

***Audit Committee Meeting  
October 12, 2026***

***Briefing Material***



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## **Audit Committee Meeting Agenda**

Wednesday, October 12, 2026, 9:00 AM 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 April 7, 2026, meeting
2. Consideration and possible action regarding the Texas Department of Insurance Examination
3. Consideration and possible action regarding the performance of an efficiency audit
4. Consideration and possible action regarding the Audit Plan for calendar year 2027\*
5. Consideration and possible action regarding the TLHIGA's commercial insurance coverages
6. Consideration and possible action regarding the responsibilities and duties as set forth in the Audit Committee's Charter\*
7. Executive Session
  - A. Advice from Counsel
8. Consideration and possible action on items discussed in Executive Session
9. Consideration and possible action regarding the development of the TLHIGA's 2027 Operating and Capital Expenditures Budgets
10. Consideration and possible action regarding the Committee's Calendar of Activities and planning for 2027

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

## Open Meeting Information

|                               |                                                                                               |
|-------------------------------|-----------------------------------------------------------------------------------------------|
| <b>Status</b>                 | Accepted                                                                                      |
| <b>TRD</b>                    | 2026005832                                                                                    |
| <b>Submitted Date/Time</b>    | 09/30/2026 03:47 PM CDT                                                                       |
| <b>Agency</b>                 | Texas Life and Health Insurance Guaranty Association                                          |
| <b>Committee</b>              | Audit                                                                                         |
| <b>Meeting Date</b>           | 10/12/2026                                                                                    |
| <b>Meeting Time</b>           | 09:00 AM                                                                                      |
| <b>Address</b>                | 1717 West 6th Street                                                                          |
| <b>City</b>                   | Austin                                                                                        |
| <b>State</b>                  | TX                                                                                            |
| <b>Additional Information</b> | Call TLHIGA at (800) 982-6362 or go to <a href="http://www.txlifega.org">www.txlifega.org</a> |

## 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

Consideration and possible action on:

- 1) Consent agenda;
- 2) Texas Department of Insurance Examination;
- 3) Performance of an efficiency audit;
- 4) Audit Plan for calendar year 2027;
- 5) TLHIGA's commercial insurance coverages;
- 6) Responsibilities and duties as set forth in the Audit Committee's Charter;
- 7) Executive Session;
- 8) Items discussed in Executive Session;
- 9) Development of the TLHIGA's 2027 Operating and Capital Expenditures Budgets;
- 10) Committee's Calendar of Activities and planning for 2027.

## **Item 1**

Consideration and possible action on consent agenda item

A. Summary of the official minutes of the April 7, 2026, 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 April 7, 2026, Committee meeting (included on pages 1-2 through 1-7).

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 April 7, 2026, meeting.



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**SUMMARY OF THE OFFICIAL MINUTES OF THE  
APRIL 7, 2026 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, Mark Williams, at 9:02 AM Central Time on April 7, 2025. 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.

Mark Williams  
Blake Brodersen  
Frank Beaman

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    Jan Graeber    Jarett Terry    Topping Haggerty    Brandy Nichols  
General Counsel: Dan Price

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

Bhakti Patel, Principal with CliftonLarsonAllen, LLC  
Shawn Martin, Texas Department of Insurance (“TDI”)

Chair Williams noted that proper notice of the meeting was filed on March 30, 2026 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 Williams 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 April 7, 2026. 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 8, 2025.

Upon a motion made by Director Brodersen and seconded by Director Beaman, 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 8, 2025 meeting.

**Item 2 Consideration and possible action on remediation implemented for findings of external/internal penetration and phishing testing reports**

Mr. Boles reported that on October 28, 2025, the Board of Directors authorized the engagement of CliftonLarsonAllen (CLA) to conduct network penetration and social engineering testing. He stated that CLA conducted the testing in December 2025 and January 2026.

Mr. Boles reported CLA provided the TLHIGA with three reports on the testing that were provided to the TLHIGA on January 16, 2026: External Penetration Test Report, Internal Penetration Test Report, and a Remote Social Engineering (Email Phishing) Assessment Report. He stated the detailed reports were confidentially provided to the Board of Directors and discussed, along with recommended remediation steps, during the Executive Session of the January 27, 2026 Board of Directors meeting.

Mr. Boles reported management has shared the reports with its network consulting firm and has been evaluating CLA's recommended remediation to address any vulnerabilities or risks detailed in the reports. He stated almost all steps have been completed, and the remediation steps implemented by the TLHIGA will be added to the Management Response section for each CLA finding.

Shawn Martin, TDI, joined the meeting.

**Item 3 Consideration and possible action on the independent audit of the financial statements for the year ended December 31, 2025**

Chair Williams reported on his exit conference with Ms. Patel, Principal with CliftonLarsonAllen ("CLA"), that was held on April 3, 2026. He stated that there were no difficulties to report concerning the audit.

Ms. Patel presented the audited financial statements for the year ending December 31, 2025. She provided a summary of the scope of work and deliverables, the audit results and financial highlights and specific required communications. Ms. Patel noted that there were no material weaknesses or significant deficiencies identified with the TLHIGA's internal controls, no written

recommendations were provided to management, and that the firm was providing an unmodified opinion.

Ms. Patel noted the TLHIGA adopted and implemented Governmental Accounting Standards Board (GASB) Statement No. 102 Certain Risk Disclosures and initiated early implementation of GASB Statement No. 103 Financial Reporting Model Improvements 2025.

Ms. Patel stated that while conducting the audit there were no significant difficulties or disagreements with TLHIGA management.

Ms. Patel stated CLA is in the process of performing its second review of the TLHIGA audited financial statements for the year ending December 31, 2025.

Chair Williams directed further discussion on this item be conducted in Executive Session.

Ms. Patel left the meeting.

**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, 2026**

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 premium billing collections and claims handling, the Committee recommended the audit include an examination of the TLHIGA's in-house policy administration and claims 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 review of the internal controls for cash receipts, disbursements and investment transactions. The review was conducted in conjunction with the 2017 year-end financial audit.

Mr. Boles reported on the TLHIGA's current volume of claims, disputes, appeals, and settlements being administered both in-house and by TPAs for several insolvencies, and the TLHIGA procedures and internal controls in place to verify these items are being processed correctly.

The Committee discussed the scope of the 2025 annual financial audit process in detail and determined no expansion to the scope of the 2026 annual financial audit was needed.

**Item 5 Consideration and possible action regarding expansion of, or revision to, the 2026 Audit Plan in response to certain findings in the 2025 financial statements audit**

The Committee reviewed the 2026 Audit Plan provided in the meeting briefing book and had no changes to recommend.

**Item 6 Consideration and possible action regarding the issuance of a Request for Proposal (RFP) to select and engage an independent certified public accounting firm to audit the financial statements of the Association for the year ending December 31, 2026**

Mr. Boles stated that at the October 28, 2025 Board of Directors meeting, the Board identified the necessity to issue a Request for Proposal (“RFP”) to engage an independent auditor to audit the TLHIGA’s financial statements for the year ending December 31, 2026. He noted this was necessary to comply with the statutory requirement that the TLHIGA must change its auditor at least every seven years. Mr. Boles stated the current audit partner, Bhakti Patel of CliftonLarsonAllen, was completing her seventh year of conducting the audit of the TLHIGA financial statements.

