THE PROTECTED INSURANCE PROGRAM
FOR
SCHOOLS JOINT POWERS AUTHORITY

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

THE PROTECTED INSURANCE PROGRAM FOR SCHOOLS JOINT POWERS AUTHORITY

(A Joint Powers Authority)

JUNE 30, 2013

BOARD OF DIRECTORS

REPRESENTATIVE	PARTICIPATING MEMBER	OFFICE
Steve Hovey	Riverside Schools Risk Management Authority	President
Carol Horton	Citrus Community College District	Vice President
Rocky Bonura	El Camino Community College District	Secretary
Kimberly Dennis	Alameda County Schools' Insurance Group	Treasurer
Ann-Marie Gabel	Long Beach Community College District	Member
Jonathan Barth	North Valley Schools' Insurance Group	Member
Jacques Whitfield	Northern California Community College Self-Insurance Authority	Member
Corinne Kelsch	Santa Clara County Schools' Insurance Group	Member
Janece Maez	Schools Linked Insurance Management Joint Powers Authority	Member

THE PROTECTED INSURANCE PROGRAM FOR SCHOOLS JOINT POWERS AUTHORITY

(A Joint Powers Authority)

JUNE 30, 2013

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Position	11
Statement of Revenues, Expenses, and Changes in Net Position	12
Statement of Cash Flows	13
Notes to Financial Statements	14

REQUIRED SUPPLEMENTARY INFORMATION

Claims Development Information	26
Loss Development	27

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*	28

SCHEDULE OF FINDINGS

Schedule of Findings	30
Summary Schedule of Prior Audit Findings	31

FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Protected Insurance Program for Schools
Joint Powers Authority
Torrance, California

Report on the Financial Statements

We have audited the accompanying financial statements of The Protected Insurance Program for Schools Joint Powers Authority (PIPS) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise PIPS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's *Minimum Audit Requirements for California Special Districts*, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to PIPS' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PIPS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of The Protected Insurance Program for Schools as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and claims development information on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2014, on our consideration of The Protected Insurance Program for Schools internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Protected Insurance Program for Schools internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 28, 2014

The following report reviews the financial condition of The Protected Insurance Program for Schools Joint Powers Authority (PIPS) for the fiscal years ended June 30, 2012 and June 30, 2013. It examines and reviews PIPS' financial operations and explains the significant financial changes from the prior year-end. Readers should review the financial management information report and the independent financial audit in conjunction with this discussion and analysis to enhance their understanding of PIPS' financial performance.

Introduction and Background

The Protected Insurance Program for Schools Joint Powers Authority (PIPS) was established under a Joint Exercise of Power Agreement effective July 1, 2003, as a self-insurance pool to provide workers' compensation protection to its membership of public schools and community colleges throughout California and incorporates the use of reinsurance to transfer some or all of the risks associated with this type of program. This Joint Powers Authority (JPA) was created to provide an alternative for workers' compensation coverage normally provided utilizing traditional self-insurance, guaranteed cost, deductible or other available programs.

Until California adopted an open rating pricing policy for workers' compensation in 1995, most public school districts self-insured their workers' compensation liabilities in some fashion. Unfortunately, the predictability of costs was hampered by the tendency to rely on inaccurate discount assumptions, inadequate confidence level funding, and double-digit medical cost inflation that led to unpredictable loss severity. Even well established self-insurance programs were affected by these same problems, resulting in significant program deficits and assessments to their membership.

Public school districts and community colleges have tried to utilize more conventional workers' compensation guaranteed cost programs. However, market volatility and a reduction in the number of carriers in the market resulted in rapidly escalating pricing and dramatically limited the opportunity for public schools and community colleges to efficiently transfer risk.

What is PIPS?

"The Protected Insurance Program for Schools and Community College Districts (PIPS) is a self-insurance program that integrates risk transfer to reinsurers and risk retention by its self-insured members. This unique structure provides catastrophic protection up to $155,000,000 per occurrence and frequency protection up to $1,000,000 per occurrence in excess of an undiscounted 99 percent actuarial probability level."

What are the Goals of PIPS Program?

- Efficient use of Public Funds
- Long-Term Financial Stability
- Cost Competitive Program
- Structural Flexibility

Membership

As of June 30, 2013, the PIPS membership included 68 member agencies comprised of 417 member districts. Of the 417 member districts, 43 are Community College District's (CCD's), and 374 are K12.

Services and Programs

PIPS was specifically developed to provide a long-term solution for California Public Schools and Community Colleges. This program is structured to provide the following unique characteristics.

