

Finance and Audit Committee Meeting Minutes

September 21, 2022

A Finance and Audit Committee meeting for the Surplus Lines Stamping Office of Texas was held in-person on September 21, 2022, beginning at 3:00 p.m. and lasting to adjournment.

Agenda

Item 1. Call to order; establishment of quorum

Item 2. Discussion and Appropriate Approval of March 30, 2022 & June 22, 2022, F&A Committee Meeting Minutes

Item 3. Discussion and Appropriate Action of 2022 YTD Financial Review, Review of Draft Company CC & Travel Expense Policy Revisions

Item 4. Discussion, Review, and Appropriate Action of 2023 Proposed Budget

Item 5. Adjournment

Item 1. Call to Order | Jeff Klein, Committee Chair

Jeff Klein, Chair of the Finance and Audit Committee, called meeting to order on September 21, 2021, at 3:02 P.M.

The meeting will be held in-person on September 21, 2022, beginning at 3:00 p.m. and lasting to adjournment. The meeting shall be held at the Surplus Lines Stamping Office of Texas, 805 Las Cimas Parkway, Suite 300, Austin, Texas 78746.

Board members and Commissioner of Insurance, or his delegate, were notified of this meeting on September 12, 2022. Klein called roll to determine participating members via telephone conference pursuant to Plan of Operation Section 2.(c)(9):

COMMITTEE MEMBERS PRESENT

Jeff Klein	Committee Chair
Charles Gillenwater	Vice Chair
Pete Harrison	Secretary

NON-COMMITTEE MEMBERS PRESENT

ALSO PRESENT

Greg Brandon, Executive Director, SLTX

Donna Aug, Director of Finance, SLTX

Cheyenne Herrera, Director of Operations, SLTX

Sholonda Stone, Director of ITS, SLTX

Denisse Amezcua, Director of Human Resources, SLTX

Marissa Gamez, Administrative Assistant, SLTX

Marcelina Gutierrez, Communication and Education Coordinator, SLTX

Stanton Strickland, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC

Patti Otto, Texas Department of Insurance

Minutes are taken by SLTX Staff.

Klein made the following administrative housekeeping announcements before moving forward with agenda:

1. Antitrust activity or discussion are prohibited at all Stamping Office functions. This prohibition includes the exchange of information concerning individual company rates, coverages, market practices, claims settlement practices, expenses, or any other competitive aspect of an individual company's operation.
2. We will not have a public comments session. Public and media attendees listening by telephone should mute lines at all times.
3. Representatives of state agencies and members of the public are welcome to observe or record this Board meeting but refrain from asking questions or interjecting comments during the Board's deliberations.
4. State agency personnel present may be asked questions about agency policies if those questions relate to an agenda item.
5. Members, counsel, and staff participating by conference call should identify themselves when speaking. Please mute lines when not speaking.

Item 2. Discussion and Appropriate Approval of March 30, 2022 & June 22, 2022, F&A Committee Meeting Minutes

Presenter: Jeff Klein, Committee Chair

Jeff Klein asked committee members for questions or discussion of minutes. Hearing none, Klein asked for a motion to approve minutes as presented.

MOTION: Jeff Klein

SECOND: Pete Harrison

TEXT OF MOTION: Approve March 30, 2022 & June 22, 2022, meeting minutes as presented.

Ayes across the board.

The motion passed.

Item 3. Discussion and Appropriate Action of 2022 YTD Financial Review, Review of Draft Company CC & Travel Expense Policy Revisions

Presenter: Jeff Klein, Committee Chair

Donna Aug presents the 2022 YTD financials. Stamping fee income was over budget 36% for August and 18% YTD due to increased premiums reported being greater than budgeted for the year. Investment income was 114% over budget for August and over budget over 29% for the year. Total operating expenses were under budget 23% or \$167,000 for August and almost \$922,000 YTD. Total revenue is 19% over budget for the year as of now, and SLTX is doing well financially.

Salaries and Benefits were under budget 8% for August and YTD. Aug states Professional Services were under budget 70% for August and 49% for the year due to Accenture (formerly known as Headspring). SOW initially scheduled to transition to Maintenance & Support at the end of Q1, but the SOW amendment changed to start at the beginning of Q4. Conference and Education were under budget 42% for August and 64% YTD. Travel and Entertainment, which includes Board Expenses, were under budget by 87% for the month and 74% YTD.