Mr. Boles stated management sent the RFP to sixteen accounting firms on November 4, 2025 and the firms that responded with a notice of interest were invited to attend a proposer’s conference on January 14, 2026. Mr. Boles stated he led the proposer’s conference and in attendance were Audit Committee Chair Mark Williams, Jarett Terry and representatives from the interested firms.

Mr. Boles stated the TLHIGA received multiple proposals by the March 10, 2026 submission deadline. He noted staff distributed the proposals to the Committee on March 12, 2026, along with the evaluation forms and instructions developed by the Committee and management. He stated each member of the Committee returned the evaluation forms by the March 30, 2026 deadline and Mr. Terry made compiled the results of those evaluations that were confidentially distributed to the Committee. Mr. Boles stated the Committee’s discussion of the evaluations should be held in Executive Session.

Chair Williams directed further discussion on this item be conducted in Executive Session.

**Item 7 Consideration and possible action regarding the write-off of certain liabilities**

Mr. Boles reported the TLHIGA is currently carrying a liability in the amount of \$200,000 for possible exposure for a claim from the 2001 liquidation of Reliance Insurance Company (Reliance) that was posted in 2003. He stated this liability was established after research of a lawsuit that had been brought against Reliance prior to the entry of the liquidation order for denial of a disability claim. The lawsuit was withdrawn when Reliance was placed into liquidation. He stated the claimant filed a proof of claim against the Reliance estate and the Reliance Liquidator denied the claim stating the disability did not meet the “any occupation” requirements under the policy.

Mr. Boles reported the TLHIGA was originally advised the policy had been issued by a non-admitted surplus lines predecessor to Reliance; therefore, there was no TLHIGA coverage. He stated the Reliance records available to the TLHIGA were originally limited due to the collapse of the World Trade Center where Reliance’s offices were located. Later, most of the records were recreated by working with the Reliance’s reinsurers.

Mr. Boles reported further investigation of the disability program that produced the policy by the legal consultant to the NOLHGA Task Force resulted in a determination that this was a valid Reliance policy. He stated the TLHIGA then evaluated the medical records and found the Liquidator’s claim denial was in error as it appeared the claimant was totally disabled and unable

to perform any occupation. He reported the TLHIGA booked a liability equal to its \$200,000 statutory maximum for this potential claim and the policyholder was advised of the TLHIGA's position and that he should submit a claim.

Mr. Boles reported, since the liability was established, 23 years ago, the TLHIGA has not received the documents from the policyholder necessary to substantiate a claim under the policy. He stated any statutory limitations have expired and is requesting the Committee recommend to the Board that the full liability be written off.

Upon a motion made by Director Beaman 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 authorizes the write-off of the liability established in the Reliance Insurance Company insolvency in the amount of \$200,000.

Chair Williams stated the time to be 9:46 A.M. on April 7, 2026, and that he was recessing the regular session of the meeting in order for the Committee to meet in Executive Session, pursuant to the Texas Open Meetings Act.

#### **Item 8 Executive Session**

CONFIDENTIAL DISCUSSION.

#### **Item 9 Consideration and possible action on items discussed in Executive Session**

Chair Williams stated the time to be 9:56 A.M. on April 7, 2026, and the Executive Session of the Committee meeting had concluded and that he was reconvening the regular session of the Committee pursuant to the Texas Open Meetings Act.

Upon a motion made by Director Beaman and seconded by Director Brodersen, 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 accepts the year-end 2025 financial audit report as presented.

Mr. Boles stated the Committee has identified a firm it will be recommending to the Board of Directors at its April 21, 2026 meeting, but the name of the firm shall remain confidential until the Board approves the recommendation.

Upon a motion made by Director Williams and seconded by Director Brodersen, 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 [firm name to be inserted when presented to the Board] as the independent certified public accounting firm for the Association.

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 [firm name to be inserted when presented to the Board], to conduct an audit examination as of and for the year ending December 31, 2026.

**Item 10 Consideration and possible action regarding the review of the TLHIGA's 2025 operating expenses and the final budget variance report**

Mr. Boles stated the TLHIGA provides the Committee with a Budget Variance Analysis Report every year at its April meeting after the prior year's expenses have been closed.

Mr. Terry reviewed the 2025 Budget Variance Report and reported on several specific line items of the report. The Committee had no concerns with the budget variances discussed.

**Item 11 Consideration and possible action regarding the Audit Committee's 2026 Calendar of Activities**

After discussion, it was determined that the next meeting will be held on October 12, 2026 at 9:00 AM CT.

**Adjournment**

There being no further business, the meeting was adjourned at 10:13 A.M. local time.

**Certification**

The undersigned certifies that the foregoing is a true and accurate written summary of the proceedings of the April 7, 2026 meeting of the Audit Committee of the Board of Directors, approved by the Audit Committee at its meeting held on October 12, 2026.

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Mark Williams, Audit Committee Chair

## **Item 2**

Consideration and possible action regarding the Texas Department of Insurance Examination



October 12, 2026 Audit Committee Meeting

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## **TEXAS DEPARTMENT OF INSURANCE EXAMINATION**

On September 10, 2026, The TLHIGA received a letter from the Texas Department of Insurance (TDI) informing the TLHIGA that the TDI has scheduled a comprehensive statutory financial examination for January 1, 2022 through December 31, 2026. The letter included six questionnaires for the TLHIGA to respond and provide to the TDI by November 13, 2026. The TLHIGA was last examined by TDI in 2022 for the five year period ending December 31, 2021.

Staff has begun reviewing the questionnaires and drafting responses and compiling documents. The prior response to the 2021 examination was in excess of 500 pages. The current response is anticipated to be more as there are an additional two questionnaires.

According to the letter, the TDI will perform the examination in calendar year 2027 or 2028, the TLHIGA will receive a more specific timeframe later.

The TLHIGA is responsible for paying examination invoices per statute, staff will include the estimated amount in the 2027 budget.

The Committee may want to consider the impact the TDI examination may have on the following discussion in Item 2.

### **Item 3**

Consideration and possible action regarding the performance of an efficiency audit



## **DISSCUSION OF EFFICIENCY AUDIT**

On June 2, 2026, Weaver & Tidwell notified TLHIGA and its sister guaranty associations, the Texas Property and Casualty Insurance Guaranty Association (TPCIGA) and the Texas Title Insurance Guaranty Association (TTIGA), that they had been included in an efficiency audit pursuant to Texas Government Code Chapter 327.

According to the notice, the audit is intended to evaluate whether participating organizations administer selected resources efficiently and in accordance with applicable requirements and best practices, including the systems and processes that support their operations. In discussions with TDI, the three guaranty associations jointly took the position that they are nonprofit entities created by statute and are not state agencies, regulatory agencies, or Joint Underwriting Associations or Advisory Organizations subject to Chapter 327. TDI advised the auditor accordingly, and the auditor responded that, at this time, the efficiency audit will proceed only with the Texas Windstorm Insurance Association (TWIA).

TLHIGA has requested formal confirmation that it has been removed from the audit's scope; however, the auditor has indicated only that an audit of the guaranty associations is not proceeding "at this time," and has not formally withdrawn the audit notice.

