areas of the TLHIGA's operations.

In conjunction with the 2017 year-end financial audit, the Board entered into a consulting engagement with the TLHIGA's audit firm for an enhanced internal control review of cash receipts, disbursements, and investment transactions. The results were communicated by the auditor to the Committee and the Board. No adjustments to procedures were deemed necessary after the review of the results.

The Committee will discuss the necessity for an expansion of the scope of the audit for the year ending December 31, 2025, or a consulting engagement on any particular financial activities, and make a recommendation to the Board of Directors should it decide additional items should be reviewed in conjunction with the year-end 2025 financial audit.

Item 5

Consideration and possible action regarding recommending the engagement of the independent auditor for the upcoming audit of the financial statements of the TLHIGA for the year ending December 31, 2025



ENGAGEMENT OF INDEPENDENT AUDITOR

The Audit Committee will discuss the TLHIGA’s professional relationship with its current independent auditor as described in the Committee’s Charter and the 2025 Audit Plan, including engagement conduct, relationships that could impair auditor independence, fees for services, and any other relationship or professional matters that pertain to the previous and upcoming audit engagements. In addition to the annual financial audit, the current audit firm also reviews and files the TLHIGA’s Federal Return of an Organization Exempt from Income Tax (Form 990).

Section 31 of Title 28 of the Texas Administrative Code related to audit coverages for guaranty associations states, in part, “An independent certified public accountant may not perform the financial audit required by §31.201(1) for more than seven consecutive years.” The TLHIGA’s current auditors, CliftonLarsonAllen, LLP (“CLA”), were first engaged for the year-end 2012 financial audit and completed seven consecutive audits with Jerry McMillon serving as the audit partner with the year-end 2018 audit. The Committee then issued an RFP for a new auditor and the incumbent firm was allowed to submit a bid with a new audit partner. The Committee reviewed several proposals and recommended the selection of CLA to the Board of Directors who agreed and engaged CLA with Bhakti Patel as the new audit partner. The engagement for the financial audit of the year ending December 31, 2025, will be Ms. Patel’s seventh year, if the Committee chooses to accept the engagement proposal. A history of CliftonLarsonAllen, LLP engagements with the TLHIGA is presented in the following table for reference.

YEAR ENDING	FEES	AUDIT PARTNER
2015	\$28,500	Jerry McMillon
2016	\$29,000	Jerry McMillon
2017	\$29,500	Jerry McMillon
2018	\$30,000	Jerry McMillon
2019	\$30,900	Bhakti Patel
2020	\$33,260	Bhakti Patel
2021	\$33,758	Bhakti Patel
2022	\$39,052	Bhakti Patel
2023	\$48,314	Bhakti Patel
2024	\$48,312	Bhakti Patel
2025*	<i>Provided During Meeting</i>	<i>Bhakti Patel</i>

*Estimate based on engagement letter proposal (includes expenses of new GASB standards implementation)

A copy of the confidential, engagement letter proposed by CLA for the examination of the TLHIGA's financial statements for the year ending December 31, 2025, was distributed separately to the Committee members in advance of the meeting.

After the review of the engagement letter and other considerations, the Committee will make a recommendation to the Board of Directors for the engagement of an independent public accounting firm for the examination of the TLHIGA's financial statements as of and for the year ending December 31, 2025. On page 5-3 is a draft resolution to be considered for presentation to the Board of Directors.



April 8, 2024 Audit Committee Meeting

**RECOMMENDATION OF ENGAGEMENT OF AUDITOR
FOR FINANCIAL AUDIT
FOR THE YEAR ENDING DECEMBER 31, 2025**

The Audit Committee recommends that the following resolution be presented to the Board of Directors for consideration and possible adoption.

RESOLVED, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association approves the selection of CliftonLarsonAllen, LLP as the independent certified public accounting firm for the TLHIGA.

FURTHER RESOLVED, that the Board of Directors authorizes the Chair of the Audit Committee, on behalf of the Texas Life and Health Insurance Guaranty Association, to engage the independent certified public accounting firm of CliftonLarsonAllen, LLP, to conduct an audit examination as of and for the year ending December 31, 2025.

