



**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

A Component Unit of the California State University

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

A 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, which comprise the Statement of Net Position as of June 30, 2013 and 2012, and the related Statements of Revenues, Expenses, and Changes in Net Position and Statements of Cash Flows for the years then ended, and the related notes to the financial statements.

### ***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, 2013 and 2012, 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***

Our audit was conducted for the purpose of forming an opinion on the basic 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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, the information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Authority has not presented the management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not required to be a part of, the basic financial statements.

**KPMG LLP**

Irvine, California  
September 20, 2013

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

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Statements of Net Position

June 30, 2013 and 2012

|   | <b>2013</b>   | <b>2012</b> |
|---|---------------|-------------|
| <b>Assets:</b>  |               |             |
| Current assets:   |               |             |
| Cash and cash equivalents (note 3)  | \$ 263,000    | —           |
| Investments (note 3)  | 27,726,000    | 13,682,000  |
| Accounts receivable (note 6)  | 290,000       | 262,000     |
| Loans receivable, current portion (note 4)  | 2,642,000     | 225,000     |
| Accrued interest receivable   | 3,000         | 4,000       |
| Prepaid expenses  | 4,659,000     | 4,549,000   |
| Reinsurance recoverable – workers’ compensation   | 717,000       | 1,098,000   |
|   | 36,300,000    | 19,820,000  |
| Noncurrent assets:  |               |             |
| Other long-term investments (note 3)  | 125,423,000   | 125,337,000 |
| Loans receivable, net of current portion (note 4)   | 5,500,000     | 10,380,000  |
| Capital assets, net   | 12,000        | 14,000      |
|   | 167,235,000   | 155,551,000 |
| <b>Liabilities:</b>   |               |             |
| Current liabilities:  |               |             |
| Accounts payable  | 6,099,000     | 6,802,000   |
| Unearned revenue  | 14,000        | —           |
| SELF assessment liability, current portion (note 8)                                       | 1,363,000     | 941,000     |
| Claims liability for losses and loss adjustment expenses –<br>current portion (note 5)    |               |             |
| Reported claims   | 17,033,000    | 14,183,000  |
| Claims incurred but not reported  | 11,762,000    | 8,548,000   |
|   | 36,271,000    | 30,474,000  |
| Noncurrent liabilities:   |               |             |
| SELF assessment liability, net of current portion (note 8)                                | 12,269,000    | 13,161,000  |
| Claims liability for losses and loss adjustment expenses –<br>noncurrent portion (note 5) |               |             |
| Reported claims   | 33,690,000    | 33,417,000  |
| Claims incurred but not reported  | 23,264,000    | 20,141,000  |
|   | 105,494,000   | 97,193,000  |
| <b>Net position:</b>  |               |             |
| Unrestricted  | 61,741,000    | 58,358,000  |
| Total net position  | \$ 61,741,000 | 58,358,000  |

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

|  | <b>2013</b>   | <b>2012</b>  |
|--|---------------|--------------|
| Operating revenues:                                |               |              |
| Member contributions (note 6)                      | \$ 91,025,000 | 98,772,000   |
| Reinsurance premiums (note 7)                      | (3,005,000)   | (16,149,000) |
| Total operating revenues                           | 88,020,000    | 82,623,000   |
| Operating expenses:                                |               |              |
| Claim losses and loss adjustment expenses (note 5) | 43,417,000    | 18,258,000   |
| Claims administration                              | 7,286,000     | 7,043,000    |
| Insurance premiums                                 | 22,959,000    | 17,589,000   |
| Dividend distributions (note 6)                    | 9,207,000     | 21,728,000   |
| General and administrative                         | 1,609,000     | 1,550,000    |
| Miscellaneous services                             | 694,000       | 866,000      |
| Total operating expenses                           | 85,172,000    | 67,034,000   |
| Operating income                                   | 2,848,000     | 15,589,000   |
| Nonoperating revenues:                             |               |              |
| Investment income, net                             | 464,000       | 5,880,000    |
| Interest income from loans                         | 71,000        | 74,000       |
| Total nonoperating revenues                        | 535,000       | 5,954,000    |
| Change in net position                             | 3,383,000     | 21,543,000   |
| Net position, beginning of year                    | 58,358,000    | 36,815,000   |
| Net position, end of year                          | \$ 61,741,000 | 58,358,000   |

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY  
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Statements of Cash Flows