Regardless of whether the current audit proceeds, the Texas Administrative Code (28 TAC §31.204), TLHIGA's Audit Plan, and Audit Committee Charter contemplate a broader range of audits beyond the required annual financial audit, including compliance, operation, and economy and efficiency reviews. These provisions authorize the Audit Committee to consider such reviews as part of its oversight responsibilities. The Texas Administrative Code is presented beginning on page 3-2 for the Committee's review.

Given the nature of the initial inquiry, the Audit Committee should be mindful that efficiency-oriented evaluations remain a potential area of focus and are consistent with both the regulatory framework and TLHIGA's governing documents. The Audit Committee will discuss whether to undertake a targeted expansion of the audit scope given the possibility of future external focus in this area. The Committee may also defer this discussion and any possible decision to its April 2027 meeting where the normal discussion of the scope of the audit and review of Texas Administrative Code audit requirements and other reviews occurs. Should the Committee recommend an efficiency audit, it will need to review the scope of the audit and the engagement process. The Committee may want to consider the TDI examination and its impact

on the necessity and/or timing of an efficiency audit. This may take two Committee meetings. Some of this discussion may need to be in Executive Session.

### **Texas Administrative Code Title 28 §31.204**

Audits applicable to the guaranty associations subject to the provisions of this subchapter shall take the form of financial, performance or operational audits, and may include, but not be limited to, the types of audits which are described in paragraphs (1)-(4) of this section.

- (1) Financial audits. The financial audit shall be undertaken annually by an independent certified public accountant to determine whether the financial statements of the audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles. The financial audits shall be conducted in accordance with generally accepted auditing standards.
- (2) Compliance audit. A compliance audit may be undertaken to determine whether the following objectives are being met:
  - (A) the audited entity has obligated, expended, received, and used funds in accordance with the purpose for which those funds have been authorized by law;
  - (B) the audited entity has obligated, expended, received, and used funds in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law on those obligations, expenditures, receipts, or uses;
  - (C) the audited entity has maintained its books, records, and accounts in a manner which accurately reflects its financial and fiscal operations relating to the obligation, receipt, expenditure, and use of funds including, but not limited to, funds collected for a public purpose;
  - (D) the audited entity has collected all revenues and receipts in accordance with the applicable laws and regulations of this state; and
  - (E) the audited entity has properly and legally handled or administered any money, negotiable securities, or similar assets received in accordance with the entity's governing statute.
- (3) Economy and efficiency audit. An economy and efficiency audit may be undertaken to determine whether the objectives set out in subparagraphs (A) and (B) of this paragraph are being met and such audit shall make the identifications set out in subparagraph (C) of this paragraph, as follows:
  - (A) the audited entity is managing or utilizing its resources, including funds, personnel, contractors and subcontractors, consultants, procurement of professional services, property, equipment, and space, in an economical and efficient manner;
  - (B) the audited entity has presented financial, program, and statistical reports in a fair manner, and such reports contain useful data; and
  - (C) the causes of inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative policies and

procedures, purchasing, procurement and contracting practices, organizational structure, use of personnel, contractors, equipment and other resources, have been identified.

- (4) Effectiveness audit. An effectiveness audit may be undertaken to determine whether the following objectives are being met:
- (A) the audited entity is attaining program objectives established pursuant to statutes and regulations, or by program criteria or program evaluation standards applicable to it, in an efficient and effective manner;
  - (B) the audited entity is contributing to achievement of those benefits intended by program design in an efficient and effective manner;
  - (C) the audited entity is discharging its duties and responsibilities under statutes and regulations or according to program performance criteria or program evaluation standards applicable to it in an efficient and effective manner; and
  - (D) the audited entity is performing its duties and responsibilities in connection with a program which does not duplicate, overlap, or conflict with the duties, functions, and responsibilities of another entity with respect to the same program, or with another program designed and intended to be applied to the same persons served by the audited entity.

#### **Item 4**

Consideration and possible action regarding the Audit Plan for calendar year 2027



## **AUDIT PLAN FOR CALENDAR YEAR 2027**

Texas Life and Health Insurance Guaranty Association management, in accordance with the Audit Committee charter, has developed the draft Audit Plan for Calendar Year 2027 shown on pages 4-2 through 4-4 for consideration by the Committee. The Audit Plan is required to be submitted annually to the Texas Commissioner of Insurance by 28 TAC § 31.205(b).

In 2025, the Audit Committee recommended, and the Board approved, a revised Audit Plan that moved the engagement of the financial auditor to the spring meeting from the fall meeting to permit the TLHIGA staff to communicate with the auditor throughout the year rather than at the end of the year. This revised Audit Plan has become the standard plan and is incorporated in the 2027 Audit Plan being presented.

On page 4-5 is a draft recommendation of a resolution for the Board of Directors to adopt the Audit Plan for Calendar Year 2027 and authorize the Controller to file the plan with the Texas Commissioner of Insurance.

A follow-up review of the Audit Plan for Calendar Year 2027 will be included as an agenda item for the Audit Committee's meeting in April 2027. This will allow the Committee the opportunity to adjust the Audit Plan for Calendar Year 2027 for any items identified in the audit of the financial statements for the year ending December 31, 2026.



October 12, 2026 Board of Directors Meeting

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## **AUDIT PLAN**

For Calendar Year 2027

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 2027.

The Audit Plan consists of elements related to the conduct and review of the financial statements audit for the year ending December 31, 2026 ("2026 Audit"), other audit projects related to the operations of the TLHIGA, plans for and scope of the 2027 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 2027 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 2027 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, 2026, 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 2027,
- Review with the auditor its findings on any reviews or audits conducted in addition to, or as expansions of, the 2026 Audit,

- 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, 2027,
- Consider possible expansion of scope for the year ending December 31, 2027, 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 the necessity to perform and engage, if necessary, a firm to perform a network penetration test,
- Review accounting pronouncements and changes with management, including the potential impact to the financial statements,
- Review with the TLHIGA's general 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 2026 Audit to the Board of Directors at its April 2027 meeting and make any recommendations of the Committee for approval and submission to the Texas Commissioner of Insurance; recommend the engagement of the independent auditor for the 2027 financial audit and other reviews or audits to the Board of Directors.

#### **Fall 2027 Audit Committee Functions:**

The Audit Committee will convene in accordance with its Charter prior to the October 2027 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 2028, consistent with the rules and regulations of the Texas Department of Insurance, for filing with the Commissioner of Insurance,
- Present the Committee's recommended Audit Plan for Calendar Year 2028 to the Board of Directors for review and consideration at the Board of Director's Fall meeting,

- Assess the adequacy of the Audit Committee's Charter, and
- Assess the adequacy of the TLHIGA's commercial insurance coverages.

The Committee or its Chair shall also:

- Ensure that the Audit Plan for Calendar Year 2028 approved by the Board of Directors is filed with the Commissioner of Insurance,
- Meet with the independent auditor prior to the commencement of the audit.



October 12, 2026 Board of Directors Meeting

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The Committee recommends the following resolution to the Board of Directors.

**RESOLUTION ON ADOPTION OF  
AUDIT PLAN FOR CALENDAR YEAR 2027**

**RESOLVED**, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association hereby adopts the Audit Plan for Calendar Year 2027 for the Texas Life and Health Insurance Guaranty Association.

**FURTHER RESOLVED**, that the Board of Directors authorizes the Controller to file the Audit Plan for Calendar Year 2027 with the Commissioner of Insurance after final approval by the Chair of the Audit Committee or Chair of the Board of Directors.

