



**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Financial Statements and Supplementary Schedules

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

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Independent Auditors' Report

The Board of Directors
California State University Risk Management Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the California State University Risk Management Authority (the Authority), a component unit of the California State University (University), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California State University Risk Management Authority as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 7 and the claims development information on Schedule 14 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Schedules 1 through 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1 through 13 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 through 13 are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Irvine, California
September 22, 2016

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Management's Discussion and Analysis

June 30, 2016 and 2015

(Unaudited)

The following discussion and analysis provides an overview of the financial position and performance of the California State University Risk Management Authority (the Authority) as of and for the years ended June 30, 2016 and 2015. It is designed to assist the readers in focusing on financial overview and analysis of the financial activities of the Authority. The discussion has been prepared by management and should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

Overview of the Financial Statements

The financial statements of the Authority as of and for the years ended June 30, 2016 and 2015 have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended by GASB Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. For reporting purposes, the Authority is considered a special-purpose government engaged in business-type activities.

The Authority's financial statements consist of the independent auditors' report, management's discussion and analysis, the basic audited financial statements, notes to the financial statements, supplementary information, and required supplementary information. The Authority's basic financial statements are the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

Statement of Net Position – The Statement of Net Position presents the financial position of the Authority at the end of the fiscal year and includes all assets and liabilities of the Authority. The difference between total assets and total liabilities, net position, is one indicator of the current financial condition of the Authority, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

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Management's Discussion and Analysis

June 30, 2016 and 2015

(Unaudited)

A summary of the Authority's assets, liabilities, and net position at June 30, 2016 and 2015 is as follows:

Condensed Schedules of Net Position

June 30, 2016, 2015 and 2014

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|------------------------|----------------------|--------------------|--------------------|
| Assets: | | | |
| Current assets | \$ 43,574,000 | 40,301,000 | 45,147,000 |
| Noncurrent assets | <u>137,713,000</u> | <u>134,340,000</u> | <u>131,941,000</u> |
| Total assets | <u>181,287,000</u> | <u>174,641,000</u> | <u>177,088,000</u> |
| Liabilities: | | | |
| Current liabilities | 29,769,000 | 33,115,000 | 39,953,000 |
| Noncurrent liabilities | <u>64,063,000</u> | <u>75,465,000</u> | <u>76,399,000</u> |
| Total liabilities | <u>93,832,000</u> | <u>108,580,000</u> | <u>116,352,000</u> |
| Net position: | | | |
| Unrestricted | <u>87,455,000</u> | <u>66,061,000</u> | <u>60,736,000</u> |
| Total net position | <u>\$ 87,455,000</u> | <u>66,061,000</u> | <u>60,736,000</u> |

Assets

The Authority's assets totaled \$181,287,000 on June 30, 2016, an increase of \$6,646,000, or 4% as compared to the previous year. The increase is mainly attributed to the increase in investments and other long-term investments (note 3) of \$28,675,000 and 4,036,000, respectively, due to the timing of the prepayment for California State Association of Counties Excess Insurance Authority (CSAC EIA or the EIA). Prepaid expenses decreased by \$26,552,000 due to the timing of payment as previously noted. The Authority's investments represent 94% and 78% of total assets as of June 30, 2016 and 2015, respectively, and consist of the Authority's share of the CSU Consolidated Investment Pool and investments held in Morgan Stanley Smith Barney. There were no significant changes in 2015 compared to 2014.

Liabilities

The Authority's liabilities totaled \$93,832,000 on June 30, 2016, a decrease of \$14,748,000, or 14% as compared to the previous year. This is primarily due to the enrollment in the EIA, effective January 1, 2015, resulting in a decrease in claims liability, current and noncurrent, in the amount of \$13,708,000. The EIA is responsible for all covered losses within the amount of the self-insurance layer for the campus and Auxiliary Organizations Risk Management Alliance (AORMA) workers' compensation program (note 7), thus, the Authority is not liable for the layers covered by the EIA. Claims liability, current and noncurrent, represents 84% and 85% of the total liabilities

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June 30, 2016 and 2015

(Unaudited)

as of June 30, 2016 and 2015, respectively. As explained above, during 2015 the Authority joined the EIA, which resulted in decreased liability between 2015 and 2014 (note 7). There were no other significant events during 2015.

Net Position

Net position may serve over time as a useful indicator of the Authority's financial position. Net position represents the residual measure of assets net of liabilities. Net position fluctuates annually due to the Authority's operating results for a given fiscal year as well as investment income. The Authority's net position is all classified as unrestricted. Unrestricted net position may be designated for use by the Authority.

The Authority's net position totaled \$87,455,000 on June 30, 2016, an increase of \$21,394,000, or 32%, as compared to the previous year. This is primarily due to a decrease in claim losses and loss adjustment expenses and a decrease in claims liabilities, current and noncurrent, as discussed above. There were no significant changes in 2015 compared to 2014.

Statement of Revenues, Expenses, and Changes in Net Position – The Statement of Revenues, Expenses, and Changes in Net Position is the Authority's income statement. Revenues earned and expenses incurred during the year on an accrual basis are classified as either operating or nonoperating. It presents the results of the Authority's operations and changes in its net position over the course of the fiscal year.

A summary of the Authority's statement of revenues, expenses, and changes in net position is as follows:

Condensed Schedules of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016, 2015 and 2014

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---------------------------------|-----------------------------|--------------------------|--------------------------|
| Operating revenues | \$ 93,477,000 | 88,376,000 | 78,555,000 |
| Operating expenses | <u>76,716,000</u> | <u>84,800,000</u> | <u>83,314,000</u> |
| Operating income (loss) | 16,761,000 | 3,576,000 | (4,759,000) |
| Nonoperating revenues | <u>4,633,000</u> | <u>1,749,000</u> | <u>3,754,000</u> |
| Change in net position | 21,394,000 | 5,325,000 | (1,005,000) |
| Net position, beginning of year | <u>66,061,000</u> | <u>60,736,000</u> | <u>61,741,000</u> |
| Net position, end of year | <u><u>\$ 87,455,000</u></u> | <u><u>66,061,000</u></u> | <u><u>60,736,000</u></u> |

Operating Revenues and Expenses

During fiscal year 2016, the operating revenues totaled \$93,477,000, an increase of \$5,101,000, or 6% which is primarily due to an increase in member contributions (note 6). The increase in contributions is mainly due to

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June 30, 2016 and 2015

(Unaudited)

recommended funding for the campus covered programs and is calculated by an independent actuarial firm employed by the Authority (note 2 g). During fiscal year 2015, the operating revenues totaled \$88,376,000, an increase of \$9,821,000, or 13%, which is primarily due to an increase in member contributions and a decrease in reinsurance premiums. Member contributions increased during 2015 consistent to the increase during 2016, as previously noted. Reinsurance premiums decreased during 2015 due to the reduced payments of campus and AORMA property premiums from \$10,636,000 to \$5,852,000.

During fiscal year 2016, operating expenses totaled \$76,716,000, a decrease of \$8,084,000 or 10% as compared to the previous year. The decrease is primarily due to a decrease in claim losses and loss adjustment expenses in the amount of \$22,747,000 which is offset by an increase in insurance premiums of \$14,799,000. The increase in insurance premiums is primarily due to excess insurance premiums paid to the EIA.

Operating expenses consist of claim losses and loss adjustment expenses of \$17,175,000, claims administration of \$8,717,000, insurance premiums of \$38,676,000, dividend distributions of \$9,672,000, general and administrative of \$1,415,000, and miscellaneous services of \$1,061,000. Claim losses and loss adjustment expenses include actual claim payments made as well as adjustments for reserves on claims. Claim case reserves are adjusted as claims develop and mature and more information about potential loss amounts is known. Reserves for claims incurred but not reported (IBNR), as determined by independent actuaries, are also included in this expense category. Claims administration includes expenses incurred by the Authority for claims administrative fees, program administrator, and brokerage commissions. Dividend distributions represent the return of contributions to CSU campuses and Auxiliary Organization members. In providing insurance coverage and risk management services to its members, the Authority incurs general and administrative and miscellaneous services expenses that are budgeted and approved by the Board of Directors annually.

Nonoperating Revenues

During fiscal year 2016, the nonoperating revenues totaled \$4,633,000, an increase of \$2,884,000, or 165% which is primarily due to the increase in investment income from the investment portfolio where the Authority's investments are held (note 3). During fiscal year 2015, nonoperating revenues totaled \$1,749,000, a decrease of \$2,005,000 or 53% which is primarily due to a decrease in investment income earned.

Factors Impacting Future Periods

With respect to current facts, conditions, or decisions that may impact the financial position of the Authority, there are no known issues either internal to the Authority nor the external environment that are expected to materially impact the organization. However, there are trends that may influence the membership and developments in the commercial insurance market that warrant notice.

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(Unaudited)

The Authority has a limited pool of membership consisting of the California State University (the CSU or University) and its not-for-profit Auxiliary Organizations. The University and Auxiliary Organizations are subject to economic trends which impact funding, operations, and grants and contracts. To the extent the CSU experiences a negative fiscal environment this can impact the funding of certain Auxiliary Organizations. In addition, a negative fiscal environment does not necessarily reduce the cost of Authority's programs and may actually result in higher claims, such as unemployment insurance claims. The Authority has adopted conservative funding practices to protect the organization from a negative fiscal environment.