Years ended June 30, 2013 and 2012

|   | <b>2013</b>   | <b>2012</b>   |
|---|---------------|---------------|
| Cash flows from operating activities:   |               |               |
| Receipts of member contributions  | \$ 91,011,000 | 98,737,000    |
| Payments to providers   | (36,316,000)  | (50,344,000)  |
| Payments of claims  | (33,576,000)  | (30,346,000)  |
| Dividend distribution to pool participants  | (9,724,000)   | (19,509,000)  |
| Net cash provided by (used in) operating activities   | 11,395,000    | (1,462,000)   |
| Cash flows from noncapital and related financing activities:  |               |               |
| Payments received on loans to related entities  | 2,463,000     | 1,841,000     |
| Loan interest income received   | 71,000        | 73,000        |
| Net cash provided by noncapital and related financing activities                                      | 2,534,000     | 1,914,000     |
| Cash flows from investing activities:   |               |               |
| Proceeds from sales and maturities of investments   | 424,596,000   | 359,373,000   |
| Purchases of investments  | (441,238,000) | (364,733,000) |
| Investment income, net  | 2,976,000     | 4,908,000     |
| Net cash used in investing activities   | (13,666,000)  | (452,000)     |
| Net change in cash and cash equivalents   | 263,000       | —             |
| Cash and cash equivalents at beginning of year  | —             | —             |
| Cash and cash equivalents at end of year  | \$ 263,000    | —             |
| Reconciliation of operating income to net cash provided by (used in) operating activities:            |               |               |
| Operating income  | \$ 2,848,000  | 15,589,000    |
| Adjustments to reconcile net operating income to net cash provided by (used in) operating activities: |               |               |
| Depreciation  | 3,000         | 1,000         |
| Changes in assets and liabilities:  |               |               |
| Increase in prepaid expenses  | (110,000)     | (2,801,000)   |
| Increase in accounts receivable   | (28,000)      | (35,000)      |
| Decrease (increase) in reinsurance recoverable – workers’ compensation                                | 381,000       | (137,000)     |
| Increase (decrease) in accounts payable   | (703,000)     | 688,000       |
| Increase in unearned revenue  | 14,000        | —             |
| Decrease in SELF assessment liability   | (470,000)     | (2,815,000)   |
| Increase (decrease) in claims liability for losses and loss adjustment expenses                       | 9,460,000     | (11,952,000)  |
| Net cash provided by (used in) operating activities   | \$ 11,395,000 | (1,462,000)   |

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2013 and 2012

**(1) Organization**

On January 1, 1997, the California State University (the CSU or University) and certain Auxiliary Organizations of the University established the California State University Risk Management Authority (the 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 program of workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, property, construction, and other risk-related programs for its member organizations (the Members). The Members participating in the Authority's coverage programs at June 30, 2013 and 2012 are as follows:

| <b>City Campus</b>  | <b>Members</b>   |
|---------------------|--|
| 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     | 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.                                   |
| East Bay            | University Union of CSU East Bay *   |
| Fresno              | California State University, Fresno  |
| Fresno              | Associated Students, Inc. of California State University, Fresno                         |
| Fresno              | California State University, Fresno Association, Inc.                                    |

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| <b>City Campus</b> | <b>Members</b>  |
|--------------------|---|
| Fresno             | California State University, Fresno Foundation                            |
| Fresno             | CSU Fresno University Courtyard   |
| 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                              |
| Fullerton          | CSU Fullerton Housing Authority   |
| 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 |

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| <b>City Campus</b> | <b>Members</b>   |
|--------------------|--|
| 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.   |
| 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      | Cesar Chavez Student Center, San Francisco State University                              |
| San Francisco      | San Francisco State University Foundation  |
| San Francisco      | The University Corporation, San Francisco State  |
| San Francisco      | Franciscan Shops, San Francisco State University *                                       |
| 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<br>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  |

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| <u>City Campus</u> | <u>Members</u>  |
|--------------------|---|
| Sonoma             | Associated Students of Sonoma State University                          |
| Sonoma             | Sonoma State Enterprises, Inc.  |
| Sonoma             | Sonoma State University Academic Foundation, Inc.                       |
| Sonoma             | Sonoma State University Student Union Corporation *                     |
| 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     |

\* Members in fiscal year 2012 who exited in fiscal year 2013

\*\* Members who started in fiscal year 2013

The accompanying financial statements are also included in the California State University financial statements.

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 the 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 that 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.

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The Authority coordinates the claims process in conjunction with various agencies actually 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, the State of California's Victim Compensation and Government Claims Board, 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 the University and member auxiliary organizations. Carl Warren & Company is the TPA for auxiliary organization liability claims. AG Administrator is the TPA 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.

The financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. The Authority is considered a special-purpose government. The Authority records revenue primarily from fees collected from the campuses and their auxiliaries 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 that can reasonably be 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 statement of net position date. Liabilities that reasonably can be expected, as part of normal Authority business operations, to be liquidated within 12 months of the statement 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 paragraph (d).

**(c) *Cash Equivalents and Statement 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 fixed income securities and CSU Consolidated Investment Pool to be investments. The statement of cash flows is prepared using the direct method.

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**(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 investment income.

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 or are designated for the liquidation of long-term claims are classified within other long-term investments.

**(e) Accounts Receivable**

Accounts receivable represent amounts due from the Members as of June 30, 2013 and 2012.

**(f) Capital Assets**

Capital assets with an original value of \$5,000 or more and with a useful life of one year or more are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

**(g) 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, 2013 and 2012. The estimated amounts recoverable from the reinsurer 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 paragraph (i).

**(h) Member Contributions**

The Authority reports contributions in the statement of revenues, expenses, and changes in net position for those revenues received from the 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. The Authority collects contributions for the current year's revenues at the beginning of the fiscal year from the Members. Contributions are recorded as revenue for the policy year in which coverage is provided.

**(i) 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, 2013 and 2012. 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

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from the reinsurer that are related to the liabilities 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 liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

In the estimate of the unpaid losses and loss adjustment expenses, the Authority and the Authority's consulting actuary have employed methods and assumptions they 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.