## **Item 5**

Consideration and possible action regarding the TLHIGA's commercial insurance coverages



## **ANNUAL COMMERCIAL INSURANCE COVERAGE REVIEW**

On October 25, 2011, the Charter of the Audit Committee was amended to include the following:

“On an annual basis, the Committee will review the commercial insurance program of the Association (“the insurance program of the Association”) with a view to confirming such program’s adequacy to mitigate anticipatable risks efficiently and cost effectively. To perform this review, the Committee will require the Executive Director, in consultation with the Association’s insurance broker, each year to summarize in writing the existing insurance program of the Association and to provide recommendations with respect to such program. After reviewing the Executive Director’s annual insurance program report, the Committee shall make any necessary or appropriate recommendations regarding the insurance program of the Association to the Board.”

This report will present a summary of the TLHIGA’s commercial insurance coverages, discuss the adequacy of these coverages with respect to operations and activities, describe one type of coverage that is not currently provided under any of the TLHIGA’s policies, and conclude with a summary and recommendation.

|                                                |
|------------------------------------------------|
| <b>SUMMARY OF EXISTING INSURANCE COVERAGES</b> |
|------------------------------------------------|

The TLHIGA currently has the following five commercial insurance coverages through its agent, Watkins Insurance:

1. Business Owner’s Insurance,
2. Commercial Umbrella Insurance,
3. Workers Compensation and Employers Liability,
4. Financial Institution Bond for Insurance Companies,
5. Cyber Liability Insurance.

and the following coverage through its agent, Assured Partners:

1. Directors and Officers Insurance.

## **BUSINESS OWNER'S INSURANCE POLICY**

This policy has three components: Commercial General Liability, Business Owner's Property, and Hired/Non-Hired Auto Insurance.

Insurance Company: Hartford Fire Insurance Company  
Coverage Period: 11/3/25-11/3/26  
Annual Premium: \$ 4,578 (11/3/24-11/3/25 premium was \$ 4,225)  
Policy Number: 65SBAAU50LB

### **Commercial General Liability Coverage**

| DESCRIPTION                            | LIMITS OF INSURANCE |
|----------------------------------------|---------------------|
| Each Occurrence                        | \$ 1,000,000        |
| Annual Aggregate                       | \$ 2,000,000        |
| Damage to Rented Premises              | \$ 1,000,000        |
| Medical Expense (per claim per person) | \$ 15,000           |
| Employment Related Practices           | \$ 25,000*          |
| No Applicable Deductible Per Claim     |                     |
| *\$ 5,000 Deductible                   |                     |

### **Business Owner's Property Coverage**

| DESCRIPTION                                           | LIMITS OF INSURANCE |
|-------------------------------------------------------|---------------------|
| Main Office – 1717 West 6 <sup>th</sup> St., Ste. 230 |                     |
| Contents                                              | \$ 450,441          |
| Valuable Papers                                       | \$ 25,000           |
| Accounts Receivable                                   | \$ 125,000          |
| Employee Dishonesty                                   | \$ 25,000           |
|                                                       |                     |
| Business Income/Extra Expense                         | Actual Loss         |
| Fine Arts                                             | \$ 10,000           |
| \$ 500 Deductible Per Occurrence                      |                     |

### **Hired/Non-Owned Auto Liability Coverage**

| DESCRIPTION     | LIMITS OF INSURANCE |
|-----------------|---------------------|
| Each Occurrence | \$ 1,000,000        |

**COMMERCIAL EXCESS (UMBRELLA) INSURANCE POLICY**

Insurance Company: Hartford Fire Insurance Company  
Coverage Period: 11/3/25-11/3/26  
Annual Premium: \$ 0 (11/3/24-11/3/25 premium was \$ 0)  
Policy Number: 65SBAAU50LB

| DESCRIPTION                                                  | LIMITS OF INSURANCE |
|--------------------------------------------------------------|---------------------|
| Annual Aggregate                                             | \$ 5,000,000        |
| Bodily Injury and Property Damage (per occurrence)           | \$ 5,000,000        |
| Personal and Advertising Injury (per person or organization) | \$ 5,000,000        |
| Retained                                                     | \$ 10,000           |

**WORKERS COMPENSATION & EMPLOYERS LIABILITY INSURANCE POLICY**

Insurance Company: Hartford Fire Insurance Company  
Coverage Period: 11/3/25-11/3/26  
Annual Premium: \$ 414 (11/3/24-11/3/25 premium was \$410)  
Policy Number: 65WECAU50V8

| DESCRIPTION                               | LIMITS OF INSURANCE |
|-------------------------------------------|---------------------|
| Workers Compensation – TX Law             | per TX law          |
| Employers Liability                       |                     |
| Bodily Injury by Accident (each accident) | \$ 1,000,000        |
| Bodily Injury by Disease (policy limit)   | \$ 1,000,000        |
| Bodily Injury by Disease (each employee)  | \$ 1,000,000        |

**CYBER LIABILITY INSURANCE**

Insurance Company: Coalition Insurance Company  
Coverage Period: 11/1/25-11/1/26  
Annual Premium: \$ 8,151 (11/1/24-11/1/25 premium was \$7,901)  
Policy Number: C-4LRC-046499-CYBER-2025

| DESCRIPTION | LIMITS OF INSURANCE |
|-------------|---------------------|
| Per Claim   | \$ 3,000,000        |
| Aggregate   | \$ 3,000,000        |
| Deductible  | \$ 10,000           |

**FINANCIAL INSTITUTION BOND FOR INSURANCE COMPANIES**

Insurance Company: Hartford Fire Insurance Company  
Coverage Period: 12/1/25-12/1/26  
Annual Premium: \$ 3,331 (12/1/24-12/1/25 premium was \$3,331)  
Bond Number: 65 FI 0237498-23

| DESCRIPTION                         | LIMITS OF INSURANCE |
|-------------------------------------|---------------------|
| Fidelity                            | \$ 1,000,000        |
| On Premises                         | \$ 1,000,000        |
| In Transit                          | \$ 1,000,000        |
| Forgery or Alteration               | \$ 1,000,000        |
| Securities                          | \$ 1,000,000        |
| Computer Systems Fraud              | \$ 1,000,000        |
| ERISA Coverage Included             |                     |
| \$ 25,000 Deductible Per Occurrence |                     |

**DIRECTORS AND OFFICERS LIABILITY AND  
EMPLOYMENT PRACTICES INSURANCE POLICY**

Insurance Company: Great American Insurance Company  
Coverage Period: 8/1/26-8/1/27  
Annual Premium: \$ 51,495 (8/1/25-8/1/26 premium was \$ 51,495)  
Policy Number: DOL1345878  
Policy Form: D56100-G

| DESCRIPTION      | LIMITS OF INSURANCE |
|------------------|---------------------|
| Annual Aggregate | \$ 5,000,000        |
| Retained         | \$ 50,000           |

### **CLAIMS HISTORY**

The TLHIGA has never made a claim under the coverages discussed here nor are we aware of any potential or threatened claim.

### **ADEQUACY OF COVERAGE**

Of the policies in place, all coverage appears to be adequate and provides the TLHIGA with broad coverage for its various areas of exposure.

The TLHIGA does not have Errors and Omissions (“E&O”) insurance coverage, which is discussed below.

