



**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of
the California State University

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

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KPMG LLP
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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 statements of net position as of June 30, 2014 and 2013, 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, 2014 and 2013, 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

Supplementary and Other Information

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 is 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 18, 2014

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Statements of Net Position

June 30, 2014 and 2013

	2014	2013
Assets:		
Current assets:		
Cash and cash equivalents (note 3)	\$ —	263,000
Investments (note 3)	38,118,000	27,726,000
Accounts receivable (note 6)	294,000	290,000
Loans receivable from affiliates, current portion (note 4)	1,778,000	2,642,000
Interest receivable	8,000	3,000
Prepaid expenses	4,197,000	4,659,000
Reinsurance recoverable – workers’ compensation	752,000	717,000
Total current assets	45,147,000	36,300,000
Noncurrent assets:		
Other long-term investments (note 3)	128,713,000	125,423,000
Loans receivable from affiliates, net of current portion (note 4)	3,228,000	5,500,000
Capital assets, net	—	12,000
Total assets	177,088,000	167,235,000
Liabilities:		
Current liabilities:		
Accounts payable	5,601,000	6,099,000
Unearned revenues	33,000	14,000
SELF assessment liability, current portion (note 8)	1,363,000	1,363,000
Claims liability for losses and loss adjustment expenses – current portion (note 5):		
Reported claims	19,214,000	17,033,000
Claims incurred but not reported	13,742,000	11,762,000
Total current liabilities	39,953,000	36,271,000
Noncurrent liabilities:		
SELF assessment liability, net of current portion (note 8)	10,906,000	12,269,000
Claims liability for losses and loss adjustment expenses – noncurrent portion (note 5)		
Reported claims	38,183,000	33,690,000
Claims incurred but not reported	27,310,000	23,264,000
Total liabilities	116,352,000	105,494,000
Net position:		
Unrestricted	60,736,000	61,741,000
Total net position	\$ 60,736,000	61,741,000

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Member contributions (note 6)	\$ 90,181,000	91,025,000
Reinsurance premiums (note 7)	(11,626,000)	(3,005,000)
Total operating revenues	78,555,000	88,020,000
Operating expenses:		
Claim losses and loss adjustment expenses (note 5)	53,198,000	43,417,000
Claims administration	8,004,000	7,286,000
Insurance premiums	10,949,000	22,959,000
Dividend distributions (note 6)	8,921,000	9,207,000
General and administrative	1,421,000	1,609,000
Miscellaneous services	821,000	694,000
Total operating expenses	83,314,000	85,172,000
Operating income (loss)	(4,759,000)	2,848,000
Nonoperating revenues:		
Investment income, net	3,663,000	464,000
Interest income from loans	91,000	71,000
Total nonoperating revenues	3,754,000	535,000
Change in net position	(1,005,000)	3,383,000
Net position, beginning of year	61,741,000	58,358,000
Net position, end of year	\$ 60,736,000	61,741,000

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts of member contributions	\$ 90,197,000	91,011,000
Payments to providers	(34,330,000)	(36,316,000)
Payments of claims	(40,533,000)	(33,576,000)
Dividend distribution to pool participants	(8,800,000)	(9,724,000)
	6,534,000	11,395,000
Net cash provided by operating activities		
Cash flows from noncapital and related financing activities:		
Payments received on loans to related entities	3,136,000	2,463,000
Loan interest income received	87,000	71,000
	3,223,000	2,534,000
Net cash provided by noncapital and related financing activities		
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	482,679,000	424,608,000
Purchases of investments	(495,149,000)	(441,251,000)
Investment income, net	3,663,000	464,000
Unrealized (gains) losses	(1,213,000)	2,513,000
	(10,020,000)	(13,666,000)
Net cash used in investing activities		
Net change in cash and cash equivalents	(263,000)	263,000
Cash and cash equivalents at beginning of year	263,000	—
Cash and cash equivalents at end of year	\$ —	263,000
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (4,759,000)	2,848,000
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	12,000	3,000
Changes in assets and liabilities:		
Decrease (increase) in prepaid expenses	462,000	(110,000)
Increase in accounts receivable	(4,000)	(28,000)
Decrease (increase) in reinsurance recoverable – workers’ compensation	(35,000)	381,000
Decrease in accounts payable	(498,000)	(703,000)
Increase in unearned revenues	19,000	14,000
Decrease in SELF assessment liability	(1,363,000)	(470,000)
Increase in claims liability for losses and loss adjustment expenses	12,700,000	9,460,000
	12,700,000	9,460,000
Net cash provided by operating activities	\$ 6,534,000	11,395,000