**(j) Dividend Distributions**

The Authority reports dividends in the statements of revenues, expenses, and changes in net position for the return of contributions to the Members. The 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 organizations 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 Auxiliary Organizations Risk Management Alliance (AORMA) Committee.

**(k) 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.

**(l) 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 Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. These nonoperating activities include the Authority's net investment income and interest income from loans.

**(m) 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.

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**(n) 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 results could differ from those estimates.

**(o) New Accounting Pronouncements**

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement, effective for the Authority's fiscal year beginning July 1, 2012. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included within the Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountant's Committee on Accounting Procedure pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the Authority's fiscal year beginning July 1, 2012. This Statement provides financial reporting guidance for reclassifying certain items that were previously reported as assets and liabilities as deferred outflows of resources of deferred inflows of resources.

**(3) Cash, Cash Equivalents, and Investments**

The Authority's cash, cash equivalents, and investments as of June 30, 2013 and 2012 are classified in the accompanying statement of net position as follows:

|                                 | <b>2013</b>    | <b>2012</b> |
|---------------------------------|----------------|-------------|
| Cash and cash equivalents       | \$ 263,000     | —           |
| Total cash and cash equivalents | \$ 263,000     | —           |
| Short-term investments          | \$ 27,726,000  | 13,682,000  |
| Other long-term investments     | 125,423,000    | 125,337,000 |
| Total investments               | \$ 153,149,000 | 139,019,000 |

**(a) Cash and Cash Equivalents**

At June 30, 2013, total cash and cash equivalents of \$263,000 had a corresponding carrying balance with the commercial bank of \$351,000 at June 30, 2013. The difference was primarily related to

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deposits in transit and outstanding checks. There were no cash or cash equivalents as of June 30, 2012.

**(b) Investments**

At June 30, 2013 and 2012, the Authority's investment portfolio consists of investments held in the CSU Consolidated Investment Pool and Morgan Stanley Smith Barney fixed income securities. Separate accounting is maintained as to the amounts allocable to the various funds and programs.

**(c) Investment Policy**

State law and regulations require that surplus moneys 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 Section 16430 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, and certain other investment instruments.

**(d) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The duration guidelines include limits on the maximum maturity of any individual investment in the portfolio and average duration of the investment portfolio. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-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 the cash flow and liquidity needed for operations. The Authority identifies and manages the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the Authority's allocated share of the CSU Consolidated Investment Pool and Morgan Stanley Smith Barney fixed income securities as of June 30, 2013 and 2012 is presented in the tables on the following page.

**(e) Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

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The following table represents the fair value, weighted average maturity, and actual rating by investment type of the Authority's allocated share of the CSU Consolidated Investment Pool and Morgan Stanley Smith Barney fixed income securities as of June 30, 2013:

| Investment type                       | Fair value            | Weighted average maturity (in years) | Rating as of year-end |                   |                   |                  |                |                  |
|---------------------------------------|-----------------------|--------------------------------------|-----------------------|-------------------|-------------------|------------------|----------------|------------------|
|                                       |                       |                                      | AAA                   | AA                | A                 | BBB              | BB             | Not rated        |
| Money market                          | \$ 3,359,000          | —                                    | \$ —                  | —                 | —                 | —                | —              | 3,359,000        |
| Repurchase agreements                 | 244,000               | —                                    | —                     | —                 | 242,000           | —                | —              | 2,000            |
| Certificates of deposit               | 2,898,000             | 0.38                                 | —                     | 92,000            | 2,806,000         | —                | —              | —                |
| Commercial paper                      | 272,000               | 0.20                                 | —                     | —                 | 272,000           | —                | —              | —                |
| U.S. agency securities                | 44,688,000            | 3.03                                 | 13,923,000            | 30,765,000        | —                 | —                | —              | —                |
| Municipal securities                  | 4,748,000             | 10.44                                | —                     | 2,774,000         | 1,974,000         | —                | —              | —                |
| Corporate and fixed income securities | 38,401,000            | 5.63                                 | 3,669,000             | 11,615,000        | 15,481,000        | 6,953,000        | 683,000        | —                |
| International government              | 1,266,000             | 10.22                                | —                     | 1,266,000         | —                 | —                | —              | —                |
| Mortgage-backed securities            | 22,155,000            | 21.61                                | —                     | 22,060,000        | 95,000            | —                | —              | —                |
| <b>Total</b>                          | <b>118,031,000</b>    |                                      | <b>\$ 17,592,000</b>  | <b>68,572,000</b> | <b>20,870,000</b> | <b>6,953,000</b> | <b>683,000</b> | <b>3,361,000</b> |
| Not subject to rating:                |                       |                                      |                       |                   |                   |                  |                |                  |
| U.S. Treasury securities              | 35,118,000            | 1.78                                 |                       |                   |                   |                  |                |                  |
| <b>Total investment</b>               | <b>\$ 153,149,000</b> |                                      |                       |                   |                   |                  |                |                  |