### **E&O INSURANCE**

E&O insurance has never been identified as a significant risk for the TLHIGA based on the focus of our activities being the portion toward the end of the insurance policy life cycle, meaning the final disposition of the policies’ benefits through cancellation/termination, assumption reinsurance transfer, and payment of claims. The TLHIGA is not involved in the application review, underwriting, policy issuance, or rescission processes. Quotes have never been obtained for this type of coverage, and the TLHIGA’s risk in this area has not changed.

### **SUMMARY AND RECOMMENDATION**

It appears the TLHIGA has adequate commercial coverage for any potential risks.

## **Item 6**

Consideration and possible action regarding the responsibilities and duties as set forth in the Audit Committee's Charter



## **REVIEW OF AUDIT COMMITTEE CHARTER**

The Committee Charter was last amended at the April 18, 2017, Board of Directors meeting. The amendments added language to address the frequency of conducting a Request for Proposals for financial audit services and recognized that the incumbent audit firm can submit a proposal if the audit partner is changed.

The Charter, on pages 6-2 through 6-6, is provided to assist the Committee in the annual review and discussion related to its responsibilities and duties. Sections I and III outline the Committee's purpose and responsibilities and duties.

Management has identified minor changes to recognize the change in legal counsel structure and to standardize references to the TLHIGA.

A sample resolution is provided on page 6-7 to recommend to the Board of Directors that they adopt the minor revisions to the Committee's Charter.



**Board of Directors**  
**Charter of the Audit Committee**  
**Amended and Restated ~~October 27, 2026~~ April 18, 2017**

I. Purpose

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities in respect of audits and internal controls. This Charter does not alter the provisions of the [Association TLHIGA](#)'s Act, Bylaws, Plan of Operation, Policies and Procedures, the Texas Open Meetings Act, or the Texas Public Information Act. The Audit Committee's primary responsibilities are to:

- Monitor the integrity of the ~~Guaranty~~ [Association TLHIGA](#)'s financial reporting/accounting process and its financial statements, the effectiveness and efficiency of the internal controls designed to protect the [Association TLHIGA](#)'s assets, and the [Association TLHIGA](#)'s compliance with applicable laws, regulations, and internal policies and procedures.
- Monitor the independence and performance of the ~~Guaranty~~ [Association TLHIGA](#)'s independent financial auditors.
- Make recommendations to the Board of Directors whether to undertake performance or operational audits or reviews in addition to an annual financial audit.
- Provide an avenue of communication among the independent auditors, internal controls consultants, management, and the Board of Directors.

II. Committee Composition and Meetings

The Audit Committee members shall be comprised of three or more directors, each of whom shall be free from any relationship that would interfere with the exercise of his/her independent judgment. All members of the Committee shall have a basic understanding of finance and accounting and shall be able to read and understand fundamental financial

statements, and at least one member of the Committee should have accounting or related financial management experience.

The chair and members of the Audit Committee shall be appointed by the Board of Directors. If the chair or a committee member is absent from a committee meeting, the Board Chair may appoint a temporary, substitute chair or member in accordance with the Bylaws.

The Committee shall meet at least once annually, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. Written materials shall be received from management, auditors and others, if appropriate, in advance of meeting dates. Audit Committee members are responsible for reviewing written materials in sufficient depth before a meeting in order to meaningfully participate in Committee dialogue.

The Audit Committee shall have the authority to retain special legal, accounting, or other consultants to advise the Committee. Unless other arrangements are made, the Audit Committee requires [AssociationTLHIGA](#) management ~~and,~~ the [AssociationTLHIGA](#)'s counsel, ~~and Board Counsel~~ to attend all meetings of the Committee. The Committee may request the independent auditors or other professionals to attend a Committee meeting or to meet with any members of, or consultants to, the Committee. The Audit Committee shall report to the Board of Directors after each meeting and shall make recommendations as necessary to the Board of Directors. The Audit Committee only has the power to act on behalf of the Board of Directors with specific prior approval granted in a resolution of the Board.

### III. Responsibilities and Duties

#### Review Procedures

1. Review and reassess the adequacy of this charter at least annually and recommend any proposed changes to the Board for approval.
2. Review the [AssociationTLHIGA](#)'s annual audited financial statements prior to distribution. The review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices and judgments.
3. In consultation with management and the independent auditors, consider the integrity of the [AssociationTLHIGA](#)'s financial reporting and accounting processes and internal controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review

significant findings prepared by the independent auditors together with management's responses.

4. Review systems of internal controls regarding financial risks and legal compliance.
5. Follow-up with the [AssociationTLHIGA](#)'s counsel on any legal matters that may have a material impact on the financial statements, the [AssociationTLHIGA](#)'s compliance policies and any material reports or inquiries received from regulators or governmental agencies.
6. Consistent with the Rules and Regulations of the Texas Department of Insurance, develop an audit plan annually and file such plan with the Commissioner.
7. In addition to the required annual financial audit, consider each year undertaking a compliance audit or review, economy and efficiency audit or review, an effectiveness audit or review, or an internal controls review or audit.
8. On an annual basis, the Committee will review the commercial insurance program of the [AssociationTLHIGA](#) ("the insurance program of the [AssociationTLHIGA](#)") with a view to confirming such program's adequacy to mitigate anticipatable risks efficiently and cost effectively. To perform this review, the Committee will require the Executive Director, in consultation with the [AssociationTLHIGA](#)'s insurance broker, each year to summarize in writing the existing insurance program of the [AssociationTLHIGA](#) and to provide recommendations with respect to such program. After reviewing the Executive Director's annual insurance program report, the Committee shall make any necessary or appropriate recommendations regarding the insurance program of the [AssociationTLHIGA](#) to the Board.
9. At the March or April meeting each year the Committee will review the [AssociationTLHIGA](#)'s actual expenses for the prior year, including the comparison with budgeted expenses, segregation of expenses between fixed and variable expenses, and allocation of expenses to insolvent member companies.
10. At the October meeting each year, the Committee will review the information and assumptions used by management to develop the operating and capital expenditure budgets for the next calendar year.

#### Independent Auditors

11. 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.

12. Approve the fees and other significant compensation to be paid to independent auditors.
13. On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they have with the [Association TLHIGA](#) that could impair the auditors' independence.
14. Review the independent auditors' audit plan. Discuss and establish the scope, staffing, locations, reliance upon management and general audit approach, along with the interface between the Audit Committee and auditors during the audit.
15. Consider the independent auditors' judgment about the quality and appropriateness of the [Association TLHIGA](#)'s accounting principles as applied in its financial reporting.
15. Review with the independent auditors any problems or difficulties the auditors may have encountered in the course of the audit work, including any restrictions on scope of activities, restrictions to access to required information, disagreements with management, if any, and any significant changes in the audit plan.
17. Review and approve requests for any consulting services to be performed by the independent auditors or other consulting firms and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter.
18. Issue a Request for Proposal ("RFP") for new independent auditors at least every seven years. Work with [Association TLHIGA](#) management to review, score and recommend new auditors to the Board of Directors for selection. The Committee understands that a "new" audit firm can include the incumbent auditor provided the audit firm can and will designate a different audit partner-in-charge.