Occupancy and Operating Expenses were under budget \$25,000 or 38% for August and \$87,000 or 16% for the year. General and Administrative expenses were under budget \$12,500 or 7% for August and under \$49,000, 3% YTD. Aug continues with the Contingency Expense, which was not used, and states a \$3,500 savings for August and \$29,000 for the year. Operating income was almost \$363,000 for August and \$1,300,000 income YTD. Aug adds that we had a budgeted for a loss of \$62,000 for the month and \$592,000 YTD. Fair market value has decreased approximately \$234,000 for August and decreased almost \$1,100,000 year to date. Numbers are decreasing everywhere. Aug states for

the Unrestricted, Undesignated Funds we went into 2022 with a fund balance of \$28.8 million, which was \$20 million over the maximum for 2022, which is \$8,806,266. August's YTD net gain of \$211,000 resulted in a fund balance on August 31 of \$29 million; \$19.6 million over our maximum.

Klein asks if Travel and Education is decreased due to ongoing pandemic and if travel and/or education is to increase within next year or so.

Aug states yes.

Aug further states SLTX is slowly chipping away excess funds and asks if there are any other questions.

No further questions or comments were given to Aug regarding the YTD 2022 budget, Klein asks to move on to Travel and Credit Card policy.

Aug states that the current policies were revised in early 2020 as a reaction to the leadership disruptions in 2019 but have become onerous to manage. Now that employees are traveling more these policies have created several concerns. SLTX employees are uncomfortable incurring or do not have the funds to incur the cost of conferences, training and education courses, airfare, car rental, etc. on their personal credit card. When purchases are made on a personal credit card, the charge could be reimbursed by the company and also the service provider, if that service is canceled, without an auditable record of reimbursement. Personal expenses may be catalogued and then reimbursed. This adds additional work to the process since personal expenses are reimbursed through our payroll system. Any employee who has a company credit card must create two expense reports – one to pay the balance of the company card to Frost/Commerce Bank and another to reimburse the employee. With this proposal, we are hoping to protect employees and their funds while ensuring an easy process to catalogue expenses. Aug mentions SLTX company credit cards have travel insurance protection associated with them that are not part of most personal credit or debit card transactions. Traveling employees miss out on these benefits and protection. Directors are currently utilizing a company card.

Last amendment included travel language, and employee credit card usage. Aug states goal was to reduce reimbursement processes to enable additional control. Alcohol is still prohibited. Tips will be reimbursed or accepted on the card. Personal flowers to self are still prohibited. Travel language for non-employees or Board members has been updated as well.

Credit card policy discusses employee responsibilities for card usage. Regarding executive director travel – board resolution dated 6/24/21 changed the approval from the executive committee to the Board Chair.

Stan Strickland asks if language should be amended to "including but not limited to...", in order to include any future item which should be included on prohibited/ allowed expenses. Harrison disagrees due to additional responsibility it will come with.

Klein asks if there is opportunity to amend or change policy as needed. Greg Brandon agrees with Harrison regarding language change. Harrison asks if item of discussion could be discussed at a board meeting instead of placing responsibility on executive director to decide.

Klein asks if policy may be revised and updated as needed. Aug agrees and states yes.

MOTION: Charles Gillenwater

SECOND: Pete Harrison

TEXT OF MOTION: Recommend the Financial & Audit Committee refer the Company Credit Card & Travel Expense Policy as presented to the full Board for adoption.

Ayes across the board.
The motion passed.

Item 4. Discussion, Review, and Appropriate Action of 2023 Proposed Budget
Presenter: Donna Aug, Director of Finance & Greg Brandon, Executive Director

Brandon states he will not speak on budget itself, for tons of work went into drafting the document. The FA committee will review and then send it to the full BOD to review and vote. Once approved, it will be sent to Commissioner of Insurance for final review and approval. If feedback is given, it will be discussed at the October 27, 2022, meeting. The only item for this meeting will be budget.

Aug states investments are spread out so there is a steady amount of income. Income should see a return moving forward. Revenues increased due to higher projected premiums for 2023. Interest and other income increased by 29%, due to improved projection process with Frost Brokerage input on portfolio performance. As investments mature and the proceeds are reinvested, we are locking in at higher rates of return that we saw in recent years. Aug states a prediction of an overall increase in revenue of \$1.8M or 23%. Salaries and benefits will increase 10% or \$470,000 due to merit increases and inflation adjustment increases for the staff, which also increases associated labor burden. A 10% average increase across all lines of health insurance coverages was used. This category is 51% of total expenses for 2023 vs. 50% for 2022. Professional services will increase 23% or \$305,500. Part of the increase is due, on the ITS side, to monthly support from Microsoft Azure, for our cloud computing platform, the contract for which came after budget season last year. On Operations side – we have a full year of maintenance and support with Accenture (Headspring) as opposed to 3 quarters in 2022, since that transition was expected to occur in Q2 last year. In addition, Accenture's hourly fee rose 11%. With this 23% increase, Professional services represents 17% of total cost vs. 15% for 2022.