Item 6

Consideration and possible action regarding the implementation of the new accounting standards

- A. GASB 102-Certain Risk Disclosures
- B. GASB 103-Financial Reporting Model Improvements



NEW ACCOUNTING STANDARDS

There is one new Governmental Accounting Standards Board (“GASB”) standard, GASB 102, that is required to be implemented in 2025. There is another standard, GASB 103, that is required to be implemented in 2026; however, management has discussed early adoption with the Committee at its October 2024 meeting to avoid implementing a potentially significant new standard while searching for a new auditor in the same year. The Committee authorized management to review the possible resources for assisting the TLHIGA in implementing the new standard. Management’s response is below.

GASB 102-Certain Risk Disclosures: In December 2023, GASB released Statement No. 102-Certain Risk Disclosures that went into effect for fiscal years beginning after June 15, 2024. For the TLHIGA, GASB 102 went into effect for the 2025 fiscal year, which is calendar year 2025.

Per GASB 102, state and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government’s highest level of decision-making authority. Concentrations and constraints may limit a government’s ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint,
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements, and
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The TLHIGA will review the implementation material for GASB 102 but does not anticipate that this standard will have a significant impact on the financial statements. Management will discuss this with the TLHIGA's auditor at the appropriate time.

GASB 103-Financial Reporting Model Improvements: In April 2024, GASB released Statement 103 that becomes effective for fiscal years beginning after June 15, 2025. For the TLHIGA, GASB 103 will become effective for the 2026 fiscal year.

According to GASB, this Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

This Statement requires that the proprietary fund statement of revenues, expenses, and changes

in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for *operating income (loss) and noncapital subsidies* be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

As of the writing of this report, management has requested that the TLHIGA's auditor contact CliftonLarsonAllen for a separate engagement to assist the TLHIGA in implementing GASB 103. Management will provide current information at the Committee meeting which may include a proposed engagement to be reviewed by the Committee.

Upcoming Standards: GASB has promulgated one other new standard that is required to be adopted in 2026. GASB 104-Disclosure of Certain Capital Assets which deals with the disclosure of certain capital assets other than capital leases recognized in accordance with GASB 87-Leases. The TLHIGA will review the standard and implementation material and will report back to the Committee.

Item 7

Consideration and possible action regarding the review of the necessity of obtaining proposals for a firm to perform a network penetration test



NETWORK PENETRATION TEST

The Audit Plan for 2025, approved by the Board and filed with the Texas Department of Insurance, calls for the Committee to “review the necessity to perform and engage, if necessary, a firm to perform a network penetration test.” The last testing was conducted in late 2023 and reported in April 2024.

The Committee will review and discuss the necessity of testing in late 2025 at this meeting. If the Committee feels that it is necessary, management could gather proposals from several firms and provide that information for the Committee to review at its October 2025 meeting and make a recommendation to the Board of Directors regarding engagement of a firm to perform the network penetration test.

Item 8

Executive Session

- A. Consultation with counsel regarding the draft 2024 audited financial statements, authorized by Section 551.071 of the Texas Government Code

Item 9

Consideration and possible action on items discussed in Executive Session

Item 10

Consideration and possible action regarding the review of the TLHIGA's 2024 operating expenses and the final budget variance report



April 8, 2025 Audit Committee Meeting

REVIEW OF BUDGET VARIANCE REPORT AND EXPENSES

On page 10-2 is the Budget Variance Analysis Report that provides the Committee with:

- A comparison of the 2024 actual expenses to the 2024 budgeted amounts for each expense account,
- The allocation of each account between fixed and variable costs, and
- The portion of the actual 2024 expenses that were allocated to insolvencies and are eligible for recovery through asset distributions.

On pages 10-3 through 10-9 are explanations of the actual to budgeted variances for the expense accounts for the Committee's review and discussion. These reports will help the Committee fulfill its responsibility of reviewing the TLHIGA's expenses annually. Management will be prepared to answer any questions.