#### Other Responsibilities

19. Perform any other activities consistent with this Charter, the [Association TLHIGA](#)'s bylaws, Plan of Operation and governing law, as the Audit Committee and Board of Directors deem necessary or appropriate.
20. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the [Association TLHIGA](#)'s financial statements are complete and accurate and are in

| accordance with generally accepted accounting principles or that reporting is in accordance with applicable GASB (Governmental Accounting Standards Board) pronouncements and FASB (Financial Accounting Standards Board) statements and interpretations. This is the responsibility of management and the independent auditors. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and independent auditors or to assure compliance with laws and regulations and the [Association TLHIGA](#)'s Plan of Operation.

Draft



October 12, 2026 Audit Committee Meeting

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The Committee recommends the following resolution to the Board of Directors.

**RESOLUTION RECOMMENDING THE AMENDMENT  
OF THE AUDIT COMMITTEE CHARTER**

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 amends the Audit Committee Charter as presented.

## **Item 7**

Executive Session

A. Advice from Counsel

## **Item 8**

Consideration and possible action on items discussed in Executive Session

## **Item 9**

Consideration and possible action regarding the development of the TLHIGA's 2027 Operating and Capital Expenditures Budgets



## **ASSOCIATION'S BUDGETS**

The Operating Budget for calendar year 2027 will be prepared by management and presented to the Board of Directors for their consideration and possible action at its January 2027 meeting. While the exact amount of certain operating costs is known, others are projections based on past experience and anticipated future activities. The Operating Budget for 2027 does not include cost projections for rehabilitation or insolvency activities that may arise during 2027.

### **ASSUMPTIONS FOR 2027**

The budget assumptions detail provided on pages 9-2 to 9-5 is related to the facts, assumptions and methodologies used in estimating monthly and total administration costs for individual line items within the budget. A copy of the 2026 Operating Budget is provided on page 9-6 for reference.



October 12, 2026 Audit Committee Meeting

### BUDGET ASSUMPTIONS FOR 2027

| ACCOUNT NUMBER | ACCOUNT NAME              | 2026 BUDGET AMOUNT | 2027 BUDGET ASSUMPTION                                                                                                                                                                                                                                      |
|----------------|---------------------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5150           | Accounting and Auditing   | 58,450             | Cost is based on 2027 CPA firm's fees for the financial audit with estimated increase, Form 990 filing and incidentals along with the TDI Examination. Cost is accrued each month.                                                                          |
| 5015           | Board Meetings & Expenses | 17,298             | Cost is based on nine directors' and General Counsels' travel to four Board meetings per year. Cost estimate is based on 2026 travel expenses, including Board lunches and dinners.                                                                         |
| 5022           | Bank Fees                 | 6,000              | Cost is based on bank fee structure. Interest income will be factored in.                                                                                                                                                                                   |
| 5030           | Conferences               | 22,750             | Cost is based on travel expenses and registration fees for three Board members, two staff, ED and the General Counsel to attend the NOLHGA Legal Seminar and for the ED and Controller to attend various industry conferences (NAIC, TALHI, IAIR and ILTCI) |
| 5035           | Copying & Printing        | 240                | Cost is based on the 2026 average monthly expense.                                                                                                                                                                                                          |
| 5050           | Dues & Subscriptions      | 9,058              | Cost is based on the renewal expense of the TLHIGA's subscriptions and licenses. Examples include TALHI & IAIR dues.                                                                                                                                        |
| 5052           | Depreciation              | 116,807            | Cost is based on the TLHIGA's fixed asset depreciation schedule plus the depreciation of the lease asset.                                                                                                                                                   |
| 5055           | Education & Training      | 12,500             | Cost is a flat amount set by the Executive Director after review with the Personnel Committee and Board of Directors and the allocation of some Legal Seminar and Annual Conference expenses.                                                               |



October 12, 2026 Audit Committee Meeting

### BUDGET ASSUMPTIONS FOR 2027

| ACCOUNT NUMBER | ACCOUNT NAME         | 2026 BUDGET AMOUNT | 2027 BUDGET ASSUMPTION                                                                                                                                                                                                                                               |
|----------------|----------------------|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5060           | Employee Benefits    | 188,919            | Cost is based on life, health, dental and disability insurance renewals for 2027, the Health Reimbursement Arrangement, 457(b) and 401(k) retirement plan contribution or matching. This item will be reviewed by the Personnel Committee.                           |
| 5065           | Insurance            | 67,004             | Cost is based on commercial insurance renewals at 2027 rates for the TLHIGA's Business Owner's Policy, Commercial Umbrella Policy, Workers Comp & Employer's Liability Policy, Financial Institution Bond for Insurance Companies, Cyber Liability and D&O coverage. |
| 5075           | Legal                | 138,000            | Cost is based on the contracted rate for legal counsel along with additional budgeted amounts for other legal expenses.                                                                                                                                              |
| 5085           | National Assessments | 1,000,000          | Cost is based on the average of 2026 MPC assessments and any new data or cost estimates from NOLHGA based on projections of insolvency activities.                                                                                                                   |
| 5090           | NOLHGA Dues          | 98,508             | Cost is based on the TLHIGA's pro rata share of NOLHGA's estimated 2026 dues. The ratio is determined from prior dues calculations and a projected increase due to an increase in insolvency activity.                                                               |
| 5095           | Office Rent          | 192,960            | Cost is based on rent costs and employee parking costs in the TLHIGA's lease agreement and the average visitor parking costs from the prior year.                                                                                                                    |



October 12, 2026 Audit Committee Meeting

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### BUDGET ASSUMPTIONS FOR 2027

| ACCOUNT NUMBER | ACCOUNT NAME          | 2026 BUDGET AMOUNT | 2027 BUDGET ASSUMPTION                                                                                                                                                                                                                                                                  |
|----------------|-----------------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5100           | Office Supplies       | 10,096             | Cost is based on the average of prior expenses plus upcoming estimated expenses.                                                                                                                                                                                                        |
| 5105           | Operating Leases      | 1,520              | Due to the implementation of GASB 87 only one small lease is expensed rather than capitalized.                                                                                                                                                                                          |
| 5115           | Payroll Taxes         | 56,789             | Cost is based on staff salaries and current tax rates.                                                                                                                                                                                                                                  |
| 5113           | Other Taxes           | 637                | Cost is based on estimate of 2027 ad valorem property taxes provided by the Travis County Tax Assessor/Collector.                                                                                                                                                                       |
| 5111           | NOLHGA Meetings       | 24,000             | Cost is based on travel expenses for the Executive Director and Controller to attend 4 MPC meetings each year and 5 additional task force meetings in 2027 and 2 staff, 3 Board members, and General Counsel to attend the NOLHGA 2027 Annual Meeting.                                  |
| 5120           | Postage               | 1,488              | Cost is based on 2026 costs and any projected large mailouts.                                                                                                                                                                                                                           |
| 5122           | Professional Services | 53,780             | Cost is based on ongoing fees plus an estimate for any known projects that may require outside vendors. Examples include the payroll vendor, the TLHIGA's IT vendor, the 401(k) and 457(b) administrator and the accounting system consultant as well as policy administration vendors. |
| 5125           | Repairs & Maintenance | 2,000              | Cost is a flat amount set by the Executive Director based on the prior year's expenses.                                                                                                                                                                                                 |
| 5130           | Salaries              | 950,260            | Cost is based on recommendations from the Executive Director and Personnel Committee and approved by the Board of Directors.                                                                                                                                                            |