The California workers' compensation operating environment continues to be challenging due primarily to increases in the cost of medical care and prescription drugs combined with an aging workforce. To combat increasing costs to settle workers' compensation claims, the Authority has implemented a Workers' Compensation Claims Management and Return to Work Program, as well as an ongoing claims closure initiative.

Generally, the commercial insurance and reinsurance market is stable with a favorable outlook due in large part to catastrophic property claims being well below the average for the past ten years. However, weather extremes, catastrophic loss and investment earnings are areas of concern for commercial insurance carriers. The market for excess liability for California public entities has begun to firm following several years of softening. This is largely due to a significant rise in the cost of claims, especially those involving employment practices and injuries to minors. The Authority has managed this risk by developing long term underwriting relationships and attracting new markets to the program.

Funds are invested by the Authority to pay expected claims in the pooled programs. The valuation of claims liabilities is discounted based on assumed investment earning rates. A divergence in the rate assumed for discounting claims liabilities and investment earnings can affect the ultimate claims liability recorded in the financial statements. To guard against possible divergence, the dividend calculations utilized to return excess funds to the membership use a more conservative calculation of equity.

The rates charged by the Authority for member contributions for the future year are generally not expected to change significantly; however, the Auxiliary Organization Liability Program membership may see a larger rate increase due to an increased employment loss trend and the impact of two catastrophic claims incurred in fiscal year 2014 (both claims are paid and closed with no outstanding liability). In the May 2016 Board of Director's meeting, the fiscal year 2017 budget was approved for operating revenues of \$91,123,000 and operating expenses of \$89,432,000.

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Statements of Net Position

June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---------------|-------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 88,000 | — |
| Investments (note 3) | 35,579,000 | 6,904,000 |
| Accounts receivable | 2,505,000 | 800,000 |
| Loans receivable from affiliates, current portion (note 4) | 1,048,000 | 1,136,000 |
| Interest receivable | 5,000 | 4,000 |
| Prepaid expenses | 4,152,000 | 30,704,000 |
| Reinsurance recoverable – workers’ compensation | 197,000 | 753,000 |
| Total current assets | 43,574,000 | 40,301,000 |
| Noncurrent assets: | | |
| Loans receivable from affiliates, net of current portion (note 4) | 3,569,000 | 4,232,000 |
| Other long-term investments (note 3) | 134,144,000 | 130,108,000 |
| Total noncurrent assets | 137,713,000 | 134,340,000 |
| Total assets | 181,287,000 | 174,641,000 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | 5,319,000 | 4,999,000 |
| Unearned revenues | 40,000 | 37,000 |
| SELF assessment liability, current portion (note 9) | 1,364,000 | 1,364,000 |
| Claims liability for losses and loss adjustment expenses – current portion (note 5): | | |
| Reported claims | 13,672,000 | 15,058,000 |
| Claims incurred but not reported | 9,374,000 | 11,657,000 |
| Total current liabilities | 29,769,000 | 33,115,000 |
| Noncurrent liabilities: | | |
| SELF assessment liability, net of current portion (note 9) | 8,182,000 | 9,545,000 |
| Claims liability for losses and loss adjustment expenses – noncurrent portion (note 5): | | |
| Reported claims | 33,152,000 | 37,156,000 |
| Claims incurred but not reported | 22,729,000 | 28,764,000 |
| Total noncurrent liabilities | 64,063,000 | 75,465,000 |
| Total liabilities | 93,832,000 | 108,580,000 |
| Net position: | | |
| Unrestricted | 87,455,000 | 66,061,000 |
| Total net position | \$ 87,455,000 | 66,061,000 |

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of California State University

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

| | 2016 | 2015 |
|--|----------------|-------------|
| Operating revenues: | | |
| Member contributions (note 6) | \$ 100,363,000 | 95,248,000 |
| Reinsurance premiums (note 7) | (6,886,000) | (6,872,000) |
| Total operating revenues | 93,477,000 | 88,376,000 |
| Operating expenses: | | |
| Claim losses and loss adjustment expenses (note 5) | 17,175,000 | 39,922,000 |
| Claims administration | 8,717,000 | 9,000,000 |
| Insurance premiums | 38,676,000 | 23,877,000 |
| Dividend distributions (note 6) | 9,672,000 | 9,857,000 |
| General and administrative | 1,415,000 | 1,142,000 |
| Miscellaneous services | 1,061,000 | 1,002,000 |
| Total operating expenses | 76,716,000 | 84,800,000 |
| Operating income | 16,761,000 | 3,576,000 |
| Nonoperating revenues: | | |
| Investment income, net | 4,570,000 | 1,664,000 |
| Interest income from loans | 63,000 | 85,000 |
| Total nonoperating revenues | 4,633,000 | 1,749,000 |
| Increase in net position | 21,394,000 | 5,325,000 |
| Net position, beginning of year | 66,061,000 | 60,736,000 |
| Net position, end of year | \$ 87,455,000 | 66,061,000 |

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---------------|---------------|
| Cash flows from operating activities: | | |
| Receipts of member contributions | \$ 99,076,000 | 94,745,000 |
| Payments to providers | (31,147,000) | (69,717,000) |
| Payments of claims | (30,743,000) | (45,736,000) |
| Dividend distribution to pool participants | (9,770,000) | (10,502,000) |
| Net cash provided by (used in) operating activities | 27,416,000 | (31,210,000) |
| Cash flows from noncapital and related financing activities: | | |
| Loans disbursed to related entities | (1,000,000) | (2,339,000) |
| Payments received on loans to related entities | 1,751,000 | 1,979,000 |
| Loan interest income received | 63,000 | 89,000 |
| Net cash provided by (used in) noncapital and related financing activities | 814,000 | (271,000) |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 651,608,000 | 653,665,000 |
| Purchases of investments | (683,418,000) | (624,206,000) |
| Investment income, net | 4,570,000 | 1,664,000 |
| Unrealized (gains) losses | (902,000) | 358,000 |
| Net cash (used in) provided by investing activities | (28,142,000) | 31,481,000 |
| Net change in cash and cash equivalents | 88,000 | — |
| Cash and cash equivalents at beginning of year | — | — |
| Cash and cash equivalents at end of year | \$ 88,000 | — |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 16,761,000 | 3,576,000 |
| Adjustments to reconcile net operating income to net cash provided by (used in) operating activities: | | |
| Changes in assets and liabilities: | | |
| Decrease (increase) in prepaid expenses | 26,552,000 | (26,507,000) |
| Increase in accounts receivable | (1,705,000) | (506,000) |
| Decrease (increase) in reinsurance recoverable – workers’ compensation | 556,000 | (1,000) |
| Increase (decrease) in accounts payable | 320,000 | (602,000) |
| Increase in unearned revenues | 3,000 | 4,000 |
| Decrease in SELF assessment liability | (1,363,000) | (1,360,000) |
| Decrease in claims liability for losses and loss adjustment expenses | (13,708,000) | (5,814,000) |
| Net cash provided by (used in) operating activities | \$ 27,416,000 | (31,210,000) |

See accompanying notes to financial statements.

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A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2016 and 2015

(1) Organization

On January 1, 1997, the University and certain Auxiliary Organizations of the University established the California State University Risk Management Authority pursuant to the provisions of Section 6500 et seq. of the California Government Code (the Code). The Code authorizes the CSU and Auxiliary Organizations to establish and operate pooled coverage programs and to provide related services. The Authority provides entity risk pooling programs for workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, property, construction, and other risk-related programs for its member organizations (the Members). Members participating in the Authority's coverage programs at June 30, 2016 and 2015 are as follows:

| <u>Campus location</u> | <u>Members</u> |
|------------------------|--|
| Bakersfield | California State University, Bakersfield |
| Bakersfield | Associated Students, California State University, Bakersfield, Inc. |
| Bakersfield | California State University, Bakersfield Auxiliary for Sponsored Programs Administration |
| Bakersfield | California State University, Bakersfield Foundation |
| Bakersfield | California State University, Bakersfield Student Union, Inc. |
| Chancellor's Office | Office of the Chancellor |
| Chancellor's Office | California State University Foundation |
| Chancellor's Office | California State University Institute |
| Channel Islands | California State University, Channel Islands |
| Channel Islands | Associated Students of California State University, Channel Islands, Inc. |
| Channel Islands | California State University Channel Islands Foundation |
| Channel Islands | University Glen Corporation |
| Chico | California State University, Chico |
| Chico | Associated Students of California State University, Chico |
| Chico | Auxiliary Organization Associations |
| Chico | The CSU, Chico Research Foundation |
| Chico | The University Foundation, California State University, Chico |
| Dominguez Hills | California State University, Dominguez Hills |
| Dominguez Hills | Associated Students, California State University, Dominguez Hills |
| Dominguez Hills | California State University, Dominguez Hills Foundation |
| Dominguez Hills | CSU Dominguez Hills Philanthropic Foundation* |
| Dominguez Hills | Loker University Student Union, Incorporated |
| East Bay | California State University, East Bay |
| East Bay | Associated Students, California State University, East Bay |
| East Bay | Cal State East Bay Educational Foundation |
| East Bay | California State University, East Bay Foundation, Inc. |
| Fresno | California State University, Fresno |
| Fresno | Associated Students, Inc. of California State University, Fresno |
| Fresno | California State University, Fresno Association, Inc. |
| Fresno | California State University, Fresno Foundation |