The following table represents the fair value, weighted average maturity, and actual rating by investment type of the Authority's allocated share of the CSU Consolidated Investment Pool and Morgan Stanley Smith Barney fixed income securities as of June 30, 2012:

| Investment type                       | Fair value            | Weighted average maturity (in years) | Rating as of year-end |                   |                   |                  |                |                  |
|---------------------------------------|-----------------------|--------------------------------------|-----------------------|-------------------|-------------------|------------------|----------------|------------------|
|                                       |                       |                                      | AAA                   | AA                | A                 | BBB              | BB             | Not rated        |
| Money market                          | \$ 2,241,000          | —                                    | \$ —                  | —                 | —                 | —                | —              | 2,241,000        |
| Repurchase agreements                 | 70,000                | 0.01                                 | —                     | —                 | 70,000            | —                | —              | —                |
| Certificates of deposit               | 783,000               | 0.61                                 | —                     | 356,000           | 427,000           | —                | —              | —                |
| Commercial paper                      | 66,000                | 0.23                                 | —                     | —                 | 66,000            | —                | —              | —                |
| U.S. agency securities                | 42,565,000            | 3.47                                 | —                     | 37,121,000        | 5,444,000         | —                | —              | —                |
| Municipal securities                  | 4,247,000             | 8.87                                 | —                     | 2,683,000         | 1,564,000         | —                | —              | —                |
| Corporate and fixed income securities | 36,109,000            | 6.49                                 | 3,065,000             | 11,275,000        | 15,322,000        | 5,876,000        | 571,000        | —                |
| Mortgage-backed securities            | 20,911,000            | 20.61                                | 2,149,000             | 16,224,000        | —                 | —                | —              | 2,538,000        |
| SAIF                                  | 3,873,000             | 0.82                                 | —                     | —                 | —                 | —                | —              | 3,873,000        |
| <b>Total</b>                          | <b>110,865,000</b>    |                                      | <b>\$ 5,214,000</b>   | <b>67,659,000</b> | <b>22,893,000</b> | <b>5,876,000</b> | <b>571,000</b> | <b>8,652,000</b> |
| Not subject to rating:                |                       |                                      |                       |                   |                   |                  |                |                  |
| U.S. Treasury securities              | 28,154,000            | 2.91                                 |                       |                   |                   |                  |                |                  |
| <b>Total investment</b>               | <b>\$ 139,019,000</b> |                                      |                       |                   |                   |                  |                |                  |

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**(f) Concentration of Credit Risk**

The Authority's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code 16430. As of June 30, 2013, the following allocated share of the CSU Consolidated Investment Pool and Morgan Stanley Smith Barney fixed income securities (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), which totaled \$25,502,000 (17%), Federal Home Loan Mortgage Corporation (Freddie Mac), which totaled \$17,759,000 (12%), and Federal Home Loan Banks Office of Finance, which totaled \$15,500,000 (10%). As of June 30, 2012, the following allocated share of the CSU Consolidated Investment Pool and Morgan Stanley Smith Barney fixed income securities (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the Authority's investment portfolio: Federal Home Loan Mortgage Corporation (Freddie Mac), which totaled \$22,536,000 (16.68%), Federal National Mortgage Association (Fannie Mae), which totaled \$17,358,000 (12.84%), Federal Home Loan Banks Office of Finance, which totaled \$11,063,000 (8.19%), and NCUA (National Credit Union Admin) Guarantee Notes, which totaled \$7,412,000 (5.48%).

**(g) Risks and Uncertainties**

The Authority may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of net position.

The Authority invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

**(4) Loans Receivable**

In May 2010, the Authority entered into a loan agreement with California State University, Northridge in the amount of \$5,000,000. The non-amortizing loan term is for a 5-year period 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 (0.045% at June 30, 2013). The maturity date of the loan is June 1, 2015.

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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 (0.045% at June 30, 2013). The maturity date of the loan is October 31, 2013.

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 (0.045% at June 30, 2013). 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 the amount of \$2,000,000. The new extended maturity date of the loan is October 31, 2017.

The following table summarizes the Authority's loans receivable as of June 30, 2013 and 2012:

|  | <u>2013</u>         | <u>2012</u>       |
|--|---------------------|-------------------|
| California State University, Northridge          | \$ 3,500,000        | 5,000,000         |
| California State University, Fresno              | 2,642,000           | 3,070,000         |
| Humboldt State University Advancement Foundation | <u>2,000,000</u>    | <u>2,535,000</u>  |
| Total loans receivable                           | 8,142,000           | 10,605,000        |
| Less current portion                             | <u>(2,642,000)</u>  | <u>(225,000)</u>  |
| Loans receivable, net of current portion         | <u>\$ 5,500,000</u> | <u>10,380,000</u> |

**(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, 2013 and 2012.

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Changes in the Authority's self-insurance claims liability for the years ended June 30, 2013 and 2012 are as follows:

|   |                      |
|---|----------------------|
| Claims liability for losses and loss adjustment expenses, June 30, 2011                                       | \$ 88,241,000        |
| Incurred claims for losses and loss adjustment expenses:  |                      |
| Provision for insured events of the current year-end  | 57,994,000           |
| Decreases in the provision for reinsured events of current year-end   | (19,575,000)         |
| Decreases in the provision for insured events of prior years and recoveries                                   | <u>(20,161,000)</u>  |
| Total incurred claims for losses and loss adjustment expenses   | <u>18,258,000</u>    |
| Payments:   |                      |
| Claims and claim adjustment expenses attributable to insured events of the current year-end                   | \$ (23,517,000)      |
| Claims and claim adjustment expenses attributable to recoveries from reinsured events of the current year-end | 2,976,000            |
| Claims and claim adjustment expenses attributable to insured events of prior years                            | <u>(9,669,000)</u>   |
| Total payments  | <u>(30,210,000)</u>  |
| Claims liability for losses and loss adjustment expenses, June 30, 2012                                       | <u>76,289,000</u>    |
| Incurred claims for losses and loss adjustment expenses:  |                      |
| Provision for insured events of the current year-end  | 59,095,000           |
| Decreases in the provision for reinsured events of current year-end   | (21,565,000)         |
| Increases in the provision for insured events of prior years and recoveries                                   | <u>5,887,000</u>     |
| Total incurred claims for losses and loss adjustment expenses   | <u>43,417,000</u>    |
| Payments:   |                      |
| Claims and claim adjustment expenses attributable to insured events of the current year-end                   | (23,031,000)         |
| Claims and claim adjustment expenses attributable to recoveries from reinsured events of the current year-end | 2,976,000            |
| Claims and claim adjustment expenses attributable to insured events of prior years                            | <u>(13,902,000)</u>  |
| Total payments  | <u>(33,957,000)</u>  |
| Claims liability for losses and loss adjustment expenses, June 30, 2013                                       | 85,749,000           |
| Less current portion  | <u>(28,795,000)</u>  |
| Claims liability for losses and loss adjustment expenses, June 30, 2013, net of current portion               | <u>\$ 56,954,000</u> |

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**(6) Related-Party Transactions**

The following represents a summary of the accounts receivable, contributions (premiums), dividends distribution, for the years ended June 30, 2013 and 2012, and general liability insurance deductibles for the policy period detailed by campus:

| <b>June 30, 2013</b>        |                                |  |                                  |   |
|-----------------------------|--------------------------------|--|----------------------------------|---|
| <b>Members</b>              | <b>Accounts<br/>receivable</b> | <b>Contributions<br/>for the<br/>fiscal year</b> | <b>Dividend<br/>distribution</b> | <b>General<br/>liability<br/>insurance<br/>deductibles<br/>per<br/>occurrence</b> |
| Bakersfield                 | \$ —                           | 1,436,000  | (122,000)                        | 35,000  |
| California Maritime Academy | —                              | 491,000  | (136,000)                        | 35,000  |
| Channel Islands             | —                              | 1,377,000  | (122,000)                        | 35,000  |
| Chico                       | —                              | 2,600,000  | (220,000)                        | 100,000   |
| Chancellor's Office         | —                              | 5,251,000  | (135,000)                        | 100,000   |
| Dominguez Hills             | —                              | 2,537,000  | (262,000)                        | 100,000   |
| East Bay                    | —                              | 2,862,000  | (361,000)                        | 500,000   |
| Fresno                      | —                              | 4,403,000  | (325,000)                        | 250,000   |
| Fullerton                   | —                              | 3,842,000  | (396,000)                        | 250,000   |
| Humboldt                    | —                              | 2,298,000  | (240,000)                        | 35,000  |
| Long Beach                  | —                              | 5,466,000  | (461,000)                        | 250,000   |
| Los Angeles                 | —                              | 3,613,000  | (469,000)                        | 250,000   |
| Monterey Bay                | —                              | 1,357,000  | (96,000)                         | 35,000  |
| Northridge                  | —                              | 4,675,000  | (481,000)                        | 500,000   |
| Pomona                      | —                              | 3,450,000  | (466,000)                        | 250,000   |
| Sacramento                  | —                              | 3,641,000  | (361,000)                        | 250,000   |
| San Bernardino              | —                              | 2,584,000  | (274,000)                        | 50,000  |
| San Diego                   | —                              | 4,937,000  | (497,000)                        | 900,000   |
| San Francisco               | —                              | 5,316,000  | (578,000)                        | 500,000   |
| San Jose                    | —                              | 4,874,000  | (470,000)                        | 500,000   |
| San Luis Obispo             | —                              | 3,852,000  | (482,000)                        | 250,000   |
| San Marcos                  | —                              | 1,528,000  | (194,000)                        | 50,000  |
| Sonoma                      | —                              | 2,303,000  | (192,000)                        | 100,000   |
| Stanislaus                  | —                              | 1,638,000  | (165,000)                        | 35,000  |
| Auxiliary Organizations     | 290,000                        | 14,694,000                                       | (1,702,000)                      | —   |
|                             | \$ 290,000                     | 91,025,000                                       | (9,207,000)                      |   |