2024 Budget Variance Analysis	2024 Actual	2024 Budget	Dollar Variance Over/(Under)	Percent Variance Over/(Under)	Weighted Percent Variance Over/(Under)	Allocations based on Staff Time Tracking											
						Budgeted Variable Costs	Actual Variable Costs	Dollar Variance Over/(Under)	Percent Variance Over/(Under)	Budgeted Fixed Costs	Actual Fixed Costs	Dollar Variance Over/(Under)	Percent Variance Over/(Under)	General Expense Allocation	Insolvent Estates Allocation	Percent Allocated to Insolvent Estates	
5010 Accounting & Auditing	56,257.05	52,115.00	4,142.05	7.95%	0.89%	-	-	-	0.00%	52,115.00	56,257.05	4,142.05	7.95%	40,391.71	15,865.34	28.20%	
5015 Board Meetings & Expenses	15,353.83	23,184.00	(7,830.17)	(33.77%)	(1.69%)	-	-	-	0.00%	23,184.00	15,353.83	(7,830.17)	(33.77%)	10,905.01	4,448.82	28.98%	
5020 Bad Debt Expense	-	-	0.00	0.00%	0.00%	-	-	-	0.00%	-	-	-	0.00%	-	-	0.00%	
5022 Bank Fees	11,822.59	7,800.00	4,022.59	51.57%	0.87%	-	-	-	0.00%	7,800.00	11,822.59	4,022.59	51.57%	8,340.29	3,482.30	29.45%	
5030 Conferences	14,208.17	25,350.00	(11,141.83)	(43.95%)	(2.41%)	-	-	-	0.00%	25,350.00	14,208.17	(11,141.83)	(43.95%)	9,127.51	5,080.66	35.76%	
5035 Copying & Printing	1,325.11	156.00	1,169.11	749.43%	0.25%	20.00	282.66	262.66	1313.30%	136.00	1,042.45	906.45	666.51%	1,042.45	282.66	21.33%	
5050 Dues & Subscriptions	8,774.61	9,518.00	(743.39)	(7.81%)	(0.16%)	-	-	-	0.00%	9,518.00	8,774.61	(743.39)	(7.81%)	6,124.82	2,649.79	30.20%	
5052 Depreciation	121,009.76	122,645.81	(1,636.05)	(1.33%)	(0.35%)	-	-	-	0.00%	122,645.81	121,009.76	(1,636.05)	(1.33%)	86,882.56	34,127.20	28.20%	
5055 Education & Training	19,618.85	9,250.00	10,368.85	112.10%	2.24%	-	-	-	0.00%	9,250.00	19,618.85	10,368.85	112.10%	14,525.57	5,093.28	25.96%	
Employee Benefits:																	
5060 Insurance	66,045.55	59,700.00	6,345.55	10.63%	1.37%	-	-	-	0.00%	59,700.00	66,045.55	6,345.55	10.63%	46,247.67	19,797.88	29.98%	
5060 Retirement 401(K)	62,230.68	62,385.59	(154.91)	(0.25%)	(0.03%)	-	-	-	0.00%	62,385.59	62,230.68	(154.91)	(0.25%)	43,576.35	18,654.33	29.98%	
5060 Compensated Absences	58,020.20	-	58,020.20	100.00%	12.53%	-	-	-	0.00%	-	58,020.20	58,020.20	100.00%	40,628.01	17,392.19	29.98%	
5060 Medical Reimbursement	7,265.39	6,000.00	1,265.39	21.09%	0.27%	-	-	-	0.00%	6,000.00	7,265.39	1,265.39	21.09%	5,087.51	2,177.88	29.98%	
5065 Insurance	70,719.00	68,813.04	1,905.96	2.77%	0.41%	-	-	-	0.00%	68,813.04	70,719.00	1,905.96	2.77%	48,992.40	21,726.60	30.72%	
5075 Legal - Admin	68,246.74	55,394.31	12,852.43	23.20%	2.77%	-	-	-	0.00%	55,394.31	68,246.74	12,852.43	23.20%	68,246.74	-	0.00%	
5075 Legal - Estate	197,019.66	184,174.44	12,845.22	6.97%	2.77%	184,174.44	197,019.66	12,845.22	6.97%	(0.00)	-	0.00	0.28%	-	197,019.66	100.00%	