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Notes to Financial Statements

June 30, 2016 and 2015

| <u>Campus location</u> | <u>Members</u> |
|------------------------|---|
| Fresno | Fresno State Programs for Children, Inc. |
| Fresno | The Agricultural Foundation of California State University, Fresno |
| Fresno | The California State University, Fresno Athletic Corporation |
| Fullerton | California State University, Fullerton |
| Fullerton | Associated Students, California State University, Fullerton, Inc. |
| Fullerton | Cal State Fullerton Philanthropic Foundation |
| Fullerton | CSU Fullerton Auxiliary Services Corporation |
| Humboldt | Humboldt State University |
| Humboldt | Associated Students, Humboldt State University |
| Humboldt | Humboldt State University Advancement Foundation |
| Humboldt | Humboldt State University Center Board of Directors |
| Humboldt | Humboldt State University Sponsored Programs Foundation |
| Long Beach | California State University, Long Beach |
| Long Beach | Associated Students, California State University, Long Beach |
| Long Beach | California State University, Long Beach Research Foundation |
| Long Beach | CSULB 49er Foundation |
| Long Beach | Forty-Niner Shops, Inc., CSU Long Beach |
| Los Angeles | California State University, Los Angeles |
| Los Angeles | Associated Students, California State University, Los Angeles, Inc. |
| Los Angeles | Cal State L.A. University Auxiliary Services, Inc. |
| Los Angeles | California State University, Los Angeles Foundation |
| Los Angeles | University-Student Union Board, California State University, Los Angeles |
| Maritime Academy | California Maritime Academy |
| Maritime Academy | California Maritime Academy Foundation, Inc. |
| Maritime Academy | The Associated Students of the California Maritime Academy |
| Monterey Bay | California State University, Monterey Bay |
| Monterey Bay | Foundation of California State University, Monterey Bay |
| Monterey Bay | The University Corporation at Monterey Bay |
| Northridge | California State University, Northridge |
| Northridge | Associated Students, California State University, Northridge, Inc. |
| Northridge | California State University, Northridge Foundation |
| Northridge | North Campus University Park Development Corporation |
| Northridge | The University Corporation, CSU Northridge |
| Northridge | University Student Union of California State University, Northridge |
| Pomona | California State Polytechnic University, Pomona |
| Pomona | Associated Students Inc., California State Polytechnic University, Pomona |
| Pomona | The Cal Poly Pomona Foundation, Inc. |
| Sacramento | California State University, Sacramento |
| Sacramento | Associated Students of California State University, Sacramento |
| Sacramento | Capital Public Radio, Inc., CSU Sacramento |
| Sacramento | The University Foundation at Sacramento State |
| Sacramento | University Enterprises, Inc., CSU Sacramento |
| Sacramento | University Union Operation of CSUS, Inc. |

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| <u>Campus location</u> | <u>Members</u> |
|------------------------|---|
| San Bernardino | California State University, San Bernardino |
| San Bernardino | Associated Students Inc., California State University, San Bernardino |
| San Bernardino | CSUSB Philanthropic Foundation |
| San Bernardino | Santos Manuel Student Union of California State University, San Bernardino |
| San Bernardino | University Enterprises Corporation at CSUSB |
| San Diego | San Diego State University |
| San Diego | Associated Students, San Diego State University |
| San Diego | Aztec Shops, Ltd., San Diego State University |
| San Diego | San Diego State University Research Foundation |
| San Diego | The Campanile Foundation |
| San Francisco | San Francisco State University |
| San Francisco | Associated Students, Inc., San Francisco State University |
| San Francisco | San Francisco State University Foundation |
| San Francisco | The University Corporation, San Francisco State |
| San Jose | San Jose State University |
| San Jose | Associated Student, San Jose State University |
| San Jose | San Jose State University Research Foundation |
| San Jose | Spartan Shops, Inc., San Jose State University |
| San Jose | The Student Union of San Jose State University |
| San Jose | The Tower Foundation, San Jose State University |
| San Luis Obispo | California Polytechnic State University, San Luis Obispo |
| San Luis Obispo | Associated Students, Inc., California Polytechnic State University at San Luis Obispo |
| San Luis Obispo | Cal Poly Corporation |
| San Luis Obispo | California Polytechnic State University Foundation |
| San Marcos | California State University, San Marcos |
| San Marcos | California State University San Marcos Foundation |
| San Marcos | San Marcos University Corporation |
| San Marcos | The Associated Students of California State University, San Marcos |
| San Marcos | University Auxiliary and Research Services Corporation |
| Sonoma | Sonoma State University |
| Sonoma | Associated Students of Sonoma State University |
| Sonoma | Sonoma State Enterprises, Inc. |
| Sonoma | Sonoma State University Academic Foundation, Inc. |
| Stanislaus | California State University, Stanislaus |
| Stanislaus | Associated Students, Inc., California State University, Stanislaus |
| Stanislaus | California State University, Stanislaus Auxiliary and Business Services |
| Stanislaus | California State University, Stanislaus Foundation |
| Stanislaus | University Student Union of California State University, Stanislaus |

* New member beginning fiscal year 2016

The accompanying financial statements are also included in the CSU financial statements.

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The Authority is managed by a board of directors, which is composed of 30 directors appointed by the CSU Executive Vice Chancellor, Business and Finance, and 10 directors elected by the Auxiliary Organizations, which are members of the Authority. The Executive Vice Chancellor may also appoint alternate representatives who shall serve in the absence of the primary representatives. Directors elected by the Auxiliary Organizations serve subject to terms and conditions adopted by the Auxiliary Organizations for election and replacement of the same. Each director of the Authority must be an officer, director, or employee of the University or an Auxiliary Organization.

The Authority assumed the losses of the University's risk pool on January 1, 1997 (inception date) in exchange for a commitment from the University to fund incurred losses. In addition, the University has made the commitment to provide sufficient cash flows to the Authority to meet its operating needs.

All post-development costs of the Authority's programs are funded by annual premiums charged to members participating in the program each policy year and by interest earnings on the accumulated funds. Premiums are based on a cost allocation plan and rating formula developed by the Authority with the assistance of an actuary, risk management consultant, and other qualified persons. The premium for each member participating in the shared risk programs includes the member's share of expected program losses, program reinsurance costs, and program administrative costs for the year. If the Authority experiences unusually large losses in one of the aforementioned programs during a policy year, those pooled funds for the program may be exhausted or depleted before the next annual premiums are due. The board of directors may, upon consultation with an actuary, impose assessments on all participating members in the respective program, which in total amount, will assure adequate funds to the Authority for the payment of all incurred losses.

The Authority coordinates the claims process in conjunction with various agencies processing the claims. These agencies include the State of California Attorney General's Office (AG), Sedgwick Claims Management Services, Inc. (Sedgwick), Carl Warren & Company, CSU's Office of General Counsel, Systemwide Risk Management, Alliant Insurance Services (Alliant), the CSU Office of the Chancellor, and the 23 CSU campuses. Sedgwick is the third-party administrator (TPA) for all workers' compensation claims involving campuses and Auxiliary Organizations. Carl Warren & Company is the TPA for Auxiliary Organization liability claims. Health Special Risk, Inc and AG Administrator are the TPAs for Athletic Injury Medical Expense (AIME) and Club Sports Insurance Program (CSIP) claims. Alliant administers all entity risk pooling programs provided by the Authority.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements for the Authority have been prepared under the standards promulgated by the Governmental Accounting Standards Board (GASB) using the accrual basis of accounting and economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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The financial statements include the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. The Authority is considered a special-purpose government. The Authority records revenues primarily from fees collected from the campuses and auxiliary organizations and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the Authority to be reported in a single column in each of the financial statements.

(b) *Classification of Current and Noncurrent Assets (Other than Investments) and Liabilities*

The Authority considers assets to be current when they can be reasonably expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the Statements of Net Position date. Liabilities that can be reasonably expected, as part of normal Authority business operations, to be liquidated within 12 months of the Statements of Net Position date are considered to be current. All other assets and liabilities are considered to be noncurrent. For classification of current and noncurrent investments, refer to note 2 d.

(c) *Cash and Cash Equivalents and Statements of Cash Flows*

The Authority considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents. The Authority considers amounts included in the Morgan Stanley Smith Barney and the CSU Consolidated Investment Pool to be investments. Certain transactions recorded as revenues or expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Position include transactions between entities that are also participants in the Investment Pool. The Authority considers changes in the respective participants' equity in the Investment Pool resulting from these transactions to represent cash flows of the Authority in the accompanying Statements of Cash Flows.

(d) *Investments*

Investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying Statements of Revenues, Expenses, and Changes in Net Position as a component of investment income, net.