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| <b>June 30, 2012</b>        |                                |  |                                  |   |
|-----------------------------|--------------------------------|--|----------------------------------|---|
| <b>Members</b>              | <b>Accounts<br/>receivable</b> | <b>Contributions<br/>for the<br/>fiscal year</b> | <b>Dividend<br/>distribution</b> | <b>General<br/>liability<br/>insurance<br/>deductibles<br/>per<br/>occurrence</b> |
| Bakersfield                 | \$ —                           | 1,462,000  | (388,000)                        | 35,000  |
| California Maritime Academy | —                              | 438,000  | (119,000)                        | 35,000  |
| Channel Islands             | —                              | 1,447,000  | (234,000)                        | 35,000  |
| Chico                       | —                              | 2,954,000  | (734,000)                        | 100,000   |
| Chancellor's Office         | —                              | 3,633,000  | (344,000)                        | 100,000   |
| Dominguez Hills             | —                              | 2,678,000  | (775,000)                        | 100,000   |
| East Bay                    | —                              | 3,226,000  | (908,000)                        | 500,000   |
| Fresno                      | —                              | 4,573,000  | (1,088,000)                      | 250,000   |
| Fullerton                   | —                              | 3,895,000  | (1,075,000)                      | 250,000   |
| Humboldt                    | —                              | 2,577,000  | (538,000)                        | 35,000  |
| Long Beach                  | —                              | 5,715,000  | (1,420,000)                      | 250,000   |
| Los Angeles                 | —                              | 3,699,000  | (1,047,000)                      | 250,000   |
| Monterey Bay                | —                              | 1,506,000  | (396,000)                        | 35,000  |
| Northridge                  | —                              | 5,253,000  | (1,425,000)                      | 500,000   |
| Pomona                      | —                              | 3,437,000  | (1,019,000)                      | 250,000   |
| Sacramento                  | —                              | 3,980,000  | (880,000)                        | 250,000   |
| San Bernardino              | —                              | 2,865,000  | (697,000)                        | 50,000  |
| San Diego                   | —                              | 5,421,000  | (1,310,000)                      | 900,000   |
| San Francisco               | —                              | 6,630,000  | (1,423,000)                      | 500,000   |
| San Jose                    | —                              | 5,398,000  | (1,148,000)                      | 500,000   |
| San Luis Obispo             | —                              | 4,583,000  | (1,088,000)                      | 250,000   |
| San Marcos                  | —                              | 1,810,000  | (481,000)                        | 50,000  |
| Sonoma                      | —                              | 2,753,000  | (621,000)                        | 100,000   |
| Stanislaus                  | —                              | 1,871,000  | (351,000)                        | 35,000  |
| Auxiliary Organizations     | 262,000                        | 16,968,000                                       | (2,219,000)                      | —   |
|                             | \$ 262,000                     | 98,772,000                                       | (21,728,000)                     |   |

**(7) Excess Insurance and Reinsurance**

**(a) Excess Insurance**

For the years ended June 30, 2013 and 2012, the Authority purchased excess insurance to protect the Members from catastrophic losses. The Authority maintained excess public entity liability insurance coverage provided by School Execs Liability Fund (SELF), a Joint Power 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 other various 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 the Safety National to statutory limits in excess of the \$2,500,000 self-insured retention for fiscal years 2013 and 2012. For the AORMA workers' compensation program, the Authority purchased excess workers' compensation insurance provided by Safety National for fiscal years 2013 and 2012 to statutory limit in excess of \$500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

**(b) Reinsurance**

For the year ended June 30, 2012, the Authority entered into a reinsurance contract with Chartis. This transaction reinsured the CSU's workers compensation claims liability for claims incurred within the \$2,500,000 self-insured retention during fiscal year 2012 up to \$25,157,000. For the year ended June 30, 2013, the Authority did not enter into the workers' compensation reinsurance contract. The Authority paid \$2,015,000 and \$15,159,000 of reinsurance premiums for fiscal year 2013 and 2012, respectively. The payment made during fiscal year 2013 was related to a true-up adjustment relating to policy year ended June 30, 2012. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

The Authority purchased reinsurance for the AORMA and campus liability programs provided by the General Reinsurance Corporation for fiscal years 2013 and 2012. 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 Authority paid \$990,000 of reinsurance premium for fiscal year 2013 and 2012. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

While such losses are reinsured, the Authority will not be relieved of its primary obligations to the policyholder in the reinsurance transaction. The estimated amount that are recoverable from the reinsurer and that reduce the liabilities as of June 30, 2013 and 2012 for unpaid claims and claim adjustment expenses are \$7,840,000 and \$9,140,000, respectively.

**(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 liability as of June 30, 2013 and 2012 is \$13,632,000 and \$14,102,000, respectively.

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**(9) Subsequent Event**

In September 2013, the Authority's Executive Committee approved extending the loan to California State University, Fresno in the amount of \$2,642,000 for additional five years. The extended maturity date is September 30, 2018 and principal may be prepaid at any time during the term of the loan.

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Supplementary Information

(Unaudited)

**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>2013</u>          | <u>2012</u>        |
|--|----------------------|--------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year                                  | \$ 40,227,000        | 42,988,000         |
| Incurred claims and claim adjustment expenses:   |                      |                    |
| Provision for insured events of current fiscal year  | 25,372,000           | 22,382,000         |
| Decreases in provision for reinsured events of current fiscal year   | (21,565,000)         | (19,575,000)       |
| Increase (decrease) in provision for insured events of prior fiscal years                                    | <u>16,193,000</u>    | <u>(1,050,000)</u> |
| Total incurred claims and claim adjustment expenses  | <u>20,000,000</u>    | <u>1,757,000</u>   |
| Payments:  |                      |                    |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year                   | (2,976,000)          | (2,976,000)        |
| Claims and claim adjustment expenses attributable to recoveries from reinsured events of current fiscal year | 2,976,000            | 2,976,000          |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years                    | <u>(5,660,000)</u>   | <u>(4,518,000)</u> |
| Total payments   | <u>(5,660,000)</u>   | <u>(4,518,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year  | \$ <u>54,567,000</u> | <u>40,227,000</u>  |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