See accompanying notes to financial statements.

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(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, 2014 and 2013 are as follows:

<u>City Campus</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	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.

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City Campus	Members
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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City Campus	Members
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 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

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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.
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 2013 who exited in fiscal year 2014

** Member who started in fiscal year 2014

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 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 campuses and 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 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 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 statements of net position date. Liabilities that can be reasonably expected, as part of normal Authority's 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 paragraph (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 fixed income securities and CSU Consolidated Investment Pool to be investments. Certain transactions recorded as revenue or expenses in the accompanying statements of revenues, expenses and changes in net position include transactions between entities that are also

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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 statement 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, 2014 and 2013.

(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, 2014 and 2013. 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 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.

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(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, 2014 and 2013. 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 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 has 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 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 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

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GASB requirements. 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 under §115 of the Internal Revenue Code of 1986.

(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 June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Authority's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Authority to its employees. This statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The Authority is evaluating the effect that Statement No. 68 will have on its financial statements.

(p) *Reclassification*

Certain reclassifications have been made in the financial statements to conform 2013 information to 2014 presentation.

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(3) Cash and Cash Equivalents, Investments, and Investments Income, net

The Authority's cash, cash equivalents, and investments as of June 30, 2014 and 2013 are classified in the accompanying statements of net position as follows:

	2014	2013
Cash and cash equivalents	\$ —	263,000
Total cash and cash equivalents	\$ —	263,000
Short-term investments	\$ 38,118,000	27,726,000
Other long-term investments	128,713,000	125,423,000
Total investments	\$ 166,831,000	153,149,000

(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, 2014, there is no cash or cash equivalents. The carrying amount of the Authority's cash in demand deposit accounts is \$193,000 at June 30, 2014. Outstanding checks and cash awaiting investment are the primary differences. At June 30, 2013, total cash and cash equivalents was \$263,000.

(b) Custodial Credit Risk for Deposits

Custodial credit risk is the risk that in the event of the failure of the custodian, deposits may not be returned to the Authority. The Authority's deposits are maintained at financial institutions that are FDIC insured. As a result, custodial credit risk for deposits is remote.

(c) Investments

At June 30, 2014 and 2013, 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.

(d) Custodial Credit Risk for Investments

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments 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. As a result, custodial credit risk for investments is remote.

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(e) 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 Section 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.

(f) 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 Authority's investment guidelines manage interest rate risk. The guidelines include limits on the maximum effective maturity of any individual investment and the average duration of the portfolio. The effective maturity date reflects a bond with features such as a call, put, or reset date, and prepayment speed resulting in the maturity of a bond being less than the final maturity date. Duration is a measure of the sensitivity of the price of fixed income investment relative to changes in interest rates. The Authority also manages its exposure to interest rate risk 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. Weighted average maturity is the average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount of the asset. The occurrence of interest rate risk is remote because of these risk mitigations.