Investments that are used for current operations are classified as short-term investments. Investments that are restricted for withdrawal or use for other than current operations, designated or restricted for the acquisition or construction of noncurrent assets, designated or restricted for the liquidation of the noncurrent portion of long-term debt, or restricted as to the liquidity of the investments are classified as other long-term investments.

(e) *Accounts Receivable*

Accounts receivable represents amounts due from the members as of June 30, 2016 and 2015.

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(f) Reinsurance Recoverable

Reinsurance recoverable represents estimated amounts due from reinsurers, who reinsured the CSU's workers' compensation claims liability for claims incurred during the fiscal year. The reported amounts represent recoverable estimates related to paid claims and claim adjustment expenses as of June 30, 2016 and 2015. The estimated amounts recoverable from the reinsurers that are related to the liabilities for unpaid claims and claim adjustment expenses are deducted from those claims liabilities for losses and loss adjustment expenses; refer to note 2 h.

(g) Member Contributions

The Authority reports contributions in the Statements of Revenues, Expenses, and Changes in Net Position for those revenues received from its members. The contribution calculation for the campuses is based on program funding policies and procedures, and a rating plan to meet their pro rata share of the anticipated claims liabilities for losses and loss adjustment expenses. The contribution calculation for auxiliary organizations is based on various rating plans, such as the actuary's projections and loss rates. Contributions are recorded as revenues for the policy year in which coverage is provided.

(h) Claims Liability for Losses and Loss Adjustment Expenses

The claims liability for losses and loss adjustment expenses included in the accompanying financial statements reflects the estimated ultimate cost of settling claims relating to events that have occurred on or before June 30, 2016 and 2015. The liability includes the estimated amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The liability is also reduced by estimated amounts recoverable from the reinsurer that are related to the liability is for unpaid claims and claim adjustment expenses. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. The liability is not discounted.

Claims liability is 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. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

In estimating unpaid losses and loss adjustment expenses, the Authority has employed methods and assumptions considered reasonable and appropriate given the information currently available. Given the inherent uncertainty in the nature of such estimates, future losses may deviate from those estimates.

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(i) Dividend Distributions

The Authority reports dividends in the Statements of Revenues, Expenses, and Changes in Net Position for the return of contributions to members. Dividends to CSU campuses are based on the review of the funding status report by the Executive Committee and are distributed to each member by their pro rata contributions over the past five completed fiscal years. Dividends to any participating auxiliary organization are calculated and distributed in accordance with the Dividends and Assessment Policy. Dividend distributions are accrued as dividend expense once they are approved and declared by the Executive Committee and the Auxiliary Organizations Risk Management Alliance (AORMA) Committee.

(j) Net Position

The Authority's net position is classified as unrestricted. Unrestricted net position may be designated for use by the Authority. The Authority has adopted a policy of utilizing restricted funds, when available, prior to unrestricted funds.

(k) Classification of Revenues and Expenses

The Authority considers operating revenues and expenses in the Statements of Revenues, Expenses, and Changes in Net Position to be those revenues and expenses that result from exchange transactions or other activities that are connected directly to the Authority's primary functions. Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB requirements. These nonoperating activities include the Authority's investment income, net, and interest income from loans.

(l) Income Taxes

The Authority was formed pursuant to California Government Code Section 6500 et seq. and, as a governmental entity, is not subject to federal or state income taxes under §115 of the Internal Revenue Code of 1986.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

(n) New Accounting Pronouncements

In February 2015, GASB issued statement No. 72 *Fair Value Measurements and Applications*, effective for the Programs' fiscal year beginning July 1, 2015. This statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.

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(3) Cash and Cash Equivalents, Investments, and Investment Income, Net

The Authority's cash, cash equivalents, and investments as of June 30, 2016 and 2015 are classified in the accompanying Statements of Net Position as follows:

| | 2016 | 2015 |
|-----------------------------|----------------|-------------|
| Cash and cash equivalents | \$ 88,000 | — |
| Short-term investments | 35,579,000 | 6,904,000 |
| Other long-term investments | 134,144,000 | 130,108,000 |
| Total investments | \$ 169,811,000 | 137,012,000 |

(a) Cash and Cash Equivalents

The Authority maintains centralized management for substantially all of its cash and cash equivalents. Cash in demand deposit accounts is minimized by sweeping available cash balances into the CSU Consolidated Investment Pool on a daily basis.

At June 30, 2016 and 2015, the Authority's cash and cash equivalents consist of demand deposits held at a financial institution. The carrying amount of the cash in demand deposit accounts were \$188,000 and \$178,000 at June 30, 2016 and 2015, respectively. The primary difference between the book and bank balance is due to outstanding checks and cash awaiting investment in the CSU Consolidated Investment Pool.

(b) Investments

At June 30, 2016 and 2015, the Authority's investment portfolio consists of investments held in Morgan Stanley Smith Barney and the CSU Consolidated Investment Pool. Separate accounting is maintained as to the amounts allocable to the various funds and programs.

Investment Policy

State law and regulations require that surplus monies of the Authority must be invested. The primary objective of the Authority's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the Authority. The third objective is to return an acceptable yield.

The Authority's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Sections 16430 and 53601, and Education Code Section 89724, subject to certain limitations. In general, the Authority's investment policy permits investments in obligations of the Federal and California state governments, certificates of deposit, high-quality domestic corporate and fixed income securities, and certain other investment instruments.

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Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian the investments or deposits may not be returned to the Authority. Substantially all of the Authority's securities are registered in the Authority's name by the custodial bank as an agent for the Authority. The Authority's deposits are maintained at financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured. As a result, custodial credit risk for such investments and deposits is remote.

Interest Rate Risk

Interest rate risk is the risk that fluctuations in interest rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair market value to fluctuations in market interest rates. The Authority's investment guidelines measure interest rate risk by limiting an eligible investment to a maximum effective maturity and by limiting the average duration of the portfolio. The effective maturity date reflects a bond with embedded options such as a call, put, or reset date, and prepayment speed resulting in the maturity of a bond being less than its final maturity date. Duration is a measure of the sensitivity of the price of an investment relative to fluctuations in market interest rates.

Durations of the Authority's investment portfolio for each investment type as of June 30, 2016 are presented in the table below.

| Investment type | Fair value | Duration (in years) |
|----------------------------|-----------------------|--------------------------------|
| Asset-backed securities | \$ 9,161,000 | 3.00753 |
| Certificates of deposit | 2,710,000 | 0.22407 |
| Commercial paper | 101,000 | 0.32250 |
| Corporate bonds | 32,995,000 | 2.70329 |
| International bonds | 1,291,000 | 6.05772 |
| Money market funds | 294,000 | — |
| Mortgage-backed securities | 10,853,000 | 3.59848 |
| Municipal bonds | 1,795,000 | 1.55822 |
| Repurchase agreements | 205,000 | 0.00272 |
| U.S. Agency securities | 18,407,000 | 2.27217 |
| U.S. Treasury securities | 91,911,000 | 3.65904 |
| Total investments | <u>\$ 169,723,000</u> | |

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Durations of the Authority's investment portfolio for each investment type as of June 30, 2015 are presented in the table below.

| <u>Investment type</u> | <u>Fair value</u> | <u>Duration (in years)</u> |
|----------------------------|-----------------------|--------------------------------|
| Asset-backed securities | \$ 10,252,000 | 0.67187 |
| Certificates of deposit | 320,000 | 0.19372 |
| Corporate bonds | 27,680,000 | 3.52937 |
| Money market funds | 6,879,000 | — |
| Mortgage-backed securities | 15,908,000 | 4.00097 |
| Municipal bonds | 2,110,000 | 1.97063 |
| Repurchase agreements | 18,000 | 0.00274 |
| U.S. Agency securities | 24,487,000 | 2.55879 |
| U.S. Treasury securities | 48,107,000 | 3.88601 |
| International bonds | 1,251,000 | 6.69269 |
| Total investments | <u>\$ 137,012,000</u> | |

Another way the Authority manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

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 risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

By law, the Authority invests in low credit risk securities such as: U.S. government securities; securities of federally sponsored agencies; highly rated domestic corporate bonds; prime-rated commercial paper; repurchase and reverse repurchase agreements; banker's acceptances; and negotiable certificates of deposit. Therefore, occurrence of credit risk is remote.