5085 National Assessments	583,937.00	674,295.21	(90,358.21)	(13.40%)	(19.51%)	663,295.00	567,342.00	(95,953.00)	(14.47%)	11,000.21	16,595.00	5,594.79	50.86%	16,595.00	567,342.00	97.16%	
5090 NOLHGA Dues	96,689.00	96,689.00	0.00	0.00%	0.00%	-	-	-	0.00%	96,689.00	96,689.00	-	0.00%	75,569.40	21,119.60	21.84%	
5095 Office Rent	180,175.80	183,008.96	(2,833.16)	(1.55%)	(0.61%)	-	-	-	0.00%	183,008.96	180,175.80	(2,833.16)	(1.55%)	131,984.12	48,191.68	26.75%	
5100 Office Supplies	8,067.31	4,600.00	3,467.31	75.38%	0.75%	-	-	-	0.00%	4,600.00	8,067.31	3,467.31	75.38%	5,785.97	2,281.34	28.28%	
5105 Operating Leases	1,541.84	1,560.00	(18.16)	(1.16%)	(0.00%)	-	-	-	0.00%	1,560.00	1,541.84	(18.16)	(1.16%)	989.42	552.42	35.83%	
5111 NOLHGA Mtgs	12,675.40	20,400.00	(7,724.60)	(37.87%)	(1.67%)	5,000.00	-	(5,000.00)	(100.00%)	15,400.00	12,675.40	(2,724.60)	(17.69%)	12,675.40	-	0.00%	
5113 Property Taxes	736.16	894.45	(158.29)	(17.70%)	(0.03%)	-	-	-	0.00%	894.45	736.16	(158.29)	(17.70%)	534.26	201.90	27.43%	
5115 Payroll Taxes	37,514.54	37,021.06	493.48	1.33%	0.11%	-	-	-	0.00%	37,021.06	37,514.54	493.48	1.33%	27,186.96	10,327.58	27.53%	
5120 Postage	717.72	984.00	(266.28)	(27.06%)	(0.06%)	150.00	644.60	494.60	329.73%	834.00	73.12	(760.88)	(91.23%)	73.12	644.60	89.81%	
5122 Professional Service - Admin	48,262.44	39,460.00	8,802.44	22.31%	1.90%	-	-	-	0.00%	39,460.00	48,262.44	8,802.44	22.31%	48,262.44	-	0.00%	
5122 Professional Service - Estate	19,979.60	1,700.00	18,279.60	1075.27%	3.95%	1,700.00	19,979.60	18,279.60	1075.27%	-	-	-	0.00%	-	19,979.60	100.00%	
5125 Repairs & Maintenance	413.60	2,000.00	(1,586.40)	(79.32%)	(0.34%)	-	-	-	0.00%	2,000.00	413.60	(1,586.40)	(79.32%)	279.85	133.75	32.34%	
5130 Salaries	611,702.00	586,701.92	25,000.08	4.26%	5.40%	-	-	-	0.00%	586,701.92	611,702.00	25,000.08	4.26%	366,075.66	245,626.34	40.15%	
5132 Licensing	88,828.20	83,236.30	5,591.90	6.72%	1.21%	-	-	-	0.00%	83,236.30	88,828.20	5,591.90	6.72%	47,236.16	41,592.04	46.82%	
5145 Temporary Personnel	-	-	0.00	0.00%	0.00%	-	-	-	0.00%	-	-	-	0.00%	-	-	0.00%	
5135 Record Storage	1,020.00	1,044.00	(24.00)	(2.30%)	(0.01%)	-	-	-	0.00%	1,044.00	1,020.00	(24.00)	(2.30%)	751.29	268.71	26.34%	
5140 Telephone	9,812.96	8,484.00	1,328.96	15.66%	0.29%	-	-	-	0.00%	8,484.00	9,812.96	1,328.96	15.66%	5,751.01	4,061.95	41.39%	
5070 Interest	599,876.19	188,122.00	411,754.19	218.88%	88.90%	-	-	-	0.00%	188,122.00	599,876.19	411,754.19	218.88%	91,487.71	508,388.48	84.75%	
TOTAL	3,079,866.95	2,616,687.09	463,179.86		100.00%	854,339.44	785,268.52	(69,070.92)		1,762,347.65	2,294,598.43	532,250.78		1,261,356.37	1,818,510.58	59.05%	