- First Dollar Coverage,
- Homogenous Risk Pool,
- Dedicated Loss Control Services,
- Catastrophic Coverage Limits,
- JPA Management,
- Claims Administration,
- Financial Services,
- Broad Memorandum of Coverage,
- Limited Interest Rate Risk, and
- Competitive Rates.

Organizational Structure

Board of Directors
President
Vice President
Secretary
Treasurer
9 Directors (5 K-12 & 4 CCD)

Program Structure and Reinsurance Partners

PIPS is a workers' compensation self-insurance pool. Its members are permissibly self-insured public agencies and as such may buy insurance or reinsurance to transfer some or all of the risks of the program. On an annual basis, the PIPS Board of Directors reviews various options for retaining or transferring some or all of the risks of each year's program and selects from these the one best suited to meet the goals of the program.

Financial Management and Control

PIPS is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

Day to day operations and administrative functions of the JPA are managed by Keenan & Associates, which include negotiating the PIPS program structure and rates with reinsurers, coordinating and scheduling of Board meetings, and implementing policies established by the Board of Directors as set forth in organizational documents and bylaws. The Service Enhancement Technologies Department (SETECH), a Division of Keenan & Associates, provides financial management and reporting to the Board of Directors (BOD). Budgetary control is provided by verification of budgeted amounts prior to expenditures and analysis of all actual account totals compared to budgeted amounts. Detailed financial statements and Treasurer's Reports include budget-to-actual comparisons and are provided to the PIPS Board quarterly and are the basis for the independent financial audit.

Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants, has performed an independent audit examination of the financial statements in accordance with generally accepted auditing standards.

PIPS' financial statements are prepared in conformity with generally accepted accounting principles and include amounts based upon reliable estimates and judgments. The Treasurer's Report includes a Statement of Net Position and Statements of Revenues, Expenditures and Change in Net Position.

The Statement of Net Position provides information on PIPS' program assets and liabilities, with the difference reported as Designated/Undesignated Net Position as of June 30, 2013. The Statement of Revenues, Expenditures and Change in Net Position presents information showing total revenues versus total expenditures for fiscal year 2012-2013 and the resulting effect on Net Position.

PIPS operates on a program and fiscal year from July 1st through June 30th and calculates the financial position of each program year on the basis that each year stands on its own. Specifically, that means that the funding determined necessary for each claim year is collected in that claim year, and all liabilities and expenditures of each claim year are accounted for in the year they are incurred.

Condensed Statement of Net Position

Below is a summary of the Statement of Net Position showing total assets versus total liabilities with a percentage of change from the 2011-2012 to the 2012-2013 program year.

	As of June 30,			
	2012	2013	Difference	Percentage
Current Assets				
Deposits and Investments	$ 19,623,916	$ 35,156,999	$ 15,533,083	79.15 %
Accounts Receivable	360,499	2,494,454	2,133,955	591.94
Investments Maturing Within One Year	14,118,082	12,500,036	(1,618,046)	(11.46)
Total Current Assets	34,102,497	50,151,489	16,048,992	47.06
Non-Current Assets				
Investments Net of Maturing Within One Year	86,273,866	43,479,755	(42,794,111)	(49.60)
Total Non-Current Assets	86,273,866	43,479,755	(42,794,111)	(49.60)
Total Assets	120,376,363	93,631,244	(26,745,119)	(22.22)
Current Liabilities				
Deferred Revenue	9,101	-	(9,101)	(100.00)
Accounts Payable	4,981,894	7,242,127	2,260,233	45.37
Administrative Runoff (ULAE)	632,058	799,444	167,386	26.48
Current Portion of Unpaid Claims and Claims Adjustment Expense	11,000,000	9,170,444	(1,829,556)	(16.63)
Total Current Liabilities	16,623,053	17,212,015	588,962	3.54
Non-Current Liabilities				
Administrative Runoff (ULAE)	25,290,001	27,865,477	2,575,476	10.18
Unpaid Claims and Claims Adjustment Expense Less Current Portion	55,469,700	32,152,037	(23,317,663)	(42.04)
Total Non-Current Liabilities	80,759,701	60,017,514	(20,742,187)	(25.68)
Total Liabilities	97,382,754	77,229,529	(20,153,225)	(20.69)
Net Position	$ 22,993,609	$ 16,401,715	$ (6,591,894)	(28.67) %

Assets

PIPS assets are broken out in two sections. One - current assets; these are cash and receivables that are anticipated to become cash within one year. This includes securities with maturity dates less than a year or callable securities. Two - non current assets; these are receivables that are anticipated to become cash at a future time over one year. This can include securities with maturity dates greater than a year.