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Ratings of the Authority's investment portfolio for each investment type as of June 30, 2016 are presented in the table below.

| Investment type | Fair value | Rating as of year-end | | | | | |
|----------------------------|--------------------|-----------------------|--------------------|-------------------|------------------|----------|-------------------|
| | | AAA | AA | A | BBB | BB | Not rated |
| Asset-backed securities | \$ 9,161,000 | 8,948,000 | 213,000 | — | — | — | — |
| Certificates of deposit | 2,710,000 | — | 353,000 | 2,357,000 | — | — | — |
| Commercial paper | 101,000 | — | — | 101,000 | — | — | — |
| Corporate bonds | 32,995,000 | 2,724,000 | 3,378,000 | 15,150,000 | 9,338,000 | — | 2,405,000 |
| International bonds | 1,291,000 | — | 1,291,000 | — | — | — | — |
| Money market funds | 294,000 | — | — | 30,000 | — | — | 264,000 |
| Mortgage-backed securities | 10,853,000 | — | 10,853,000 | — | — | — | — |
| Municipal bonds | 1,795,000 | — | 1,795,000 | — | — | — | — |
| Repurchase agreements | 205,000 | — | — | 49,000 | — | — | 156,000 |
| U.S. Agency securities | 18,407,000 | — | 16,022,000 | 338,000 | — | — | 2,047,000 |
| U.S. Treasury securities | 91,911,000 | — | 84,085,000 | — | — | — | 7,826,000 |
| Total investment \$ | <u>169,723,000</u> | <u>11,672,000</u> | <u>117,990,000</u> | <u>18,025,000</u> | <u>9,338,000</u> | <u>—</u> | <u>12,698,000</u> |

Ratings of the Authority's investment portfolio for each investment type as of June 30, 2015 are presented in the table below.

| Investment type | Fair value | Rating as of year-end | | | | | |
|----------------------------|--------------------|-----------------------|-------------------|-------------------|------------------|----------------|-------------------|
| | | AAA | AA | A | BBB | BB | Not rated |
| Asset-backed securities | \$ 10,252,000 | 10,007,000 | 245,000 | — | — | — | — |
| Certificates of deposit | 320,000 | — | 23,000 | 297,000 | — | — | — |
| Corporate bonds | 27,680,000 | 2,684,000 | 2,388,000 | 12,027,000 | 7,250,000 | 576,000 | 2,755,000 |
| Money market funds | 6,879,000 | — | — | — | — | — | 6,879,000 |
| Mortgage-backed securities | 15,908,000 | — | 15,908,000 | — | — | — | — |
| Municipal bonds | 2,110,000 | — | 1,551,000 | 559,000 | — | — | — |
| Repurchase agreements | 18,000 | — | — | 11,000 | — | — | 7,000 |
| U.S. Agency securities | 24,487,000 | — | 14,574,000 | 7,970,000 | — | — | 1,943,000 |
| U.S. Treasury securities | 48,107,000 | — | — | — | — | — | 48,107,000 |
| International bonds | 1,251,000 | — | 1,251,000 | — | — | — | — |
| Total investment \$ | <u>137,012,000</u> | <u>12,691,000</u> | <u>35,940,000</u> | <u>20,864,000</u> | <u>7,250,000</u> | <u>576,000</u> | <u>59,691,000</u> |

Concentration Risk

Concentration risk rises as investments become concentrated relative to a portfolio characteristic such as issuance, issuer, market sector, counter-party, or sovereign nation and is best mitigated by diversification. The Authority's investment policy has concentration limits that provide sufficient diversification. As a result, the occurrence of concentration risk is remote.

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As of June 30, 2016, there were no investments of the CSU Consolidated Investment Pool and CSU Risk Management Authority of SB FAM Program (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of the Authority's total investment portfolio. As of June 30, 2015, the following investments of the CSU Consolidated Investment Pool and CSU Risk Management Authority of SB FAM Program (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the Authority's total investment portfolio: Federal National Mortgage Association (Fannie Mae) totaling \$11,283,000, or 8%; and Federal Home Loan Banks totaling \$9,641,000, or 7%.

Fair Value Measurements

The Authority uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Authority's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Authority groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. This valuation is accomplished using management's best estimate of fair value, with inputs into the determination of fair value that require significant management judgment or estimation. The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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The following table presents assets that are measured at fair value on a recurring basis at June 30, 2016:

| <u>Investment type</u> | <u>Fair value</u> | <u>Level 1</u> | <u>Level 2</u> |
|----------------------------|-----------------------|-------------------|-------------------|
| Asset-backed securities | \$ 9,161,000 | — | 9,161,000 |
| Certificates of deposit | 2,710,000 | — | 2,710,000 |
| Commercial paper | 101,000 | — | 101,000 |
| Corporate bonds | 32,995,000 | — | 32,995,000 |
| International bonds | 1,291,000 | — | 1,291,000 |
| Money market funds | 294,000 | 294,000 | — |
| Mortgage-backed securities | 10,853,000 | 1,862,000 | 8,991,000 |
| Municipal bonds | 1,795,000 | — | 1,795,000 |
| Repurchase agreement | 205,000 | — | 205,000 |
| U.S. Agency securities | 18,407,000 | — | 18,407,000 |
| U.S. Treasury securities | 91,911,000 | 91,911,000 | — |
| Total investments | <u>\$ 169,723,000</u> | <u>94,067,000</u> | <u>75,656,000</u> |

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2015:

| <u>Investment type</u> | <u>Fair value</u> | <u>Level 1</u> | <u>Level 2</u> |
|----------------------------|-----------------------|-------------------|-------------------|
| Asset-backed securities | \$ 10,252,000 | — | 10,252,000 |
| Certificates of deposit | 320,000 | — | 320,000 |
| Corporate bonds | 27,680,000 | — | 27,680,000 |
| Money market funds | 6,879,000 | 6,879,000 | — |
| Mortgage-backed securities | 15,908,000 | 5,258,000 | 10,650,000 |
| Municipal bonds | 2,110,000 | — | 2,110,000 |
| Repurchase agreement | 18,000 | — | 18,000 |
| U.S. Agency securities | 24,487,000 | — | 24,487,000 |
| U.S. Treasury securities | 48,107,000 | 48,107,000 | — |
| International bonds | 1,251,000 | — | 1,251,000 |
| Total investments | <u>\$ 137,012,000</u> | <u>60,244,000</u> | <u>76,768,000</u> |

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair value are affected by the assumptions used.

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Securities such as asset-backed, mortgage-backed, U.S. agency and U.S. treasury are valued at the last sale price on the last business day of the current fiscal year, as quoted on a recognized exchange or an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the current fiscal year are valued at the quoted bid price provided by the University's external investment managers or their custodians.

For investments that include money market funds, municipal bonds, repurchase agreements, international bonds, and corporate bonds, the carrying value is similarly calculated using valuations that include observable market quoted prices. However, observable inputs other than quoted prices such as price services or indexes, estimates, appraisals, assumptions and other methods that are reviewed by management. Change in market conditions and economic environments may impact the net asset value of the funds and consequently the fair value of the University's interests in the funds.

Securities such as Commercial Paper and Certificate of Deposit with short maturities and infrequent secondary market trades are typically priced via mathematical calculations.

There were no assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2016 and 2015.

(c) Investment Income, Net

Investment income, net, included within the Statements of Revenues, Expenses, and Changes in Net Position is comprised of unrealized gains and losses of \$902,000 and \$(358,000), realized gains of \$1,427,000 and \$169,000, and interest and dividend income of \$2,241,000 and \$1,853,000 for the years ended June 30, 2016 and 2015, respectively.

(4) Loans Receivable from Affiliates

In November 2008, the Authority entered into a loan agreement with California State University, Fresno, in the amount of \$4,500,000. The loan term is for a 5-year period that amortizes based on a 20-year amortization schedule, with principal and interest due and payable quarterly, payable 30 days following the end of each calendar quarter. The interest rate is equal to the stated CSU Consolidated Investment Pool rate of return earned by the Authority (0.086% at June 30, 2016). The initial maturity date of the loan was October 31, 2013. On September 12, 2013, Executive Members approved California State University, Fresno's loan extension request in the amount of \$2,542,000 for an additional 5 years, extending the maturity date to September 30, 2018. The amounts outstanding on the loan were \$264,000 and \$1,028,000 as of June 30, 2016 and 2015, respectively. Due to an additional pay-down of the loan principal on November 9, 2015, the loan will be paid off June 30, 2017.

In August 2008, the Authority entered into a loan agreement with Humboldt State University Advancement Foundation in the amount of \$2,535,000. The loan is nonamortizing, with interest due and payable quarterly, payable 30 days following the end of each calendar quarter. The interest rate is equal to the stated CSU Consolidated Investment Pool rate of return earned by the Authority (0.086% at June 30, 2016). The initial maturity date of the loan was October 31, 2013. On December 6, 2012, Executive Members approved Humboldt State University Advancement Foundation's loan extension request for an additional 5 years in

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the amount of \$2,000,000. The new extended maturity date of the loan is October 31, 2017. The amounts outstanding on the loan were \$2,000,000 as of June 30, 2016 and 2015.

In May 2014, the Authority entered into a line-of-credit agreement with California State University, Sacramento in the amount of \$4,000,000, and \$2,353,000 of which was drawn against the line as of June 30, 2016. The line-of-credit will be available for a 5-year period with principal and interest due and payable quarterly, payable 30 days following the end of each calendar quarter. The interest rate is equal to the stated CSU Consolidated Investment Pool rate of return earned by the Authority (0.086% at June 30, 2016). The maturity date of the line-of-credit is June 1, 2019. The amounts outstanding on the loan were \$2,353,000 and \$2,340,000 as of June 30, 2016 and 2015, respectively.