ACCOUNT NUMBER	ACCOUNT NAME	2024 PERCENT VARIANCE	2024 WEIGHTED PERCENT VARIANCE	2024 VARIANCE EXPLANATION
5010	Accounting and Auditing	7.95%	.89%	At the time the budget was developed, the TLHIGA was not aware of the cost of the annual financial audit. The financial audit was slightly under budgeted.
5015	Board Meetings & Expenses	(33.77%)	(1.69%)	The budget anticipated fully attended, in-person Board meetings in 2024. Committee meetings were all held virtually and all of the Board meetings were held hybrid with not all Board members attending meetings in-person. The budget will be adjusted for hybrid meetings.
5020	Bad Debt Expense	0%	0%	No expenses
5022	Bank Fees	51.57%	.87%	The increased banking activity due mostly from the BHICOT insolvency and some from the FHIC insolvency resulted in higher bank fees than anticipated.
5030	Conferences	(43.95%)	(2.41%)	Due to the lingering impact of COVID, many conferences are now hybrid and are attended by staff and BOD members virtually.



April 8, 2025 Audit Committee Meeting

ACCOUNT NUMBER	ACCOUNT NAME	2024 PERCENT VARIANCE	2024 WEIGHTED PERCENT VARIANCE	2024 VARIANCE EXPLANATION
5035	Copying & Printing	749.43	.25%	The needed new envelopes printed in 2024 that was not anticipated in the budget.
5050	Dues & Subscriptions	(7.41%)	(.16%)	Some subscriptions increased less than expected.
5052	Depreciation	(1.33%)	(.35%)	Depreciation was slightly lower due to the anticipated purchase of some low-cost capital assets that did not materialize.
5055	Education & Training	112.10%	2.24%	The cost of attending some educational events were higher than budgeted and the TLHIGA staff was able to attend more events in 2024.
5060	Employee Insurance	10.63%	1.37%	The increase in health insurance renewals was slightly higher than anticipated.
5060	Employee Retirement	(.25%)	(.03%)	The budget did not contain some contribution changes made by employees during the year.
5060	Compensated Absences	100%	12.53%	This is a new item in 2024 from the adoption of GASB 101 and represents the accrued time off of the employees. There was no budget for this line item.



ACCOUNT NUMBER	ACCOUNT NAME	2024 PERCENT VARIANCE	2024 WEIGHTED PERCENT VARIANCE	2024 VARIANCE EXPLANATION
5060	Employee Medical Reimbursement	21.09%	.27%	The budget is set at the maximum allowed for medical reimbursements. Employees used both the current year allocation and some of the roll forward from prior years.
5065	Insurance	2.77%	.41%	Renewals for the TLHIGA’s Business Owner’s, Umbrella and Workers Comp policies were more than expected.
5075	Legal-Admin	23.20%	2.77%	Management develops the budget amount from expense experience in the prior calendar year and then adjusts for anticipated changes in the current year. Actual expenses were slightly higher than anticipated due to some overlapping of general counsel during the transition.
5075	Legal-Estate	6.97%	2.77%	There was slightly more estate specific legal work than was budgeted.
5085	National Assessments	(13.40%)	(19.51%)	This expense is the most difficult to estimate as the TLHIGA is not privy to the expenses of the various NOLHGA insolvencies. Management uses prior year numbers and any knowledge of large changes in expenses. In 2024, the Global companies only started at the end of the year and the FHIC insolvency slowed down during the year resulting in lower MPC expenses.



ACCOUNT NUMBER	ACCOUNT NAME	2024 PERCENT VARIANCE	2024 WEIGHTED PERCENT VARIANCE	2024 VARIANCE EXPLANATION
5090	NOLHGA Dues	0%	0%	The TLHIGA was made aware of the amount prior to the issuance of the budget.
5095	Office Rent	(1.55%)	(.61%)	Operating expenses and parking expenses were slightly lower than expected.
5100	Office Supplies	75.38%	.75%	Management budgets office supplies based on prior year activity with adjustments for anticipated activity for the coming year. Due to the continuing move to electronic communications, claims, banking, etc., the TLHIGA purchased various electronic equipment that was not budgeted.
5105	Operating Leases	(1.16%)	0%	The pass-through lease expenses were slightly less than anticipated.
5111	NOLHGA Meetings	(37.87%)	(1.67%)	The budget anticipated full attendance at all in-person NOLHGA meetings. The meetings continue to be hybrid which, along with reduced attendance, has resulted in lower costs than expected.
5113	Other Taxes	(17.70%)	(.03%)	The estimate for taxes assumes, based on past trends, a certain increase in rates and new assets for property taxes. These did not materialize in 2024.