In order to optimize the rate of return on assets, cash monies are transferred from the operational checking account at Bank of America for investing to either the Local Agency Investment Fund (LAIF) in Sacramento, California, which is administered by the State Treasurer's Office or Wells Fargo Securities for longer term investments. This is in conformity with all Federal, State, and local statutes governing such investment of public funds.

Assets decreased from June 30, 2012-2013 by $26,745,119 or 22.22 percent which is mainly attributed to:

- The deposit of 2012-2013 member contributions for future claims of $15,990,146.

This has been offset by:

- The payment of $31,856,544 for the Loss Portfolio Reinsurance with Third Point Re for the 2003-2004, 2004-2005 and 2005-2006 program years,
- Claims paid during 2012-2013 of $8,251,843, and
- Net payments to the members of $2,831,110 for the 2011-2012, estimated to Actual Payroll Adjustment.

The Investment Portfolio (including money market accounts and prepaid interest) decreased by $42,545,807 due to a transfer from the Investment Portfolio to fund the Loss Portfolio Reinsurance and net investment income and changes in fair value.

Liabilities

PIPS assets are broken out in two sections. One - current liabilities; these are deferred revenue and payables that are anticipated to be utilized/paid within one year. Two - non current liabilities; these are liabilities that are anticipated to become utilized/paid at a future time over one year.

Liabilities decreased from June 30, 2012-2013 by $20,153,225 or 20.69 percent, primarily due to:

- Recognition of the actuarially determined estimated ultimate incurred of $15,370,000 for claims incurred in the 2012-2013 program.

This has been offset by:

- A decrease in claim liabilities of $33,809,126, due to the Loss Portfolio Reinsurance with Third Point Re for the 2003-2004, 2004-2005 and 2005-2006 program years,

- Claims paid during 2012-2013 of $8,251,843.

Unallocated Loss Adjustment Expense (ULAE) or Administrative Runoff is estimated for years eight through 28 for each program year, which is the estimated life of claims. As stated in the PIPS Memorandum of Understanding, the annual PIPS program rates include the cost of claims administration for the first seven years on all claims incurred during each program period. This liability is reevaluated annually based upon the current loss experience and historical factors.

Net Position

As of June 30, 2013, Net Position of $16,401,715 reflects a 28.67 percent decrease over June 30, 2012 of $22,993,609. This is a decrease of $6,591,894 mainly due to:

- Net payments to the members of $2,831,110 for the 2011-2012, estimated to Actual Payroll Adjustment.

- Recognition of the Unallocated Loss Adjustment Expense associated with the 2012-2013 program year of $3,328,169.

Statements of Revenues, Expenditures, and Changes in Net Position

Expenditures exceeded revenues by $6,591,894 or 28.67 percent in 2012-2013, as shown in the Condensed Statement of Revenues, Expenditures, and Changes in Net Position, shown below.

Revenues

Pool operating revenues consist of contributions received from members. Members submit their estimated payroll annually to PIPS. These estimates are used to determine the annual contribution. Individual member contributions are based upon the group rate per $100 of payroll, modified by their experience modification times their estimated payroll. At the end of the program year, PIPS members submit their actual payroll for reconciliation purposes. This reconciliation of estimated to actual payroll will create additional member contribution for some members and refund of member contribution for others.

	Fiscal Year Ended			
	2012	2013	Difference	Percentage
Operating Income				
Member Contributions	$ 183,969,023	$ 187,879,967	$ 3,910,944	2.13 %
Purchased Reinsurance	(151,195,428)	(207,683,605)	(56,488,177)	37.36
Other Income Insurance	1,254	845	(409)	(32.62)
Total Operating Income	32,774,849	(19,802,793)	(52,577,642)	(160.42)
Operating Expenses				
Claims Activity	33,113,499	(14,152,514)	(47,266,013)	(142.74)
Safety Credit	361,333	718,095	356,762	98.73
Administrative Expenses	345,429	633,899	288,470	83.51
Total Operating Expenses	33,820,261	(12,800,520)	(46,620,781)	(137.85)
Net Operating Loss	(1,045,412)	(7,002,273)	(5,956,861)	569.81
Non-Operating Income and (Expenses)				
Total Non-Operating Income	1,280,131	410,379	(869,752)	(67.94)
Net Non-Operating Income and Expenses	1,280,131	410,379	(869,752)	(67.94)
Revenues in Excess of Expenses	234,719	(6,591,894)	(6,826,613)	(2,908.42)
Beginning Net Position	22,758,890	22,993,609	234,719	1.03
Ending Net Position	$ 22,993,609	$ 16,401,715	$ (6,591,894)	(28.67) %

Expenditures

Expenditures for the PIPS program consist of Reinsurance Contribution, Claims Expense, Administrative and Safety Credit expenditures. The Reinsurance Contribution includes reinsurance premium, loss transfer reinsurance, cost of claims administration, integrated loss control services, marketing, underwriting, and financial management and JPA management expenditures. Administrative expenditures are funded from investment income and consist of audit, legal services, and travel expenditures.