Occupancy and Operating will decrease about 15% or \$120,000 due to several reasons: lease expense, even though in Q1 we will have two leases to pay – base rent went down 24% and Operating expenses for the new space went down 43%, printing is down 36%, records destruction is down 63%, and record storage is down 72% as with our new record retention policy, adopted this year, we will be reducing the quantity of records we store. Telephone is expected to decrease 20% and internet to decrease 31% with the new space. G&A is projected to increase almost \$136,000 or 6%. Bank charges increased some as we added ADP's time and attendance platform, which automates tracking of staff time off, this year. SLTX has updated the way employees ask for PTO/ ELB with the help of ADP. It has increased efficiency while keeping costs low. Reference, dues, and subscriptions increased 18% as tools utilized for Human Resources had a significant increase. We expect a 47% decrease in depreciation as older assets become fully depreciated and a 9% increase in amortization as SMART will be fully booked at the end of 2022. This category remained fairly level in terms of percent of total expenses. Overall budget predicts an operating loss of \$167,000 for next year as opposed to a budgeted loss of \$1.2 million for 2022.

Klein states ADP is a great asset to use in order to relieve previous process. Aug agrees. Klein asks if there are any questions or discussion on Aug's report, hearing none. Klein asks if Aug has a recommendation. Aug recommended per the text of motion below.

MOTION: Pete Harrison

SECOND: Charles Gillenwater

TEXT OF MOTION: Recommend Finance and Audit committee to review 2023 proposed budget as presented to the BOD with the recommendation that it will be sent to TDI for review.

Ayes across the board.
The motion passed.

Item 5. Adjournment

Presenter: Jeff Klein, Committee Chair

Klein asked for a motion to adjourn meeting.

A motion for adjournment was made by Jeff Klein, Charles Gillenwater seconded the motion.

The motion passed.

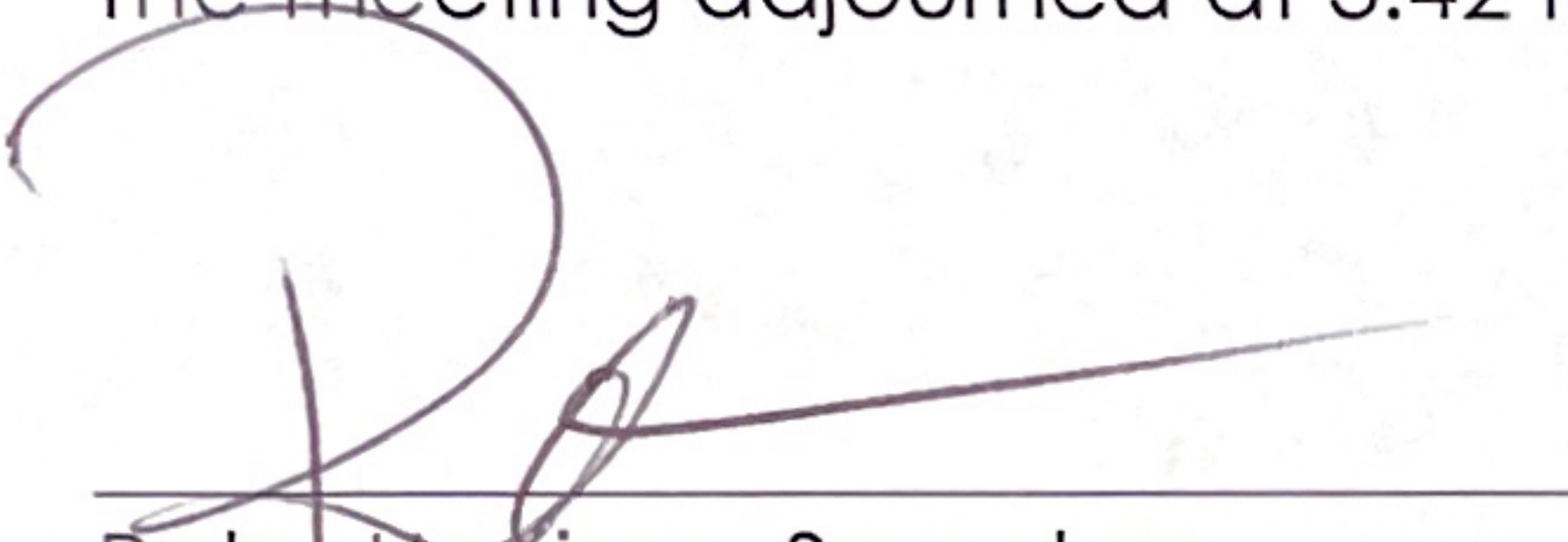
MOTION: Jeff Klein

SECOND: Charles Gillenwater

TEXT OF MOTION: Adjournment

Motion passed.

The meeting adjourned at 3:42 P.M.



Peter Harrison, Secretary