ACCOUNT NUMBER	ACCOUNT NAME	2024 PERCENT VARIANCE	2024 WEIGHTED PERCENT VARIANCE	2024 VARIANCE EXPLANATION
5115	Payroll Taxes	1.33%	.11%	The budget assumes certain tax rates from the state which were slightly higher than expected.
5120	Postage	(27.06%)	(.06%)	The estimate was based on prior years, adjusted for an anticipated assessment mailing and additional cost for in-house policy administration. Neither of those items materialized in 2024.
5122	Professional Services-Admin	22.31	1.90	The use of the TLHIGA's IT vendor was more than estimated and increases in fees for other vendors was more than anticipated.
5122	Professional Services-Estate	1,075.27%	3.95%	The costs of the compensation study and the full utilization of the assessment system along with the IT and actuarial costs that were all allocated to the estates were not anticipated in the budget.
5125	Repairs & Maintenance	(79.32%)	(.34%)	There were minimal repair or maintenance costs in 2024.
5130	Salaries	4.26%	5.40%	The budget did not include the accrual of certain compensation that causes the budgeted amount to differ slightly from the actual.



April 8, 2025 Audit Committee Meeting

ACCOUNT NUMBER	ACCOUNT NAME	2024 PERCENT VARIANCE	2024 WEIGHTED PERCENT VARIANCE	2024 VARIANCE EXPLANATION
5145	Temporary Personnel	0%	0%	The TLHIGA did not use temporary personnel in 2024.
5132	Licensing	6.72%	1.21%	The licensing fees for the TLHIGA imaging, network administration and policy administration systems were more than expected in 2024, including increases in the imaging system and the accounting system.
5135	Record Storage	(2.30%)	(.01%)	The increase anticipated in the budget was higher than the actual increase in fees.
5140	Telephone	15.66%	.29%	There was an increase in internet and related expenses that was not anticipated in 2024.
5070	Interest	218.88%	88.90%	The interest expense has been adjusted to remove the interest from investments as that is netted against interest income. The remaining interest expenses are from the capital lease and intercompany borrowing. The capital lease interest is known and there is no variance. The intercompany interest is from the FHIC and BHICOT insolvencies and cannot be accurately estimated as the amount each insolvency needs to borrow monthly to cover its expense cannot be



April 8, 2025 Audit Committee Meeting

				accurately forecasted. The borrowings were greater than expected and resulted in higher interest costs.
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Item 11

Consideration and possible action regarding the Committee's 2025 Calendar of Activities



COMMITTEE’S CALENDAR OF ACTIVITIES AND PLANNING FOR 2025, INCLUDING NEXT MEETING DATE

On pages 11-2 and 11-3 are the portions relating to the 2025 meeting dates, activities, and agenda items for the Audit Committee. The tentative meeting dates and agenda items are subject to change at the Committee’s discretion. The items shown in red are specific responsibilities for the Committee Chair.

It is recommended that the next Audit Committee meeting be held on **Monday, October 20, 2025**, one week before the October Board of Directors meeting.

The list of items to be addressed during the October 20, 2025, meeting tentatively includes the following:

- Develop the 2026 Audit Plan and prepare recommendation to the Board of Directors for adopting and filing it with the Commissioner of Insurance,
- Review the Committee Charter,
- Review the network penetration test proposals, if authorized,
- Review the TLHIGA's commercial insurance program to confirm the adequacy to mitigate anticipatable risks, and
- Review the assumptions that will be used for developing the 2026 Operating and Capital Expenditure budgets that will be presented to the Board of Directors at its January 2026 meeting.