Budget

The Board of Directors adopts on or before July 1, a budget estimating the amount of money that will be needed for the ensuing year. A copy of the budget is required to be sent to each of the participating members for review.

	Fiscal Year Ended			
	Budget	Actual	Difference	Percentage
Operating Income				
Member Contributions	$ 191,756,139	$ 187,879,967	$ (3,876,172)	(2.02) %
Purchased Reinsurance	(159,070,512)	(207,683,605)	(48,613,093)	30.56
Other Income	-	845	845	-
Total Operating Income	32,685,627	(19,802,793)	(52,488,420)	(160.59)
Operating Expenses				
Claims Activity	32,480,112	(14,152,514)	(46,632,626)	(143.57)
Safety Credit	395,724	718,095	322,371	81.46
Administrative Expenses	662,548	633,899	(28,649)	(4.32)
Total Operating Expenses	33,538,384	(12,800,520)	(46,338,904)	(138.17)
Net Operating Income/(Loss)	(852,757)	(7,002,273)	(6,149,516)	721.13
Non-Operating Income and (Expenses)				
Total Non-Operating Income	1,342,237	410,379	(931,858)	(69.43)
Net Non-Operating Income and Expenses	1,342,237	410,379	(931,858)	(69.43)
Revenue in Excess of Expenditures	489,480	(6,591,894)	(7,081,374)	(1,446.71)
Beginning Net Position	22,993,609	22,993,609	-	-
Ending Net Position	$ 23,483,089	$ 16,401,715	$ (7,081,374)	(30.16) %

Description of Facts or Conditions That are Expected to Have a Significant Effect on Financial Position or Results of Operations

From a California standpoint the workers' compensation rates continue to increase due to carriers experiencing losses greater than premiums resulting primarily from rapidly increasing medical costs which represents on average over 60 percent of claims costs and continual erosion of the SB899 benefits. Such increases range from five percent to 20 percent depending on an employer's loss experience.

At the time of preparing this opinion the California Legislature was considering enactment of SB863 which is hoped will positively reform the system through various methods, including increasing permanent disability payments for injured workers by $700 million and reducing other systems costs by $1.3 billion. Overall it is estimated that the bill will produce savings of approximately 6.3 percent in 2013, and 3.3 percent in 2014. The bill has support from some large employee and employer groups.

Absence the passage of major reform in the near future it is expected rates for workers' compensation will increase rationally anywhere from five percent to 20 percent. For large public entities however, program rates will also be based on their own experience.

THE PROTECTED INSURANCE PROGRAM FOR SCHOOLS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS	
Current Assets	
Deposits and investments	$ 35,156,999
Accounts receivable	2,494,454
Prepaid interest	208
Investments maturing within one year	12,499,828
Total Current Assets	50,151,489
Non-Current Assets	
Investments, net of amount maturing within one year	43,479,755
Total Non-Current Assets	43,479,755
Total Assets	93,631,244
LIABILITIES	
Current Liabilities	
Accounts payable	7,242,127
Current portion of unpaid claims liability	9,170,444
Current portion of administrative runoff	799,444
Total Current Liabilities	17,212,015
Non-Current Liabilities	
Unpaid claims, net of current portion	32,152,037
Administrative runoff liability	27,865,477
Total Non-Current Liabilities	60,017,514
Total Liabilities	77,229,529
NET POSITION	$ 16,401,715

See accompanying notes to financial statements.

THE PROTECTED INSURANCE PROGRAM FOR SCHOOLS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

OPERATING INCOME	
Member contributions	$ 187,879,967
Purchased insurance	(174,002,836)
Loss portfolio reinsurance	(33,680,769)
Other income	845
Total Operating Income	(19,802,793)
OPERATING EXPENSES	
Claims paid	8,251,843
Provision (credit) for claims liability	(25,147,219)
Provision for administrative runoff	2,742,862
Allocation of Safety Credit Program	718,095
	(13,434,419)
Claims administration	599,204
Administrative expenses	34,695
Total Operating Expenses	(12,800,520)
OPERATING LOSS	(7,002,273)
NON-OPERATING INCOME (EXPENSES)	
Investment income	1,378,691
Realized gains	6,499
Change in fair value of investments	(974,811)
Total Non-Operating Income (Expenses)	410,379
DECREASE IN NET POSITION	(6,591,894)
NET POSITION, BEGINNING OF YEAR	22,993,609
NET POSITION, END OF YEAR	$ 16,401,715

See accompanying notes to financial statements.