The following table summarizes the Authority's loans receivable from affiliates as of June 30, 2016 and 2015:

| | 2016 | 2015 |
|--|--------------|-------------|
| California State University, Fresno | \$ 264,000 | 1,028,000 |
| Humboldt State University Advancement Foundation | 2,000,000 | 2,000,000 |
| California State University, Sacramento | 2,353,000 | 2,340,000 |
| Total loans receivable from affiliates | 4,617,000 | 5,368,000 |
| Less current portion | (1,048,000) | (1,136,000) |
| Loans receivable from affiliates, net of current portion | \$ 3,569,000 | 4,232,000 |

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(5) Claims Liability for Losses and Loss Adjustment Expenses

The Authority establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related loss adjustment expenses. Although considerable variability is inherent in such estimates, Management believes that the liability is reasonable at June 30, 2016 and 2015.

Changes in the Authority's claims liability for the years ended June 30, 2016 and 2015 are as follows:

| | |
|--|---------------|
| Claims liability for losses and loss adjustment expenses, June 30, 2014 | \$ 98,449,000 |
| Incurred claims for losses and loss adjustment expenses: | |
| Provision for insured events of the current fiscal year | 60,386,000 |
| Decrease in provision for reinsured events of the current fiscal year | (14,527,000) |
| Decrease in provision for insured events of prior fiscal years | (5,937,000) |
| Total incurred claims for losses and loss adjustment expenses | 39,922,000 |
| Payments: | |
| Claims and claim adjustment expenses attributable to insured events of the current fiscal year | (20,478,000) |
| Claims and claim adjustment expenses attributable to recoveries from reinsured events of the current fiscal year | 6,178,000 |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years | (31,436,000) |
| Total payments | (45,736,000) |
| Claims liability for losses and loss adjustment expenses, June 30, 2015 | 92,635,000 |
| Incurred claims for losses and loss adjustment expenses: | |
| Provision for insured events of the current fiscal year | 56,800,000 |
| Decrease in provision for reinsured events of the current fiscal year | (24,959,000) |
| Decrease in provision for insured events of prior fiscal years | (14,666,000) |
| Total incurred claims for losses and loss adjustment expenses | 17,175,000 |
| Payments: | |
| Claims and claim adjustment expenses attributable to insured events of the current fiscal year | (18,993,000) |
| Claims and claim adjustment expenses attributable to recoveries from reinsured events of the current fiscal year | 9,335,000 |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years | (21,225,000) |
| Total payments | (30,883,000) |
| Claims liability for losses and loss adjustment expenses, June 30, 2016 | 78,927,000 |
| Less current portion | (23,046,000) |
| Claims liability for losses and loss adjustment expenses, June 30, 2016, net of current portion | \$ 55,881,000 |

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(6) Related-Party Transactions

The following represents a summary of the accounts receivable, contributions (premiums), dividend distribution, for the years ended June 30, 2016 and 2015, and general liability insurance deductibles for the policy period detailed by campus:

| <u>Members</u> | <u>June 30, 2016</u> | | | |
|-----------------------------|--------------------------------|--|----------------------------------|---|
| | <u>Accounts receivable</u> | <u>Contributions for the fiscal year</u> | <u>Dividend distribution</u> | <u>General liability insurance deductibles per occurrence</u> |
| Bakersfield | \$ — | 1,582,000 | (207,000) | 35,000 |
| California Maritime Academy | — | 554,000 | (72,000) | 35,000 |
| Chancellor's Office | 1,385,000 | 10,662,000 | (156,000) | 100,000 |
| Channel Islands | — | 1,576,000 | (173,000) | 35,000 |
| Chico | — | 2,638,000 | (325,000) | 250,000 |
| Dominguez Hills | — | 2,560,000 | (388,000) | 100,000 |
| East Bay | — | 3,468,000 | (296,000) | 500,000 |
| Fresno | — | 3,308,000 | (739,000) | 250,000 |
| Fullerton | — | 4,021,000 | (405,000) | 250,000 |
| Humboldt | — | 2,334,000 | (287,000) | 50,000 |
| Long Beach | — | 6,389,000 | (672,000) | 250,000 |
| Los Angeles | — | 4,083,000 | (389,000) | 250,000 |
| Monterey Bay | — | 1,481,000 | (196,000) | 35,000 |
| Northridge | — | 5,429,000 | (484,000) | 750,000 |
| Pomona | — | 3,974,000 | (441,000) | 250,000 |
| Sacramento | — | 3,671,000 | (386,000) | 900,000 |
| San Bernardino | — | 2,851,000 | (361,000) | 50,000 |
| San Diego | — | 5,773,000 | (481,000) | 900,000 |
| San Francisco | — | 4,934,000 | (554,000) | 500,000 |
| San Jose | — | 4,928,000 | (464,000) | 750,000 |
| San Luis Obispo | — | 4,659,000 | (364,000) | 250,000 |
| San Marcos | — | 1,637,000 | (230,000) | 50,000 |
| Sonoma | — | 2,005,000 | (264,000) | 100,000 |
| Stanislaus | — | 1,818,000 | (167,000) | 35,000 |
| Auxiliary Organizations | 394,000 | 14,028,000 | (1,171,000) | — |
| | <u>\$ 1,779,000</u> | <u>100,363,000</u> | <u>(9,672,000)</u> | |

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June 30, 2016 and 2015

| June 30, 2015 | | | | |
|-----------------------------|--------------------------------|--|----------------------------------|---|
| Members | Accounts receivable | Contributions for the fiscal year | Dividend distribution | General liability insurance deductibles per occurrence |
| Bakersfield | \$ | 1,431,000 | (256,000) | 35,000 |
| California Maritime Academy | — | 561,000 | (80,000) | 35,000 |
| Chancellor's Office | — | 9,827,000 | (157,000) | 100,000 |
| Channel Islands | — | 1,533,000 | (153,000) | 35,000 |
| Chico | — | 2,543,000 | (354,000) | 250,000 |
| Dominguez Hills | — | 2,566,000 | (425,000) | 100,000 |
| East Bay | — | 2,975,000 | (191,000) | 500,000 |
| Fresno | — | 3,900,000 | (1,050,000) | 250,000 |
| Fullerton | — | 3,993,000 | (363,000) | 250,000 |
| Humboldt | — | 2,101,000 | (339,000) | 50,000 |
| Long Beach | — | 5,808,000 | (700,000) | 250,000 |
| Los Angeles | — | 3,590,000 | (320,000) | 250,000 |
| Monterey Bay | — | 1,310,000 | (263,000) | 35,000 |
| Northridge | — | 4,580,000 | (392,000) | 750,000 |
| Pomona | — | 3,929,000 | (352,000) | 250,000 |
| Sacramento | — | 3,547,000 | (377,000) | 900,000 |
| San Bernardino | — | 2,411,000 | (446,000) | 50,000 |
| San Diego | — | 4,909,000 | (380,000) | 900,000 |
| San Francisco | — | 4,752,000 | (563,000) | 500,000 |
| San Jose | — | 4,745,000 | (444,000) | 750,000 |
| San Luis Obispo | — | 3,990,000 | (264,000) | 250,000 |
| San Marcos | — | 1,563,000 | (340,000) | 50,000 |
| Sonoma | — | 1,957,000 | (310,000) | 100,000 |
| Stanislaus | — | 1,653,000 | (158,000) | 35,000 |
| Auxiliary Organizations | 490,000 | 15,074,000 | (1,180,000) | — |
| | \$ 490,000 | 95,248,000 | (9,857,000) | |

(7) Excess Insurance and Reinsurance

(a) Excess Insurance

For the years ended June 30, 2016 and 2015, the Authority purchased excess insurance to protect the members from catastrophic losses. The Authority maintained excess public entity liability insurance coverage provided by School Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence until December 2009.

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The Authority maintained excess general liability insurance coverage provided by Ironshore Specialty Insurance Company and various other insurers with coverage for individual claims above \$5,000,000 up to \$200,000,000 per occurrence. The Authority purchased excess workers' compensation insurance provided by Safety National to statutory limits in excess of the \$2,500,000 self-insured retention for the years ended June 30, 2016 and 2015. For the AORMA workers' compensation program, the Authority purchased excess workers' compensation insurance provided by Safety National for the years ended June 30, 2016 and 2015 to statutory limits in excess of the \$500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

Effective January 1, 2015, the Authority joined the CSAC Excess Insurance Authority Excess Workers' Compensation Program, covered pursuant to the memorandum of coverage issued by the EIA. The EIA is responsible for all covered losses within the amount of the self-insured retention layer of \$2,500,000 for the campus workers' compensation program and \$500,000 for the AORMA workers' compensation program. The estimated amounts that are recoverable from the EIA and that reduce the liabilities as of June 30, 2016 and 2015 were \$27,717,000 and \$12,362,000 for the Campus workers' compensation program and \$2,943,000 and \$1,248,000 for the AORMA workers' compensation program, respectively.

(b) Reinsurance

For the years ended June 30, 2016 and 2015, the Authority did not enter into the CSU's workers' compensation reinsurance contract. From the years ended June 30, 2008 through June 30 2012, the Authority entered into a reinsurance contract with the Insurance Company of the State of Pennsylvania (the Reinsurer). This transaction reinsured the CSU's workers' compensation claims liability for claims incurred within the \$2,500,000 self-insured retention up to aggregate limits. The estimated amounts that are recoverable from the reinsurer and that reduce the liabilities as of June 30, 2016 and 2015 were \$21,967,000 and \$26,145,000, respectively. While such losses are reinsured, the Authority will not be relieved of its primary obligations to the policyholder in this reinsurance transaction.