2025 Calendar of Activities (AUDIT COMMITTEE) updated as of 3/17/25

Activity Reference No.	Board, Committee or Executive Director (BOD, A-I, PER, AUD, LEG, CORP GOV or ED)	Chair - CH (If applicable)	Activity Target Date	Activity Description	Date Completed
15	AUD	CH	3/14/25	AUD COMM CHAIR will review the draft agenda for the April 8, 2025 Audit Committee meeting with the Executive Director and/or Senior Accountant to determine the order of items and whether items should be added or deleted.	3/14/25
17	ED		3/27/25	EXECUTIVE DIRECTOR (or staff) will file the final agenda for the April 8, 2025 Audit Committee meeting with the Texas Secretary of State's office.	
20	AUD	CH	4/7/25	AUD COMM CHAIR will meet with the outside financial auditor after the audit process has concluded to discuss significant audit findings, difficulties conducting the audit, disagreements with management, sufficiency of TLHIGA internal controls, possible expansion of the 2025 Audit Plan.	
21	AUD AUD	CH	4/8/25 9:00 AM virtual	Audit Committee Meeting <ul style="list-style-type: none"> - Receive annual financial audit report from outside auditor - Meet confidentially with outside auditor - Prepare recommendation to Board of Directors regarding annual financial audit - Evaluate the necessity to revise the 2025 (current year's) Audit Plan based on findings in the annual financial audit - Review the independence and performance of the auditor - Consider the scope of the financial statements audit as of December 31, 2025 - Determine whether additional reviews should be conducted through consulting arrangements with an auditor - Review the necessity to select a new auditor - Develop a recommendation for engagement of auditor for audit of financial statements as of December 31, 2025 - Review the actual expenses for the prior year, including final budget variance report, segregation of fixed and variable expenses, and allocation of expenses to insolvencies 	
22	AUD	CH	4/11/25	AUD COMM CHAIR will ask staff to distribute the draft Audit Report to all Directors after the Audit Committee meeting in preparation for consideration during the April 22, 2025 Board of Directors meeting	
23	BOD AUD	CH CH	4/22/25 8:30 AM	Board of Directors Meeting AUD COMM CHAIR will provide a report to the Board of Directors that includes the following: <ul style="list-style-type: none"> - A recommendation regarding the annual financial audit - A recommendation on whether the current year's Audit Plan should be revised - Any revision to the Committee's Charter - A report on the other matters discussed by the Committee <ul style="list-style-type: none"> - Executive Session confidential discussion of financially troubled member insurance companies - Review and possible actions on various active member company receiverships - Executive Director's report on operations - Regular operation and financial approvals (i.e. minutes, NOLHGA quarterly invoice, future meetings, financial statements, etc.) - Corporate governance items, i.e. conflicts and antitrust statements and review review of the BOD Corporate Governance Guidelines 	
24	ED		4/23/25	EXECUTIVE DIRECTOR will notify selected audit firm of the Board of Directors' engagement decision	



2025 Calendar of Activities (AUDIT COMMITTEE) updated as of 3/17/25

Activity Reference No.	Board, Committee or Executive Director (BOD, A-I, PER, AUD, LEG, CORP GOV or ED)	Chair - CH (If applicable)	Activity Target Date	Activity Description	Date Completed
25	ED		4/28/25	EXECUTIVE DIRECTOR will file the 2024 Annual Report with the Commissioner of Insurance	
38	AUD	CH	9/30/25	AUD COMM CHAIR will review the draft agenda for the October 14, 2025 Audit Committee Meeting with the Executive Director and/or Senior Accountant to determine the order of items and whether additional items should be added or current items deleted.	
41	ED		10/3/25	EXECUTIVE DIRECTOR (or staff) will file the final agenda for the October 14, 2025 Audit Committee meeting with the Texas Secretary of State's office.	
43	AUD AUD	CH	10/14/25 9:00 AM virtual	Audit Committee Meeting - Develop the 2026 Audit Plan and prepare recommendation to the Board of Directors for adopting and filing it with the Commissioner of Insurance - Review the TLHIGA's commercial insurance program to confirm the adequacy to mitigate anticipatable risks - Review the assumptions that will be used for developing the 2026 budgets that will be presented to the Board of Directors at its January 27, 2026 meeting - Annual review of the Committee's Charter	
44	BOD AUD	CH CH	10/28/25 8:30 AM	Board of Directors Meeting AUD COMM CHAIR will provide a report to the Board of Directors that includes the following: - A recommendation regarding the engagement of an auditor to conduct the annual financial audit as of YE 2025 - A recommendation on scope of YE 2025 audit - A recommendation to adopt the 2026 Audit Plan and to file it with the Commissioner of Insurance - Annual review of commercial insurance coverages - Review of assumptions for development of 2026 Operating and Capital Expenditure Budgets - A report on the other matters discussed by the Committee - Executive Session confidential discussion of financially troubled member insurance companies - Consider revisions to Board of Directors Corporate Governance Guidelines - Review and possible actions on various active member company receiverships - Executive Director's report on operations - Regular operational and financial approvals (i.e. minutes, NOLHGA invoice, future meetings, financial statements, etc.)	