(g) Credit Risk

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

By law, 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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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, 2014:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end					
			AAA	AA	A	BBB	BB	Not rated
Money market	\$ 4,095,000	—	\$ —	—	—	—	—	4,095,000
Repurchase agreements	31,000	—	—	—	28,000	—	—	3,000
Certificates of deposit	2,500,000	0.65	—	251,000	2,249,000	—	—	—
Commercial paper	51,000	0.03	—	—	51,000	—	—	—
U.S. agency securities	55,441,000	1.98	—	22,598,000	32,843,000	—	—	—
Municipal securities	5,696,000	6.03	—	3,733,000	1,530,000	433,000	—	—
Corporate and fixed income securities	41,560,000	5.61	9,078,000	6,611,000	16,748,000	8,645,000	478,000	—
International government	1,271,000	9.22	—	1,271,000	—	—	—	—
Mortgage-backed securities	16,118,000	23.84	—	16,118,000	—	—	—	—
Total	126,763,000		\$ 9,078,000	50,582,000	53,449,000	9,078,000	478,000	4,098,000
Not subject to rating:								
U.S. Treasury securities	40,068,000	3.24						
Total investments	\$ 166,831,000							

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	—	—	—
Total	118,031,000		\$ 17,592,000	68,572,000	20,870,000	6,953,000	683,000	3,361,000
Not subject to rating:								
U.S. Treasury securities	35,118,000	1.78						
Total investments	\$ 153,149,000							

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(h) Concentration of Credit Risk

Concentration of credit 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. Therefore, the occurrence of concentration of credit risk is remote.

As of June 30, 2014, the following investments 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 \$17,452,000 (10%), Federal Home Loan Mortgage Corporation (Freddie Mac), which totaled \$11,660,000 (7%), and Federal Home Loan Banks Office of Finance, which totaled \$32,439,000 (19%). As of June 30, 2013, the following investments 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%).

(i) 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.

(j) Investment Income, net

Investment income, net, included within statements of revenues, expenses, and changes in net position is comprised of unrealized gains of \$1,213,000, realized gains of \$428,000, and interest and dividend income of \$2,022,000 as of June 30, 2014. Investment income, net included within statements of revenues, expenses, and changes in net position is comprised of unrealized losses of (\$2,513,000), realized gains of \$613,000, and interest and dividend income of \$2,364,000 as of June 30, 2013.

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(4) Loans Receivable from Affiliates

In May 2010, the Authority entered into a loan agreement with California State University, Northridge in the amount of \$5,000,000. The nonamortizing 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 (0.048% at June 30, 2014). The maturity date of the loan is June 1, 2015.

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 (0.048% at June 30, 2014). 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 additional 5 years. The new extended maturity date of the loan is September 30, 2018.

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 (0.048% at June 30, 2014). 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.

In May 2014, the Authority entered into a line-of-credit agreement with California State University, Sacramento in the amount of \$4,000,000. 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 (0.048% at June 30, 2014). The maturity date of the line of credit is June 1, 2019. As of June 30, 2014, no funds have been borrowed from this line of credit.

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The following table summarizes the Authority's loans receivable from affiliates as of June 30, 2014 and 2013:

	2014	2013
California State University, Northridge	\$ 1,514,000	3,500,000
California State University, Fresno	1,492,000	2,642,000
Humboldt State University Advancement Foundation	2,000,000	2,000,000
Total loans receivable from affiliates	5,006,000	8,142,000
Less current portion	(1,778,000)	(2,642,000)
Loans receivable from affiliates, net of current portion	\$ 3,228,000	5,500,000

(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, 2014 and 2013.

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Changes in the Authority's claims liability for the years ended June 30, 2014 and 2013 are as follows:

Claims liability for losses and loss adjustment expenses, June 30, 2012	\$ 76,289,000
Incurred claims for losses and loss adjustment expenses:	
Provision for insured events of the current year-end	59,095,000
Decrease in provision for insured events of prior year-end	<u>(15,678,000)</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	11,631,000
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(22,557,000)</u>
Total payments	<u>(33,957,000)</u>
Claims liability for losses and loss adjustment expenses, June 30, 2013	85,749,000
Incurred claims for losses and loss adjustment expenses:	
Provision for insured events of the current year-end	59,313,000
Decrease in provision for insured events of prior year-end	<u>(6,115,000)</u>
Total incurred claims for losses and loss adjustment expenses	<u>53,198,000</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current year-end	(20,672,000)
Claims and claim adjustment expenses attributable to recoveries from reinsured events of the current year-end	7,653,000
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(27,479,000)</u>
Total payments	<u>(40,498,000)</u>
Claims liability for losses and loss adjustment expenses, June 30, 2014	98,449,000
Less current portion	<u>(32,956,000)</u>
Claims liability for losses and loss adjustment expenses, June 30, 2014, net of current portion	<u>\$ 65,493,000</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, 2014 and 2013, and general liability insurance deductibles for the policy period detailed by campus:

June 30, 2014				
Members	Accounts receivable	Contributions for the fiscal year	Dividend distribution	General liability insurance deductibles per occurrence
Bakersfield	\$ —	1,384,000	(209,000)	35,000
California Maritime Academy	—	475,000	(59,000)	35,000
Channel Islands	—	1,440,000	(108,000)	35,000
Chico	—	2,489,000	(307,000)	100,000
Chancellor's Office	—	8,078,000	(123,000)	100,000
Dominguez Hills	—	2,426,000	(320,000)	100,000
East Bay	—	2,686,000	(153,000)	500,000
Fresno	—	4,231,000	(785,000)	250,000
Fullerton	—	3,679,000	(304,000)	250,000
Humboldt	—	2,087,000	(296,000)	35,000
Long Beach	—	5,030,000	(608,000)	250,000
Los Angeles	—	3,349,000	(299,000)	250,000
Monterey Bay	—	1,322,000	(216,000)	35,000
Northridge	—	4,330,000	(320,000)	500,000
Pomona	—	3,571,000	(281,000)	250,000
Sacramento	—	3,578,000	(281,000)	250,000
San Bernardino	—	2,550,000	(342,000)	50,000
San Diego	—	4,662,000	(299,000)	900,000
San Francisco	—	4,586,000	(533,000)	500,000
San Jose	—	4,590,000	(346,000)	500,000
San Luis Obispo	—	3,698,000	(233,000)	250,000
San Marcos	—	1,411,000	(319,000)	50,000
Sonoma	—	2,021,000	(230,000)	100,000
Stanislaus	—	1,658,000	(126,000)	35,000
Auxiliary Organizations	294,000	14,850,000	(1,824,000)	—
	\$ 294,000	90,181,000	(8,921,000)	

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June 30, 2013				
Members	Accounts receivable	Contributions for the fiscal year	Dividend distribution	General liability insurance deductibles per occurrence
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)	—
	<u>\$ 290,000</u>	<u>91,025,000</u>	<u>(9,207,000)</u>	

(7) Excess Insurance and Reinsurance

(a) Excess Insurance

For the years ended June 30, 2014 and 2013, 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 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 2014 and 2013. For the AORMA workers' compensation program, the Authority purchased excess workers' compensation insurance provided by Safety National for fiscal years 2014 and 2013 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 years ended June 30, 2014 and 2013, the Authority did not enter into the CSU's workers' compensation reinsurance contract. The Authority paid \$2,015,000 of reinsurance premiums during fiscal year 2013. 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.

While such losses are reinsured, the Authority will not be relieved of its primary obligations to the policyholder in the reinsurance transaction. The estimated amounts that are recoverable from the reinsurer and that reduce the liabilities as of June 30, 2014 and 2013 for unpaid claims and claim adjustment expenses are \$6,046,000 and \$7,840,000, respectively.