For the years ended June 30, 2016 and 2015, the Authority purchased reinsurance for the Campus and AORMA liability programs provided by the General Reinsurance Corporation. This transaction reinsured the AORMA claims liability for individual claims incurred in excess of \$350,000 and up to \$5,000,000 per occurrence. The reinsurance premiums for the years ended June 30, 2016 and 2015 were \$1,070,000 and \$1,020,000, respectively. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

For the years ended June 30, 2016 and 2015, the Authority purchased reinsurance for the campus and AORMA property programs provided by the Public Entity Property Insurance Program (the PEPiP). This transaction reinsured the Campus and AORMA property programs for individual claims in excess of \$100,000 for the AORMA program and \$1,000,000 for the Campus program and up to \$1,000,000,000 per occurrence. The reinsurance premiums for the years ended June 30, 2016 and 2015 were \$5,816,000 and \$5,852,000, respectively. The coverage terms and conditions are the same as provided by the PEPiP in prior years.

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(8) SELF Assessment Liability

Prior to July 1, 2004, the Authority maintained excess workers' compensation insurance coverage provided by SELF, a public entity risk pool. The Authority remains liable for assessments from SELF in settlement of claims incurred prior to July 1, 2004. The assessment liabilities as of June 30, 2016 and 2015 were \$9,546,000 and \$10,909,000, respectively.

(9) Subsequent Event

Subsequent events have been evaluated through September 22, 2016, which corresponds to the date when the financial statements were issued. There are no subsequent events that require disclosure.

**CALIFORNIA STATE UNIVERSITY
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Supplementary Information

Reconciliation of Workers' Compensation Claims Liabilities

The schedule below presents the changes in claims liabilities for the Authority's Workers' Compensation contract for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|---------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ 61,000,000 | 65,301,000 |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | 24,837,000 | 28,840,000 |
| Decrease in provision for reinsured events of current fiscal year | (22,528,000) | (13,185,000) |
| Decrease in provision for insured events of prior fiscal years | (6,424,000) | (8,084,000) |
| Total incurred claims and claim adjustment expenses | <u>(4,115,000)</u> | <u>7,571,000</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | — | (2,120,000) |
| Claims and claim adjustment expenses attributable to recoveries from reinsured events of current fiscal year | 8,887,000 | 6,084,000 |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years | (17,278,000) | (15,836,000) |
| Total payments | <u>(8,391,000)</u> | <u>(11,872,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year | <u>\$ 48,494,000</u> | <u>61,000,000</u> |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
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Supplementary Information

Reconciliation of General Liability Claims Liabilities

The schedule below presents the changes in claims liabilities for the Authority's General Liability contract for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|--------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ 18,429,000 | 19,038,000 |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | 7,384,000 | 7,496,000 |
| (Decrease) increase in provision for insured events of prior fiscal years | <u>(3,060,000)</u> | <u>71,000</u> |
| Total incurred claims and claim adjustment expenses | <u>4,324,000</u> | <u>7,567,000</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years | <u>(1,971,000)</u> | <u>(8,176,000)</u> |
| Total payments | <u>(1,971,000)</u> | <u>(8,176,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year | <u>\$ 20,782,000</u> | <u>18,429,000</u> |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
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Supplementary Information

**Reconciliation of Industrial Disability, Nonindustrial Disability, and Unemployment
Insurance (IDL/NDL/UI) Claims Liabilities**

The schedule below presents the changes in claims liabilities for the Authority's IDL/NDL/UI contracts for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ — | — |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | <u>14,341,000</u> | <u>12,774,000</u> |
| Total incurred claims and claim adjustment expenses | <u>14,341,000</u> | <u>12,774,000</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(14,341,000)</u> | <u>(12,774,000)</u> |
| Total payments | <u>(14,341,000)</u> | <u>(12,774,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year | <u>\$ —</u> | <u>—</u> |

See accompanying independent auditors' report.

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Supplementary Information

Reconciliation of Property Claims Liabilities

The schedule below presents the changes in claims liabilities for the Authority's Property contract for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|--------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ — | — |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | <u>1,590,000</u> | <u>2,465,000</u> |
| Total incurred claims and claim adjustment expenses | <u>1,590,000</u> | <u>2,465,000</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(1,590,000)</u> | <u>(2,465,000)</u> |
| Total payments | <u>(1,590,000)</u> | <u>(2,465,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year | <u>\$ —</u> | <u>—</u> |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
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Supplementary Information

Reconciliation of Athletic Injury Medical Expense (AIME) Claims Liabilities

The schedule below presents the changes in claims liabilities for the Authority's AIME contract for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|--------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ 1,966,000 | 1,912,000 |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | 3,584,000 | 3,010,000 |
| Increase (decrease) in provision for insured events of prior fiscal years | 496,000 | (78,000) |
| Total incurred claims and claim adjustment expenses | <u>4,080,000</u> | <u>2,932,000</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | (1,759,000) | (1,416,000) |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years | <u>(2,073,000)</u> | <u>(1,462,000)</u> |
| Total payments | <u>(3,832,000)</u> | <u>(2,878,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year | <u>\$ 2,214,000</u> | <u>1,966,000</u> |

See accompanying independent auditors' report.

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Supplementary Information

Reconciliation of Club Sports Claims Liabilities

The schedule below presents the changes in claims liabilities for the Authority's Club Sports contract for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--|-----------------|-------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ — | — |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | <u>14,000</u> | <u>—</u> |
| Total incurred claims and claim adjustment expenses | <u>14,000</u> | <u>—</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(14,000)</u> | <u>—</u> |
| Total payments | <u>(14,000)</u> | <u>—</u> |
| Claims liability for losses and loss adjustment expenses, end of year | <u>\$ —</u> | <u>—</u> |

See accompanying independent auditors' report.

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Supplementary Information

Reconciliation of AORMA Workers' Compensation Claims Liabilities

The schedule below presents the changes in claims liabilities for the AORMA Workers' Compensation contract for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|--------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ 8,995,000 | 9,070,000 |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | 2,714,000 | 3,321,000 |
| Decrease in provision for reinsured events of current fiscal year | (2,431,000) | (1,342,000) |
| (Decrease) increase in provision for insured events of prior fiscal years | <u>(1,553,000)</u> | <u>45,000</u> |
| Total incurred claims and claim adjustment expenses | <u>(1,270,000)</u> | <u>2,024,000</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | — | (238,000) |
| Claims and claim adjustment expenses attributable to recoveries from reinsured events of current fiscal year | 448,000 | 94,000 |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years | <u>(2,229,000)</u> | <u>(1,955,000)</u> |
| Total payments | <u>(1,781,000)</u> | <u>(2,099,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year | <u>\$ 5,944,000</u> | <u>8,995,000</u> |

See accompanying independent auditors' report.

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Supplementary Information

Reconciliation of AORMA General Liability Claims Liabilities

The schedule below presents the changes in claims liabilities for the AORMA General Liability contract for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|-------------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ 2,245,000 | 3,128,000 |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | 1,181,000 | 1,124,000 |
| (Decrease) increase in provision for insured events of prior fiscal years | <u>(4,125,000)</u> | <u>2,109,000</u> |
| Total incurred claims and claim adjustment expenses | <u>(2,944,000)</u> | <u>3,233,000</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | (134,000) | (109,000) |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years | <u>2,326,000</u> | <u>(4,007,000)</u> |
| Total excess recoveries (payments) | <u>2,192,000</u> | <u>(4,116,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year | \$ <u><u>1,493,000</u></u> | <u><u>2,245,000</u></u> |

See accompanying independent auditors' report.