THE PROTECTED INSURANCE PROGRAM FOR SCHOOLS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from members and others	$ 187,716,231
Cash paid for claims and settlements	(6,015,770)
Cash paid for excess insurance	(207,683,605)
Cash paid to suppliers for goods and services	(3,418,363)
Net Cash Used in Operating Activities	(29,401,507)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sales proceeds, maturities, etc. of investments	63,536,211
Purchases of investments	(20,098,657)
Interest income	1,497,036
Net Cash Provided by Investing Activities	44,934,590
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,533,083
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,623,916
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 35,156,999
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (7,002,273)
Adjustments to reconcile excess of net loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Increase in receivables	(2,246,009)
Increase in accounts payable	2,260,233
Decrease in deferred revenue	(9,101)
Decrease in claims liability and ULAE	(22,404,357)
Total Adjustments	(22,399,234)
Net Cash Used in Operating Activities	$ (29,401,507)
SUPPLEMENTAL DISCLOSURE	
Noncash Investing and Financing Activities	
increase in fair market value of investments	$ 974,811

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Protected Insurance Program for Schools Joint Powers Authority (PIPS) accounts for its financial transactions in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

A. Reporting Entity

PIPS was formed on June 25, 2003, and became operational on July 1, 2003, under the provisions of Title I, Division 7, Chapter 5, Article 1 (Sections 6500 et seq.) of the *California Government Code*. PIPS was established for the purpose of providing services and other items necessary and appropriate for the establishment, operation and maintenance of a joint program for workers' compensation coverage for public educational agencies.

All public educational entities may apply for membership subject to a two-thirds vote of approval of the Board of Directors. Any member may withdraw after having completed three complete consecutive years as a member subject to provisions of the PIPS joint powers agreement.

PIPS is governed by an elected board. Board members are appointed by participating members' governing boards and have decision making authority, the power to designate management, the ability to significantly influence operations and have primary accountability for fiscal matters.

Participating members pay annual premium contributions for a coverage period beginning July 1. Premiums are recognized as revenue over the period of the contract. Premium receivables are recorded for the applicable balance of unpaid annual premium.

In the event of the dissolution of PIPS, the complete rescission or other final termination of the joint powers authority, the then-participating members would receive a pro rata share of any fund equity or be liable for their share of any debt and liabilities.

PIPS include all funds and account groups that are controlled by or dependent on PIPS' governing board for financial reporting purposes. PIPS has considered all potential component units in determining how to define the reporting entity, using criteria set forth in accounting principles generally accepted in the United States of America. PIPS determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

B. Basis of Accounting

The accompanying financial statements are presented as a proprietary fund on the accrual basis of accounting in accordance with Governmental Generally Accepted Accounting Principles. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses and related liabilities are recognized when the obligation is incurred. Operating revenues include member contributions net of any applicable rate credits. Operating expenses include the provision for claims and claims adjustment expenses, insurance premiums, premium rebates, and general and administrative expenses. All other revenues and expenses are considered non-operating.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, PIPS has elected to apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. PIPS has elected not to apply FASB pronouncements issued after November 30, 1989, when preparing the financial statements.

C. Budget and Budgetary Accounting

Annually, the Board of Directors adopts a budget that is subject to amendment throughout the year to give consideration to unanticipated revenue and expenses primarily resulting from events unknown at the time of budget adoption.

D. Use of Estimates

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

E. Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less. For purposes of the cash flow statement, investments with the Local Agency Investment Fund and Bank Deposit Sweep Accounts are considered cash equivalents.

F. Investment and Investment Pools

PIPS records its investments at fair value and cash in Local Agency Investment Fund (LAIF) at cost which approximates fair value. Changes in fair value are reported as revenue in the statement of revenues, expenses and changes in net assets. The effect of recording investments and investment pools at fair value is reflected as a net change in the fair value of investments on the statement of revenues, expenses, and changes in net assets.

Fair value of investments has been determined based on quoted market prices. PIPS investments in investment pools have been valued based on the relative fair value of the entire external pools to the external pool's respective amortized cost.

G. Accounts Receivable

Accounts receivable generally includes investment earnings on deposits and member contributions. Management has analyzed these accounts and believes all amounts are fully collectible.

H. Allowance for Doubtful Accounts

An allowance for doubtful accounts has not been established, as it is PIPS' policy to use the direct write-off method for accounts deemed to be uncollectible.