October 12, 2026 Audit Committee Meeting

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### BUDGET ASSUMPTIONS FOR 2027

| ACCOUNT NUMBER | ACCOUNT NAME        | 2026 BUDGET AMOUNT | 2027 BUDGET ASSUMPTION                                                                                                                                                           |
|----------------|---------------------|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5132           | Licensing           | 88,770             | Cost is based on licensing fees for SaaS applications. It includes estimates for items such as the Accounting and Investment systems and 1099 Reporting software and Office 365. |
| 5145           | Temporary Personnel | 0                  | Cost is based on estimated time needed to complete special projects and temporary staff as needed.                                                                               |
| 5135           | Record Storage      | 1,044              | Cost is based on current rates plus an increase based on historical increases for offsite storage.                                                                               |
| 5140           | Telephone           | 8,760              | Cost is based on current fixed rate plans.                                                                                                                                       |
|                | <b>TOTAL BUDGET</b> | <b>3,127,639</b>   |                                                                                                                                                                                  |



|                                    |                  |                   |                  |                   |                      |                      |                   | Projected        | Projected     | Projected     |
|------------------------------------|------------------|-------------------|------------------|-------------------|----------------------|----------------------|-------------------|------------------|---------------|---------------|
|                                    | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total<br>2026 Budget | Total<br>2025 Budget | Percent<br>Change | Variable<br>2026 | Fixed<br>2026 | Fixed<br>2025 |
| <b>2026</b>                        |                  |                   |                  |                   |                      |                      |                   |                  |               |               |
| <b><u>Operating Budget</u></b>     |                  |                   |                  |                   |                      |                      |                   |                  |               |               |
| 5010 Accounting & Auditing         | 0                | 20,817            | 18,817           | 18,817            | 58,450               | 51,931               | 12.55%            | -                | 58,450        | 51,931        |
| 5015 Board Meetings & Expenses     | 3,587            | 4,987             | 3,737            | 4,987             | 17,298               | 19,482               | -11.21%           | -                | 17,298        | 19,482        |
| 5022 Bank Fees                     | 1,500            | 1,500             | 1,500            | 1,500             | 6,000                | 10,050               | -40.30%           | -                | 6,000         | 10,050        |
| 5030 Conferences                   | 2,950            | 0                 | 16,850           | 2,950             | 22,750               | 22,500               | 1.11%             | -                | 22,750        | 22,500        |
| 5035 Copying & Printing            | 60               | 60                | 60               | 60                | 240                  | 240                  | 0.00%             | 50               | 190           | 190           |
| 5050 Dues & Subscriptions          | 7,237            | 237               | 797              | 787               | 9,058                | 11,678               | -22.44%           | -                | 9,058         | 11,678        |
| 5052 Depreciation                  | 30,080           | 29,539            | 28,732           | 28,456            | 116,807              | 120,197              | -2.82%            | -                | 116,807       | 120,197       |
| 5055 Education & Training          | 3,125            | 3,125             | 3,125            | 3,125             | 12,500               | 9,250                | 35.14%            | -                | 12,500        | 9,250         |
| Employee Benefits:                 |                  |                   |                  |                   |                      |                      |                   |                  |               |               |
| 5060 Insurance                     | 21,591           | 26,063            | 26,063           | 28,164            | 101,881              | 67,532               | 50.86%            | -                | 101,881       | 67,532        |
| 5060 Retirement 401(k) & 457(b)    | 35,626           | 10,256            | 12,006           | 20,400            | 78,288               | 64,850               | 20.72%            | -                | 78,288        | 64,850        |
| 5060 Medical Reimbursement         | 1,925            | 2,275             | 2,275            | 2,275             | 8,750                | 6,000                | 45.83%            | -                | 8,750         | 6,000         |
| 5065 Insurance                     | 0                | 0                 | 52,906           | 14,098            | 67,004               | 66,050               | 1.44%             | -                | 67,004        | 66,050        |
| 5075 Legal - Admin                 | 5,937            | 5,937             | 5,937            | 5,937             | 23,748               | 38,685               | -38.61%           | -                | 23,748        | 38,685        |
| 5075 Legal - Estate                | 28,563           | 28,563            | 28,563           | 28,563            | 114,252              | 99,315               | 15.04%            | 114,252          | -             | -             |
| 5085 National Assessments          | 250,000          | 250,000           | 250,000          | 250,000           | 1,000,000            | 600,000              | 66.67%            | 989,000          | 11,000        | 11,000        |
| 5090 NOLHGA Dues                   | 98,508           | 0                 | 0                | 0                 | 98,508               | 97,625               | 0.90%             | -                | 98,508        | 97,625        |
| 5095 Office Rent                   | 47,808           | 47,808            | 48,672           | 48,672            | 192,960              | 189,199              | 1.99%             | -                | 192,960       | 189,199       |
| 5100 Office Supplies               | 2,524            | 2,524             | 2,524            | 2,524             | 10,096               | 15,308               | -34.04%           | -                | 10,096        | 15,308        |
| 5105 Operating Leases              | 380              | 380               | 380              | 380               | 1,520                | 1,520                | 0.00%             | -                | 1,520         | 1,520         |
| 5111 NOLHGA Mtgs                   | 0                | 0                 | 12,000           | 12,000            | 24,000               | 20,000               | 20.00%            | 2,000            | 22,000        | 15,000        |
| 5113 Other Taxes                   | 55               | 12                | 0                | 570               | 637                  | 887                  | -28.18%           | -                | 637           | 887           |
| 5115 Payroll Taxes                 | 15,061           | 17,437            | 14,589           | 9,701             | 56,789               | 40,015               | 41.92%            | -                | 56,789        | 40,015        |
| 5120 Postage                       | 372              | 372               | 372              | 372               | 1,488                | 864                  | 72.22%            | 300              | 1,188         | 664           |
| 5122 Professional Service - Admin  | 11,420           | 9,920             | 19,920           | 10,820            | 52,080               | 50,680               | 2.76%             | -                | 52,080        | 50,680        |
| 5122 Professional Service - Estate | 0                | 0                 | 0                | 1,700             | 1,700                | 1,700                | 0.00%             | 1,700            | -             | -             |
| 5125 Repairs & Maintenance         | 500              | 500               | 500              | 500               | 2,000                | 2,000                | 0.00%             | -                | 2,000         | 2,000         |
| 5130 Salaries                      | 191,440          | 227,940           | 227,940          | 302,940           | 950,260              | 618,796              | 53.57%            | -                | 950,260       | 618,796       |
| 5145 Temporary Personnel           | 0                | 0                 | 0                | 0                 | 0                    | 0                    | 0.00%             | -                | -             | -             |
| 5132 Licensing                     | 18,626           | 41,126            | 16,568           | 12,450            | 88,770               | 90,100               | -1.48%            | -                | 88,770        | 90,100        |
| 5135 Record Storage                | 255              | 261               | 264              | 264               | 1,044                | 1,044                | 0.00%             | -                | 1,044         | 1,044         |
| 5140 Telephone                     | 2,190            | 2,190             | 2,190            | 2,190             | 8,760                | 8,400                | 4.29%             | -                | 8,760         | 8,400         |
| Total Administrative & Estate Cost | 781,321          | 733,830           | 797,286          | 815,202           | 3,127,639            | 2,325,898            | 34.47%            | 1,107,302        | 2,020,337     | 1,630,633     |
| 5070 Interest                      | 67,087           | 67,087            | 67,087           | 67,087            | 268,347              | 204,982              | 30.91%            | -                | 268,347       | 204,982       |
| Totals for Each Month              | 848,408          | 800,917           | 864,373          | 882,289           | 3,395,986            | 2,530,880            | 34.18%            | 1,107,302        | 2,288,684     | 1,835,615     |
| Year To Date Total                 | 848,408          | 1,649,324         | 2,513,697        | 3,395,986         |                      |                      |                   | 32.61%           | 67.39%        |               |