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Supplementary Information

Reconciliation of AORMA Property Claims Liabilities

The schedule below presents the changes in claims liabilities for the AORMA Property contract for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ — | — |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | <u>238,000</u> | <u>252,000</u> |
| Total incurred claims and claim adjustment expenses | <u>238,000</u> | <u>252,000</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(238,000)</u> | <u>(252,000)</u> |
| Total payments | <u>(238,000)</u> | <u>(252,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year | <u><u>\$ —</u></u> | <u><u>—</u></u> |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
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Supplementary Information

Reconciliation of AORMA Unemployment Insurance Program (UIP) Claims Liabilities

The schedule below presents the changes in claims liabilities for the AORMA UIP contract for the year ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|--------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year | \$ — | — |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current fiscal year | <u>917,000</u> | <u>1,104,000</u> |
| Total incurred claims and claim adjustment expenses | <u>917,000</u> | <u>1,104,000</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(917,000)</u> | <u>(1,104,000)</u> |
| Total payments | <u>(917,000)</u> | <u>(1,104,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year | <u>\$ —</u> | <u>—</u> |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
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Schedule of Net Position

June 30, 2016

(for inclusion in the California State University)

| | |
|---|----------------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 88,083 |
| Short-term investments | 35,579,452 |
| Accounts receivable, net | 2,705,134 |
| Notes receivable, current portion | 1,048,465 |
| Prepaid expenses and other assets | 4,152,405 |
| Total current assets | <u>43,573,539</u> |
| Noncurrent assets: | |
| Notes receivable, net of current portion | 3,568,903 |
| Other long-term investments | 134,144,151 |
| Total noncurrent assets | <u>137,713,054</u> |
| Total assets | <u>181,286,593</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | 6,684,040 |
| Unearned revenue | 39,245 |
| Claims liability for losses and LAE – current portion | 23,045,838 |
| Total current liabilities | <u>29,769,123</u> |
| Noncurrent liabilities: | |
| Claims liability for losses and LAE, net of current portion | 55,880,623 |
| Other liabilities | 8,181,789 |
| Total noncurrent liabilities | <u>64,062,412</u> |
| Total liabilities | <u>93,831,535</u> |
| Net position: | |
| Unrestricted | <u>87,455,058</u> |
| Total net position | <u>\$ 87,455,058</u> |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
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Schedule of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2016

(for inclusion in the California State University)

| | | |
|------------------------------------|----|--------------------------|
| Revenues: | | |
| Operating revenues: | | |
| Other operating revenues | \$ | 93,476,839 |
| Total operating revenues | | <u>93,476,839</u> |
| Expenses: | | |
| Operating expenses: | | |
| Instruction | | 10,905,258 |
| Research | | 136,058 |
| Public service | | 156,851 |
| Academic support | | 2,561,568 |
| Student services | | 2,570,721 |
| Institutional support | | 48,587,712 |
| Operation and maintenance of plant | | 1,564,354 |
| Auxiliary enterprise expenses | | 562,932 |
| Total operating expenses | | <u>67,045,454</u> |
| Operating income | | <u>26,431,385</u> |
| Nonoperating revenues (expenses): | | |
| Investment income, net | | 4,634,508 |
| Other nonoperating expenses | | <u>(9,671,883)</u> |
| Net nonoperating expenses | | <u>(5,037,375)</u> |
| Increase in net position | | <u>21,394,010</u> |
| Net position: | | |
| Net position, beginning of year | | <u>66,061,048</u> |
| Net position, end of year | \$ | <u><u>87,455,058</u></u> |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Other Information

June 30, 2016

(for inclusion in the California State University)

| | Current unrestricted | Total current | Noncurrent unrestricted | Total noncurrent | Total |
|----------------------------|---------------------------------|--------------------------|------------------------------------|-----------------------------|--------------|
| Asset-backed securities | \$ 2,192,563 | 2,192,563 | 6,968,118 | 6,968,118 | 9,160,681 |
| Certificates of deposit | 2,710,040 | 2,710,040 | — | — | 2,710,040 |
| Commercial paper | 100,515 | 100,515 | — | — | 100,515 |
| Corporate bonds | 10,666,135 | 10,666,135 | 22,329,124 | 22,329,124 | 32,995,259 |
| International bonds | — | — | 1,291,729 | 1,291,729 | 1,291,729 |
| Money market funds | 165,451 | 165,451 | 128,745 | 128,745 | 294,196 |
| Mortgage-backed securities | 7,134 | 7,134 | 10,845,846 | 10,845,846 | 10,852,980 |
| Municipal bonds | 361,274 | 361,274 | 1,434,405 | 1,434,405 | 1,795,679 |
| Repurchase agreements | 204,617 | 204,617 | — | — | 204,617 |
| U.S. agency securities | 11,345,942 | 11,345,942 | 7,060,994 | 7,060,994 | 18,406,936 |
| U.S. Treasury securities | 7,825,781 | 7,825,781 | 84,085,190 | 84,085,190 | 91,910,971 |
| Total investments | \$ 35,579,452 | 35,579,452 | 134,144,151 | 134,144,151 | 169,723,603 |

Fair value hierarchy in investments at June 30, 2016:

| | Fair value measurements using | | | | Net asset value (NAV) |
|----------------------------|---|--|--|--------------|----------------------------------|
| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total | |
| Asset-backed securities | \$ 9,160,681 | — | 9,160,681 | — | — |
| Certificates of deposit | 2,710,040 | — | 2,710,040 | — | — |
| Commercial paper | 100,515 | — | 100,515 | — | — |
| Corporate bonds | 32,995,259 | — | 32,995,259 | — | — |
| International bonds | 1,291,729 | — | 1,291,729 | — | — |
| Money market funds | 294,196 | 294,196 | — | — | — |
| Mortgage-backed securities | 10,852,980 | 1,861,503 | 8,991,477 | — | — |
| Municipal bonds | 1,795,679 | — | 1,795,679 | — | — |
| Repurchase agreements | 204,617 | — | 204,617 | — | — |
| U.S. Agency securities | 18,406,936 | — | 18,406,936 | — | — |
| U.S. Treasury securities | 91,910,971 | 91,910,971 | — | — | — |
| Total investments | \$ 169,723,603 | 94,066,670 | 75,656,933 | — | — |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Claims Development Information

(In thousands)

(Unaudited)

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net earned required Contribution and investment revenues: | | | | | | | | | | |
| Earned | \$ 101,489 | 92,065 | 85,769 | 90,247 | 96,364 | 104,726 | 91,560 | 93,935 | 96,997 | 104,997 |
| Ceded | — | — | 18,469 | 19,024 | 18,879 | 16,149 | 3,005 | 11,626 | 6,872 | 6,886 |
| Net earned | \$ 101,489 | 92,065 | 67,300 | 71,223 | 77,485 | 88,577 | 88,555 | 82,309 | 90,125 | 98,111 |
| Unallocated expenses | \$ 31,358 | 49,872 | 43,306 | 52,578 | 39,257 | 48,776 | 41,755 | 30,116 | 44,878 | 60,194 |
| Estimated incurred claims and expenses, end of policy year: | | | | | | | | | | |
| Incurred | \$ 41,023 | 41,474 | 28,604 | 57,959 | 63,416 | 57,994 | 59,095 | 59,313 | 60,386 | 56,800 |
| Ceded | — | — | 17,996 | 17,118 | 19,834 | 19,575 | — | — | 14,527 | 24,959 |
| | \$ 41,023 | 41,474 | 10,608 | 40,841 | 43,582 | 38,419 | 59,095 | 59,313 | 45,859 | 31,841 |
| Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | \$ 12,032 | 12,301 | 12,022 | 19,615 | 18,972 | 20,541 | 11,400 | 13,019 | 14,300 | 9,658 |
| One year later | 20,627 | 19,767 | 14,801 | 22,697 | 20,457 | 22,295 | 28,965 | 27,549 | 24,260 | — |
| Two years later | 28,585 | 25,324 | 20,511 | 23,082 | 23,664 | 23,853 | 35,942 | 32,559 | — | — |
| Three years later | 34,565 | 28,175 | 19,458 | 24,863 | 28,733 | 25,063 | 38,432 | — | — | — |
| Four years later | 36,060 | 26,667 | 20,063 | 25,543 | 29,004 | 25,282 | — | — | — | — |
| Five years later | 34,064 | 28,062 | 20,385 | 29,061 | 29,461 | — | — | — | — | — |
| Six years later | 35,201 | 29,240 | 20,624 | 29,370 | — | — | — | — | — | — |
| Seven years later | 35,983 | 30,032 | 20,762 | — | — | — | — | — | — | — |
| Eight years later | 36,373 | 31,033 | — | — | — | — | — | — | — | — |
| Nine years later | 36,827 | — | — | — | — | — | — | — | — | — |
| Reestimated ceded claims and expenses | \$ — | — | 18,767 | 17,996 | 22,643 | 21,685 | — | — | 14,527 | 24,959 |
| Reestimated incurred claims and expenses: | | | | | | | | | | |
| End of policy year | \$ 41,023 | 41,474 | 10,608 | 40,841 | 43,582 | 38,419 | 59,095 | 59,313 | 45,859 | 31,841 |
| One year later | 40,392 | 38,704 | 23,692 | 34,160 | 30,986 | 27,064 | 50,697 | 48,463 | 36,014 | — |
| Two years later | 41,336 | 38,858 | 24,655 | 29,484 | 28,962 | 27,864 | 50,636 | 49,235 | — | — |
| Three years later | 42,254 | 38,264 | 20,456 | 28,725 | 30,268 | 26,082 | 31,868 | — | — | — |
| Four years later | 42,727 | 33,533 | 20,742 | 28,024 | 30,168 | 25,906 | — | — | — | — |
| Five years later | 38,318 | 33,778 | 20,858 | 32,595 | 30,201 | — | — | — | — | — |
| Six years later | 38,458 | 34,125 | 21,110 | 32,360 | — | — | — | — | — | — |
| Seven years later | 38,643 | 35,327 | 21,154 | — | — | — | — | — | — | — |
| Eight years later | 38,873 | 42,337 | — | — | — | — | — | — | — | — |
| Nine years later | 30,074 | — | — | — | — | — | — | — | — | — |
| Increase (decrease) in estimated incurred claims and expenses from end of policy year | \$ (10,949) | 863 | 10,546 | (8,481) | (13,381) | (12,513) | (27,227) | (10,078) | (9,845) | — |

See accompanying independent auditors' report.