The Authority purchased reinsurance for the campus and AORMA liability programs provided by the General Reinsurance Corporation for fiscal years 2014 and 2013. 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 2014 and 2013. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

The Authority purchased reinsurance for the campus and AORMA property programs provided by the Public Entity Property Insurance Program (PEPIP) for fiscal year 2014. This transaction reinsured campus and AORMA property programs for individual claims in excess of \$100,000 for AORMA program and \$1,000,000 for campus program and up to \$1,000,000,000 per occurrence. The Authority paid \$10,636,000 of reinsurance premium for the current year. The coverage terms and conditions are the same as provided by the PEPIP in prior years.

(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, 2014 and 2013 is \$12,269,000 and \$13,632,000, respectively.

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(9) Subsequent Event

Subsequent events have been evaluated through September 18, 2014, which corresponds to the date when the financial statements were issued. There are no subsequent events that require disclosure.

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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>2014</u>	<u>2013</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 54,567,000	40,227,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	27,757,000	25,372,000
Decrease in provision for insured events of prior fiscal years	<u>(5,615,000)</u>	<u>(5,372,000)</u>
Total incurred claims and claim adjustment expenses	<u>22,142,000</u>	<u>20,000,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(3,187,000)	(2,976,000)
Claims and claim adjustment expenses attributable to recoveries from reinsured events of current fiscal year	7,653,000	11,632,000
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(15,874,000)</u>	<u>(14,316,000)</u>
Total payments	<u>(11,408,000)</u>	<u>(5,660,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ 65,301,000</u>	<u>54,567,000</u>

See accompanying independent auditors' report.

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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>2014</u>	<u>2013</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 18,044,000	23,570,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	8,197,000	8,055,000
Decrease in provision for insured events of prior fiscal years	<u>(628,000)</u>	<u>(9,339,000)</u>
Total incurred claims and claim adjustment expenses	<u>7,569,000</u>	<u>(1,284,000)</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	—	—
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(6,575,000)</u>	<u>(4,242,000)</u>
Total payments	<u>(6,575,000)</u>	<u>(4,242,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ 19,038,000</u>	<u>18,044,000</u>

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**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>2014</u>	<u>2013</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>12,793,000</u>	<u>13,530,000</u>
Total incurred claims and claim adjustment expenses	<u>12,793,000</u>	<u>13,530,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(12,793,000)</u>	<u>(13,530,000)</u>
Total payments	<u>(12,793,000)</u>	<u>(13,530,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ —</u>	<u>—</u>

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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>2014</u>	<u>2013</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>1,269,000</u>	<u>1,323,000</u>
Total incurred claims and claim adjustment expenses	<u>1,269,000</u>	<u>1,323,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(1,269,000)</u>	<u>(1,323,000)</u>
Total payments	<u>(1,269,000)</u>	<u>(1,323,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ —</u>	<u>—</u>

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(Unaudited)

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>2014</u>	<u>2013</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 2,056,000	2,042,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	2,870,000	3,237,000
Decrease in provision for insured events of prior fiscal years	—	(192,000)
Total incurred claims and claim adjustment expenses	<u>2,870,000</u>	<u>3,045,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(1,348,000)	(1,616,000)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(1,666,000)</u>	<u>(1,415,000)</u>
Total payments	<u>(3,014,000)</u>	<u>(3,031,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ 1,912,000</u>	<u>2,056,000</u>

See accompanying independent auditors' report.

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(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>2014</u>	<u>2013</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 8,219,000	7,882,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	2,831,000	2,962,000
Increase (decrease) in provision for insured events of prior fiscal years	<u>303,000</u>	<u>(823,000)</u>
Total incurred claims and claim adjustment expenses	<u>3,134,000</u>	<u>2,139,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(259,000)	(372,000)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(2,024,000)</u>	<u>(1,430,000)</u>
Total payments	<u>(2,283,000)</u>	<u>(1,802,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ 9,070,000</u>	<u>8,219,000</u>

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Supplementary Information

(Unaudited)