I. Unpaid Claims Liabilities

PIPS establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

J. Reinsurance

The PIPS Joint Powers Authority is a workers' compensation self-insurance pool. Its members are permissibly self-insured public agencies and as such may buy insurance or reinsurance to transfer some or all of the risks of the program. On an annual basis the PIPS Board of Directors reviews various options for retaining or transferring some or all of the risks of each year's program and selects from these the one best suited to meet the goals of the program. The following structure was approved for the 2012-2013 program year:

1. Reinsurance coverage for losses from $0 to $100,000 per occurrence was purchased through two reinsurers with PIPS also retaining a portion. The percentage of participation of each reinsurer is specified below:

   - ACE Tempest Re USA (90 percent),
   - Meritage (5 percent), and
   - PIPS retained (5 percent).

2. Reinsurance coverage for losses from $100,000 to $250,000 per occurrence was purchased through one reinsurer with PIPS retaining an annual aggregate deductible of $7 million. The participation of each is specified below:

   - Wesco Insurance Company aggregate to $35 million, and
   - 70 percent probability level, undiscounted annual aggregate deductible.

3. Excess Insurance was purchased from Wesco Insurance Company for all losses up to $1,000,000 excess of $250,000 per occurrence.

4. Reinsurance coverage was purchased for all losses up to $10,000,000 excess of $1,000,000 per occurrence through one reinsurer, Safety National Casualty with PIPS retaining an annual aggregate deductible of $4 million.

5. Excess insurance was purchased from Star Insurance for all losses up to $155,000 excess of $10,000,000 per occurrence on an unaggregated basis.

K. Income Taxes

PIPS is not subject to income taxes pursuant to Section 115 of the Internal Revenue Code and the corresponding section of the California Revenue and Taxation Code.

L. Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The Authority has implemented the provisions of this Statement for the year ended June 30, 2013.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

Deposits and Investments as of June 30, 2013, consist of the following:

Cash in banks	$ 31,545,897
Investments classified as cash equivalents:	
Wells Fargo Bank deposit accounts	2,578,170
Investment in State investment pool	1,032,932
Total Investments Classified as Cash Equivalents	3,611,102
Total Deposits and Investments	$ 35,156,999

B. Investments

Investments as of June 30, 2013, are classified as follows:

Investments maturing within one year	$ 12,499,828
Investments maturing after one year	43,479,755
Total Investments	$ 55,979,583

C. Policies and Practices

PIPS is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

D. Investment in the State Investment Pool

PIPS is a voluntary participant in the LAIF that is regulated by *California Government Code* Section 16429 under the oversight of the Treasurer of the State of California. The fair value of PIPS' investment in the pool is reported in the accompanying financial statement at amounts based upon PIPS' pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis. For additional information visit LAIF's website at: www.treasurer.ca.gov/pmia-laif.

E. General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

F. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. PIPS manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of PIPS cash equivalents and investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of PIPS investment by maturity:

Cash/Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
Well's Fargo Bank deposit accounts	$ 2,578,170	$ 2,578,170	$ -	$ -
State Investment Pool	1,032,932	1,032,932	-	-
Subtotal	3,611,102	3,611,102	-	-
Corporate Bonds	12,971,808	2,136,762	3,755,375	7,079,671
Government Bonds	33,148,302	9,636,552	15,214,049	8,297,701
Government-Backed Securities	9,108,740	726,514	-	8,382,226
Foreign Bonds	750,733	-	-	750,733
Subtotal	55,979,583	12,499,828	18,969,424	24,510,331
Total	$ 59,590,685	$ 16,110,930	$ 18,969,424	$ 24,510,331

G. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the *California Government Code*, PIPS' investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

	Fair	Rating as of Year-End				
Cash/Investment Type	Value	AAA	AA	A	Unrated	
Bank Deposit Accounts	$ 2,578,170	$ -	$ -	$ -	$ 2,578,170	
State Investment Pool	1,032,932	-	-	-	1,032,932	
Corporate Bonds	12,971,808	882,998	2,685,412	9,403,398	-	
Government Bonds	33,148,302	33,148,302	-	-	-	
Government-Backed Securities	9,108,740	-	-	-	9,108,740	*
Foreign Bonds	750,733	-	750,733	-	-	
Total	$ 59,590,685	$ 34,031,300	$ 3,436,145	$ 9,403,398	$ 12,719,842	

*__Unrated Securities:__ Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) senior debt instruments issued by Government Sponsored Enterprises (GSE's) are currently aligned with the AAA U.S. Government rating. Although at present there is a lack of formal explicit guarantee, PIPS believes the U.S. Government will stand behind and support obligations for these large GSE's; therefore, there is very strong support underlying the government backing of Fannie Mae and Freddie Mac (leaving their bondholders as protected as creditors of the U.S. Government itself), and their respective outlooks reflect the stable outlook of the U.S. Government.