**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>2013</u>          | <u>2012</u>         |
|--|----------------------|---------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year                | \$ 23,570,000        | 33,329,000          |
| Incurred claims and claim adjustment expenses:   |                      |                     |
| Provision for insured events of current fiscal year  | 8,055,000            | 9,217,000           |
| Decreases in provision for insured events of prior fiscal years                            | <u>(9,339,000)</u>   | <u>(17,352,000)</u> |
| Total incurred claims and claim adjustment expenses  | <u>(1,284,000)</u>   | <u>(8,135,000)</u>  |
| Payments:  |                      |                     |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | —                    | (1,000)             |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years  | <u>(4,242,000)</u>   | <u>(1,623,000)</u>  |
| Total payments   | <u>(4,242,000)</u>   | <u>(1,624,000)</u>  |
| Claims liability for losses and loss adjustment expenses, end of year                      | <u>\$ 18,044,000</u> | <u>23,570,000</u>   |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

**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>2013</u>         | <u>2012</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>13,530,000</u>   | <u>14,022,000</u>   |
| Total incurred claims and claim adjustment expenses  | <u>13,530,000</u>   | <u>14,022,000</u>   |
| Payments:  |                     |                     |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(13,530,000)</u> | <u>(14,022,000)</u> |
| Total payments   | <u>(13,530,000)</u> | <u>(14,022,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year                      | \$ <u>—</u>         | <u>—</u>            |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

**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>2013</u>        | <u>2012</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>1,323,000</u>   | <u>1,386,000</u>   |
| Total incurred claims and claim adjustment expenses  | <u>1,323,000</u>   | <u>1,386,000</u>   |
| Payments:  |                    |                    |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(1,323,000)</u> | <u>(1,386,000)</u> |
| Total payments   | <u>(1,323,000)</u> | <u>(1,386,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year                      | \$ <u>—</u>        | <u>—</u>           |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

**Reconciliation of Authority's 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>2013</u>         | <u>2012</u>        |
|--|---------------------|--------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year                | \$ 2,042,000        | 2,188,000          |
| Incurred claims and claim adjustment expenses:   |                     |                    |
| Provision for insured events of current fiscal year  | 3,237,000           | 2,836,000          |
| Decreases in provision for insured events of prior fiscal years                            | <u>(192,000)</u>    | <u>(494,000)</u>   |
| Total incurred claims and claim adjustment expenses  | <u>3,045,000</u>    | <u>2,342,000</u>   |
| Payments:  |                     |                    |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | (1,616,000)         | (1,212,000)        |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years  | <u>(1,415,000)</u>  | <u>(1,276,000)</u> |
| Total payments   | <u>(3,031,000)</u>  | <u>(2,488,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year                      | <u>\$ 2,056,000</u> | <u>2,042,000</u>   |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

**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>2013</u>         | <u>2012</u>        |
|--|---------------------|--------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year                | \$ 7,882,000        | 6,607,000          |
| Incurred claims and claim adjustment expenses:   |                     |                    |
| Provision for insured events of current fiscal year  | 2,962,000           | 3,278,000          |
| Decreases in provision for insured events of prior fiscal years                            | <u>(823,000)</u>    | <u>(167,000)</u>   |
| Total incurred claims and claim adjustment expenses  | <u>2,139,000</u>    | <u>3,111,000</u>   |
| Payments:  |                     |                    |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | (372,000)           | (467,000)          |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years  | <u>(1,430,000)</u>  | <u>(1,369,000)</u> |
| Total payments   | <u>(1,802,000)</u>  | <u>(1,836,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year                      | <u>\$ 8,219,000</u> | <u>7,882,000</u>   |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

**Reconciliation of AORMA General Liability Program**

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

|  | <u>2013</u>                | <u>2012</u>             |
|--|----------------------------|-------------------------|
| Claims liability for losses and loss adjustment expenses, beginning of year                | \$ 2,568,000               | 3,129,000               |
| Incurred claims and claim adjustment expenses:   |                            |                         |
| Provision for insured events of current fiscal year  | 1,468,000                  | 2,176,000               |
| Increase (decrease) in provision for insured events of prior fiscal years                  | <u>48,000</u>              | <u>(1,098,000)</u>      |
| Total incurred claims and claim adjustment expenses  | <u>1,516,000</u>           | <u>1,078,000</u>        |
| Payments:  |                            |                         |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | (67,000)                   | (756,000)               |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years  | <u>(1,154,000)</u>         | <u>(883,000)</u>        |
| Total payments   | <u>(1,221,000)</u>         | <u>(1,639,000)</u>      |
| Claims liability for losses and loss adjustment expenses, end of year                      | \$ <u><u>2,863,000</u></u> | <u><u>2,568,000</u></u> |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

**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>2013</u>     | <u>2012</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>69,000</u>   | <u>392,000</u>   |
| Total incurred claims and claim adjustment expenses  | <u>69,000</u>   | <u>392,000</u>   |
| Payments:  |                 |                  |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(69,000)</u> | <u>(392,000)</u> |
| Total payments   | <u>(69,000)</u> | <u>(392,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year                      | \$ <u>—</u>     | <u>—</u>         |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