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>2014</u>	<u>2013</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 2,863,000	2,568,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	1,895,000	1,468,000
Increase (decrease) in provision for insured events of prior fiscal years	<u>(175,000)</u>	<u>48,000</u>
Total incurred claims and claim adjustment expenses	<u>1,720,000</u>	<u>1,516,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(115,000)	(67,000)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(1,340,000)</u>	<u>(1,154,000)</u>
Total payments	<u>(1,455,000)</u>	<u>(1,221,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ 3,128,000</u>	<u>2,863,000</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>2014</u>	<u>2013</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>210,000</u>	<u>69,000</u>
Total incurred claims and claim adjustment expenses	<u>210,000</u>	<u>69,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(210,000)</u>	<u>(69,000)</u>
Total payments	<u>(210,000)</u>	<u>(69,000)</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
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>2014</u>	<u>2013</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	—	20,000
Total incurred claims and claim adjustment expenses	<u>—</u>	<u>20,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	—	(20,000)
Total payments	<u>—</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>2014</u>	<u>2013</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>1,491,000</u>	<u>3,059,000</u>
Total incurred claims and claim adjustment expenses	<u>1,491,000</u>	<u>3,059,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(1,491,000)</u>	<u>(3,059,000)</u>
Total payments	<u>(1,491,000)</u>	<u>(3,059,000)</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, 2014

(for inclusion in the California State University)

(Unaudited)

Assets:

Current assets:

Short-term investments	\$ 38,117,842
Accounts receivable, net	1,052,885
Notes receivable, current portion	1,778,365
Prepaid expenses and other assets	4,197,464
	45,146,556

Total current assets

Noncurrent assets:

Notes receivable, net of current portion	3,228,215
Other long-term investments	128,712,851
	131,941,066
Total noncurrent assets	131,941,066
Total assets	177,087,622

Liabilities:

Current liabilities:

Accounts payable	\$ 6,963,876
Unearned revenue	33,305
Claims liability for losses and LAE – current portion	32,956,274
	39,953,455

Total current liabilities

Noncurrent liabilities:

Claims liability for losses and LAE, net of current portion	65,492,757
Other liabilities	10,905,650
	76,398,407
Total noncurrent liabilities	76,398,407
Total liabilities	116,351,862

Net position:

Unrestricted	60,735,760
Total net position	\$ 60,735,760

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Schedule of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2014

(for inclusion in the California State University)

(Unaudited)

Revenues:		
Operating revenues:		
Other operating revenues	\$	78,555,250
Total operating revenues		<u>78,555,250</u>
Expenses:		
Operating expenses:		
Instruction		12,636,790
Research		159,530
Public service		237,056
Academic support		2,842,420
Student services		2,921,339
Institutional support		53,183,573
Operation and maintenance of plant		1,803,834
Auxiliary enterprise expenses		606,713
Depreciation and amortization		1,254
Total operating expenses		<u>74,392,509</u>
Operating income		<u>4,162,741</u>
Nonoperating revenues (expenses):		
Investment income, net		3,753,331
Other nonoperating expenses		<u>(8,921,245)</u>
Net nonoperating expenses		<u>(5,167,914)</u>
Decrease in net position		<u>(1,005,173)</u>
Net position:		
Net position, beginning of year		<u>61,740,933</u>
Net position, end of year	\$	<u><u>60,735,760</u></u>

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Other Information

June 30, 2014

(for inclusion in the California State University)

(Unaudited)

Composition of investments

	<u>Current unrestricted</u>	<u>Total current</u>	<u>Noncurrent unrestricted</u>	<u>Total noncurrent</u>	<u>Total</u>
CSU Consolidated Investment Pool	\$ 38,117,842	38,117,842	—	—	38,117,842
Morgan Stanley Smith Barney	—	—	128,712,851	128,712,851	128,712,851
Total investments	<u>\$ 38,117,842</u>	<u>38,117,842</u>	<u>128,712,851</u>	<u>128,712,851</u>	<u>166,830,693</u>

Transactions with related entities

	<u>Amount</u>
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 1,637,861
Accounts payable to University	(100,036)

See accompanying independent auditors' report.