H. Concentration of Credit Risk

The investment policy of PIPS contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the *California Government Code*. At June 30, 2013, investments in any one issuer that represent five percent or more of the total investments included U.S. Treasury Notes (21 percent), Federal National Mortgage Association Notes (22 percent), Federal Home Loan Mortgage Corporation Notes (11 percent), and Federal National Mortgage Association (FNMA) Pass Thru (16 percent).

I. Custodial Credit Risk

Deposits (Banks)

This is the risk that in the event of a bank failure, PIPS deposits may not be returned to it. PIPS does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, PIPS' bank balance $31,045,897 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of PIPS.

Bank Deposit Sweep Accounts

PIPS maintains an investment account with their money manager, which consists of bank deposit sweep accounts, government-backed securities, and government bonds. This account is insured up to $500,000 by the Securities Investor Protection Corporation (SIPC) at June 30, 2013. Bank deposit sweep accounts are deposited with one or more affiliated banks to $250,000 maximum for each account, for FDIC insurance purposes.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013, consist of the following:

Accrued investment income	$ 248,445
Member contributions	246,009
Trust accounts	2,000,000
Total Accounts Receivable	$ 2,494,454

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consists of the following:

Accounts payable	$ 1,833,280
Claims payable	320,863
Reinsurance payable	1,808,392
Safety credit payable	3,108,065
Member contributions payable	171,527
Total	$ 7,242,127

NOTE 5 - RECONCILIATION OF CLAIMS LIABILITY

As discussed in Note 1, PIPS establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related legal expenses. The following represents changes in those aggregate liabilities for PIPS during the fiscal year ended June 30:

	2013	2012
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 66,469,700	$ 44,488,701
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	15,370,000	34,140,344
Increases in provision for insured events of prior fiscal years	(32,265,376)	(5,484,852)
Total Incurred Claims and Claim Adjustment Expenses	(16,895,376)	28,655,492
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	1,289,679	1,123,550
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	6,962,164	5,550,943
Total Payments	8,251,843	6,674,493
Total unpaid claims and claim adjustment expenses at end of fiscal year	$ 41,322,481	$ 66,469,700

The components of the unpaid claims expenses as of June 30, 2013 and 2012 were as follows:

	2013	2012
Claims liability	$ 41,322,481	$ 66,469,700
Current portion	(9,170,444)	(11,000,000)
Total	$ 32,152,037	$ 55,469,700

At June 30, 2013 and 2012, estimated unpaid losses of $50,346,065 and $80,872,205, respectively, are reflected at their net present values of $41,322,481 and $66,469,700, respectively. At June 30, 2013 and 2012, unpaid losses for workers' compensation are discounted at 2.0 percent and 2.0 percent, respectively.

NOTE 6 - NET POSITION

Net position is composed of the following elements as of June 30, 2013:

Designated	
Capital target	$ 3,839,341
Undesignated	12,562,374
Total Net Position	$ 16,401,715

NOTE 7 - COMMITMENTS AND CONTINGENCIES

During the fiscal year 2012-2013 PIPS entered into certain "Per Occurrence Loss Portfolio Reinsurance Contracts" with Third Point Reinsurance Company LTD (Third Point). The purpose of these contacts was to transfer all future liabilities PIPS had previously retained for unpaid losses from $0 - $250,000 for the program years 2003-2004 and 2004-2005, and $250,000 - $1,000,000 for the 2005-2006 program year. While the coverage amount provided by Third Point is limited versus unlimited, it exceeds what the actuary has determined is the 99 percent Probability Level estimate of the value of these unpaid future liabilities. As a result, all future liabilities for these program years have been removed, as it is the opinion of PIPS that the chance of these losses exceeding the coverage amount provided by Third Point Reinsurance is remote. The total payments made during 2012-2013 for this loss portfolio reinsurance was $33,680,769.