**Reconciliation of AORMA Crime Claims Liabilities**

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

|  | <u>2013</u>     | <u>2012</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>20,000</u>   | <u>20,000</u>   |
| Total incurred claims and claim adjustment expenses  | <u>20,000</u>   | <u>20,000</u>   |
| Payments:  |                 |                 |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(20,000)</u> | <u>(20,000)</u> |
| Total payments   | <u>(20,000)</u> | <u>(20,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year                      | <u>\$ —</u>     | <u>—</u>        |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

**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>2013</u>        | <u>2012</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>3,059,000</u>   | <u>2,285,000</u>   |
| Total incurred claims and claim adjustment expenses  | <u>3,059,000</u>   | <u>2,285,000</u>   |
| Payments:  |                    |                    |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | <u>(3,059,000)</u> | <u>(2,285,000)</u> |
| Total payments   | <u>(3,059,000)</u> | <u>(2,285,000)</u> |
| Claims liability for losses and loss adjustment expenses, end of year                      | <u>\$ —</u>        | <u>—</u>           |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Schedule of Net Position

June 30, 2013

(for inclusion in the California State University)

(Unaudited)

Assets:

Current assets:

|                                   |            |
|-----------------------------------|------------|
| Cash and cash equivalents         | \$ 263,410 |
| Short-term investments            | 27,725,979 |
| Accounts receivable, net          | 1,009,913  |
| Notes receivable, current portion | 2,642,037  |
| Prepaid expenses and other assets | 4,658,883  |
| Total current assets              | 36,300,222 |

Noncurrent assets:

|  |             |
|--|-------------|
| Notes receivable, net of current portion | 5,500,000   |
| Other long-term investments              | 125,422,735 |
| Capital assets, net                      | 12,232      |
| Total noncurrent assets                  | 130,934,967 |

|              |                |
|--------------|----------------|
| Total assets | \$ 167,235,189 |
|--------------|----------------|

Liabilities:

Current liabilities:

|   |              |
|---|--------------|
| Accounts payable                                  | \$ 7,462,513 |
| Unearned revenue                                  | 14,105       |
| Self-insurance claims liability – current portion | 28,794,577   |
| Total current liabilities                         | 36,271,195   |

Noncurrent liabilities:

|   |            |
|---|------------|
| Self-insurance claims liabilities, net of current portion | 56,954,205 |
| Other liabilities   | 12,268,856 |
| Total noncurrent liabilities                              | 69,223,061 |

|                   |             |
|-------------------|-------------|
| Total liabilities | 105,494,256 |
|-------------------|-------------|

Net position:

|                    |               |
|--------------------|---------------|
| Unrestricted       | 61,740,933    |
| Total net position | \$ 61,740,933 |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Schedule of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2013

(for inclusion in the California State University)

(Unaudited)

|                                    |                             |
|------------------------------------|-----------------------------|
| Revenues:                          |                             |
| Operating revenues:                |                             |
| Other operating revenues           | \$ <u>88,020,361</u>        |
| Total operating revenues           | <u>88,020,361</u>           |
| Expenses:                          |                             |
| Operating expenses:                |                             |
| Instruction                        | 10,476,292                  |
| Research                           | 104,550                     |
| Public service                     | 219,727                     |
| Academic support                   | 2,363,049                   |
| Student services                   | 2,401,820                   |
| Institutional support              | 58,390,488                  |
| Operation and maintenance of plant | 1,492,120                   |
| Auxiliary enterprise expenses      | 515,479                     |
| Depreciation and amortization      | <u>1,882</u>                |
| Total operating expenses           | <u>75,965,407</u>           |
| Operating income                   | <u>12,054,954</u>           |
| Nonoperating revenues (expenses):  |                             |
| Investment income, net             | 534,319                     |
| Other nonoperating expenses        | <u>(9,206,874)</u>          |
| Net nonoperating expenses          | <u>(8,672,555)</u>          |
| Increase in net position           | <u>3,382,399</u>            |
| Net position:                      |                             |
| Net position, beginning of year    | <u>58,358,534</u>           |
| Net position, end of year          | <u>\$ <u>61,740,933</u></u> |

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
RISK MANAGEMENT AUTHORITY**

Other Information

June 30, 2013

(for inclusion in the California State University)

(Unaudited)

**Composition of investments:**

|                                  | <u>Current<br/>unrestricted</u> | <u>Total<br/>current</u> | <u>Noncurrent<br/>unrestricted</u> | <u>Total<br/>noncurrent</u> | <u>Total</u>       |
|----------------------------------|---------------------------------|--------------------------|------------------------------------|-----------------------------|--------------------|
| CSU Consolidated Investment Pool | \$ 27,725,979                   | 27,725,979               | —                                  | —                           | 27,725,979         |
| Morgan Stanley Smith Barney      | —                               | —                        | 125,422,735                        | 125,422,735                 | 125,422,735        |
| Total investments                | <u>\$ 27,725,979</u>            | <u>27,725,979</u>        | <u>125,422,735</u>                 | <u>125,422,735</u>          | <u>153,148,714</u> |

**Transactions with Related Entities**

|  | <u>Amount</u> |
|--|---------------|
| Payments to University for salaries of University personnel working on contracts, grants, and other programs | \$ 1,768,120  |
| Accounts payable to University   | (167,522)     |