## **Item 10**

Consideration and possible action regarding the Committee's Calendar of Activities and planning for 2027



## **COMMITTEE'S CALENDAR OF ACTIVITIES AND PLANNING FOR 2027, INCLUDING NEXT MEETING DATE**

On pages 10-2 and 10-3 are the portions of the Calendar of Activities relating to the 2027 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 **Tuesday, April 6, 2027**, two weeks before the April Board of Directors meeting.

The list of items to be addressed during the April 6, 2027, meeting tentatively includes the following:

- Receive 2026 financial audit report from outside auditor,
- Meet confidentially with outside auditor,
- Review the scope of the 2027 audit,
- Recommend the engagement of the outside auditor for the 2027 financial audit
- Prepare recommendation to Board of Directors regarding annual financial audit,
- Review the necessity of a network penetration test,
- Evaluate the necessity to revise the 2027 Audit Plan based on findings in the 2026 annual financial audit, and
- Review the actual expenses for calendar year 2026, including budget variance, segregation of fixed and variable expenses, and allocation of expenses to insolvencies

## 2027 Calendar of Activities (AUDIT COMMITTEE) updated as of 10/5/26

| 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 |
|------------------------|----------------------------------------------------------------------------------|----------------------------|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 17                     | AUD                                                                              | CH                         | 3/12/27                      | <b>AUD COMM CHAIR</b> will review the draft agenda for the April 6, 2027 Audit Committee meeting with the Executive Director and/or Controller to determine the order of items and whether items should be added or deleted.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                |
| 21                     | ED                                                                               |                            | 3/31/27                      | <b>EXECUTIVE DIRECTOR</b> (or staff) will file the final agenda for the April 6, 2027 Audit Committee meeting with the Texas Secretary of State's office.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                |
| 22                     | AUD                                                                              | CH                         | 4/5/27                       | <b>AUD COMM CHAIR</b> 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 2027 Audit Plan.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                |
| 23                     | AUD                                                                              | CH                         | 4/6/27<br>9:00 AM<br>virtual | <b>Audit Committee Meeting</b> <ul style="list-style-type: none"> <li>- Receive annual financial audit report from outside auditor</li> <li>- Meet confidentially with outside auditor</li> <li>- Prepare recommendation to Board of Directors regarding annual financial audit</li> <li>- Evaluate the necessity to revise the 2027 (current year's) Audit Plan based on findings in the annual financial audit</li> <li>- Review the independence and performance of the auditor</li> <li>- Consider the scope of the financial statements audit as of December 31, 2027</li> <li>- Determine whether additional reviews should be conducted through consulting arrangements with an auditor</li> <li>- Review the necessity to select a new auditor</li> <li>- Develop a recommendation for engagement of auditor for audit of financial statements as of December 31, 2027</li> <li>- 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</li> </ul>                                                                          |                |
| 24                     | AUD                                                                              | CH                         | 4/9/27                       | <b>AUD COMM CHAIR</b> will ask staff to distribute the draft Audit Report to all Directors after the Audit Committee meeting in preparation for consideration during the April 20, 2027 Board of Directors meeting                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                |
| 26                     | BOD<br>AUD                                                                       | CH                         | 4/20/27<br>8:30 AM           | <b>Board of Directors Meeting</b> <p><b>AUD COMM CHAIR</b> will provide a report to the Board of Directors that includes the following:</p> <ul style="list-style-type: none"> <li>- A recommendation regarding the current year's annual financial audit</li> <li>- A recommendation on whether the current year's Audit Plan should be revised</li> <li>- A recommendation regarding the engagement of the auditor for the audit of the financial statements as of December 31, 2027</li> <li>- Any revision to the Committee's Charter</li> <li>- A report on the other matters discussed by the Committee</li> <li>- Executive Session confidential discussion of financially troubled member insurance companies</li> <li>- Review and possible actions on various active member company receiverships</li> <li>- Executive Director's report on operations</li> <li>- Regular operation and financial approvals (i.e. minutes, NOLHGA quarterly invoice, future meetings, financial statements, etc.)</li> <li>- Corporate governance items, i.e. conflicts and antitrust statements and review of the BOD Corporate Governance Guidelines</li> </ul> |                |
| 27                     | ED                                                                               |                            | 4/21/27                      | <b>CONTROLLER</b> will notify selected audit firm of the Board of Directors' engagement decision                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                |
| 28                     | ED                                                                               |                            | 4/29/27                      | <b>EXECUTIVE DIRECTOR</b> will file the 2026 Annual Report with the Commissioner of Insurance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                |
| 40                     | AUD                                                                              | CH                         | 9/29/27                      | <b>AUD COMM CHAIR</b> will review the draft agenda for the October 12, 2027 Audit Committee Meeting with the Executive Director and/or Controller to determine the order of items and whether additional items should be added or current items deleted.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                |



2027

2027 Calendar of Activities (AUDIT COMMITTEE) updated as of 10/5/26

| 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 |
|------------------------|----------------------------------------------------------------------------------|----------------------------|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 43                     | ED                                                                               |                            | 10/8/26                        | EXECUTIVE DIRECTOR (or staff) will file the final agenda for the October 12, 2027 Audit Committee meeting with the Texas Secretary of State's office.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                |
| 44                     | AUD                                                                              | CH                         | 10/12/27<br>9:00 AM<br>virtual | <b>Audit Committee Meeting</b><br>- Develop the 2028 Audit Plan and prepare recommendation to the Board of Directors for adopting and filing it with the Commissioner of Insurance<br>- Review the TLHIGA's commercial insurance program to confirm the adequacy to mitigate anticipatable risks<br>- Review the assumptions that will be used for developing the 2028 budgets that will be presented to the Board of Directors at its January, 2028 meeting<br>- Annual review of the Committee's Charter                                                                                                                                                                                                                                                                                                           |                |
| 45                     | BOD<br>AUD                                                                       | CH<br>CH                   | 10/26/27<br>8:30 AM            | <b>Board of Directors Meeting</b><br>- Action to engage an auditor to conduct the annual financial audit as of YE 2027<br>- Action to adopt the 2028 Audit Plan and to file it with the Commissioner of Insurance<br>- Action to select a firm to conduct network penetration testing<br>- Executive Session confidential discussion of financially troubled member insurance companies<br>- Consider revisions to Board of Directors Corporate Governance Guidelines<br>- Review and possible actions on various active member company receiverships<br>- Report on governance issues regarding Directors' feedback and BOD performance<br>- Executive Director's report on operations<br>- Regular operational and financial approvals (i.e. minutes, NOLHGA invoice, future meetings, financial statements, etc.) |                |