REQUIRED SUPPLEMENTARY INFORMATION

THE PROTECTED INSURANCE PROGRAM FOR SCHOOLS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2013

The following table illustrates how PIPS' earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by PIPS as of the end of each of the past years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of PIPS including overhead and claims expense not allocable to individual claims. (3) This line shows PIPS' gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy year*). (4) This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year. (6) This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.) (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

THE PROTECTED INSURANCE PROGRAM FOR SCHOOLS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

LOSS DEVELOPMENT
JUNE 30, 2013

	2004*, **	2005**	2006
(1) Required contribution and investment revenues:			
Earned	$ 151,071,509	$ 185,603,634	$ 209,803,492
Ceded	119,625,256	133,832,798	190,553,997
Net earned	31,446,253	51,770,836	19,249,495
(2) Unallocated expenses	13,829	16,263	17,056
(3) Estimated claims and expenses, end of policy year			
Incurred	120,600,000	134,300,000	159,400,000
Ceded	120,600,000	134,300,000	148,400,000
Net incurred	-	-	11,000,000
(4) Net paid (cumulative) as of:			
End of policy year	-	-	-
One year later	-	-	-
Two years later	-	919,950	-
Three years later	-	2,745,819	18,868
Four years later	-	54,459,467	225,247
Five years later	68,985,023	59,139,722	807,380
Six years later	74,144,432	61,730,697	1,358,238
Seven years later	77,362,835	64,231,778	-
Eight years later	79,671,474	-	
Nine years later	-		
(5) Re-estimated ceded claims and expenses	13,639,567	16,905,789	76,853,662
(6) Re-estimated net incurred claims and expenses			
End of policy year	-	-	11,000,000
One year later	-	-	8,900,000
Two years later	-	-	10,500,000
Three years later	-	22,787,500	11,200,000
Four years later	-	82,600,000	11,800,000
Five years later	93,400,000	81,300,000	12,300,000
Six years later	93,100,000	79,650,000	13,050,000
Seven years later	72,750,000	79,150,000	13,050,000
Eight years later	92,650,000	79,150,000	
Nine years later	92,650,000		
(7) (Increase) decrease in estimated incurred claims and expenses from end of policy year	$ (92,650,000)	$ (79,150,000)	$ (2,050,000)

* $42,572,460 of commutation return of premium added to 2004-2005 earned contribution. $21,036,230 of Meritage commutation added to Ceded expenses for 2004-2005.

** Effective June 30, 2009, PIPS assumed 100 percent retention for $0-$250 thousand layer with commutation of premium from Berkshire and Meritage in the amount of $57,192,450.

June 30,						
2007	2008	2009	2010	2011	2012	2013
$ 230,147,861	$ 182,642,892	$ 225,243,188	$ 193,882,949	$ 177,094,963	$ 185,250,408	$ 188,291,191
224,709,891	182,387,070	224,113,577	193,867,700	170,199,241	151,195,428	207,683,605
5,437,970	255,822	1,129,611	15,249	6,895,722	34,054,980	(19,392,414)
21,791	25,308	28,975	31,056	21,938,398	5,164,769	4,094,856
141,700,000	133,440,000	119,290,000	152,900,000	138,550,000	149,946,957	190,740,275
137,300,000	133,440,000	117,620,000	152,900,000	134,342,500	115,806,613	175,370,275
4,400,000	-	1,670,000	-	4,207,500	34,140,344	15,370,000
-	-	-	-	1,074,668	1,123,550	1,289,679
174,800	-	-	-	2,372,773	3,041,628	
738,503	-	-	-	3,078,309		
1,227,623	-	-	-			
4,042,354	-	-				
4,042,826	-					
4,044,319						
89,642,643	98,661,572	106,362,735	99,378,409	95,401,323	115,806,613	175,370,275
4,400,000	-	1,670,000	-	4,207,500	34,140,344	15,370,000
4,400,000	-	1,690,000	-	4,372,500	34,472,500	
4,300,000	-	1,630,000	-	4,597,500		
6,650,000	-	1,660,000	-			
8,750,000	-	1,210,000				
8,650,000	-					
6,150,000						
$ (1,750,000)	$ -	$ 460,000	$ -	$ (390,000)	$ (332,156)	$ -

INDEPENDENT AUDITORS' REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board
The Protected Insurance Program for Schools
Joint Powers Authority
Torrance, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Protected Insurance Program for Schools Joint Powers Authority (PIPS) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise The Protected Insurance Program for Schools' basic financial statements, and have issued our report thereon dated January 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Protected Insurance Program for Schools Joint Powers Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Protected Insurance Program for Schools internal control. Accordingly, we do not express an opinion on the effectiveness of The Protected Insurance Program for Schools Joint Powers Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of PIPS' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Protected Insurance Program for Schools financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PIPS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PIPS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 28, 2014

Schedule of Findings

PROTECTED INSURANCE PROGRAM FOR SCHOOLS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

There were no findings related to the financial statements that are required to be reported in accordance with *Governmental Auditing Standards*.

PROTECTED INSURANCE PROGRAM FOR SCHOOLS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

There were no audit findings reported in the prior year's schedule of financial statement findings.