



**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Financial Statements and Supplementary Schedules

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY
A Discretely Presented Component Unit of the California State University

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Management's Discussion and Analysis (Unaudited)	3–7
Basic Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11–31
Supplementary Information	
Schedule 1 – Reconciliation of Workers' Compensation Claims Liabilities	32
Schedule 2 – Reconciliation of General Liability Claims Liabilities	33
Schedule 3 – Reconciliation of Industrial Disability, Nonindustrial Disability, and Unemployment Insurance (IDL/NDL/UI) Claims Liabilities	34
Schedule 4 – Reconciliation of Property Claims Liabilities	35
Schedule 5 – Reconciliation of Athletic Injury Medical Expense (AIME) Claims Liabilities	36
Schedule 6 – Reconciliation of Club Sports Claims Liabilities	37
Schedule 7 – Reconciliation of AORMA Workers' Compensation Claims Liabilities	38
Schedule 8 – Reconciliation of AORMA General Liability Claims Liabilities	39
Schedule 9 – Reconciliation of AORMA Property Claims Liabilities	40
Schedule 10 – Reconciliation of AORMA Crime Claims Liabilities	41
Schedule 11 – Reconciliation of AORMA Unemployment Insurance Program (UIP) Claims Liabilities	42
Schedule 12 – Schedule of Net Position	43
Schedule 13 – Schedule of Revenues, Expenses, and Changes in Net Position	44
Schedule 14 – Other Information	45
Required Supplementary Information	
Schedule 15 – Claims Development Information (Unaudited)	46



KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

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, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 7 and the claims development information on schedule 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included in schedules 1 through 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1 through 14 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 through 14 are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Irvine, California
September 22, 2017

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**
A Discretely Presented Component Unit of the California State University
Management's Discussion and Analysis
June 30, 2017 and 2016
(Unaudited)

The following discussion and analysis provides an overview of the financial position and performance of the California State University Risk Management Authority (the Authority) as of and for the years ended June 30, 2017 and 2016. It is designed to assist the readers in focusing on financial overview and analysis of the financial activities of the Authority. The discussion has been prepared by management and should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

Overview of the Financial Statements

The financial statements of the Authority as of and for the years ended June 30, 2017 and 2016 have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. For reporting purposes, the Authority is considered a special-purpose government engaged in business-type activities.

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

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

CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY
A Discretely Presented Component Unit of the California State University
Management's Discussion and Analysis
June 30, 2017 and 2016
(Unaudited)

A summary of the Authority's assets, liabilities, and net position at June 30, 2017 and 2016 is as follows:

Condensed Schedules of Net Position

June 30, 2017, 2016, and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current assets	\$ 26,777,000	43,574,000	40,301,000
Noncurrent assets	<u>135,179,000</u>	<u>137,713,000</u>	<u>134,340,000</u>
Total assets	<u>\$ 161,956,000</u>	<u>181,287,000</u>	<u>174,641,000</u>
Liabilities:			
Current liabilities	\$ 31,314,000	29,769,000	33,115,000
Noncurrent liabilities	<u>57,262,000</u>	<u>64,063,000</u>	<u>75,465,000</u>
Total liabilities	<u>\$ 88,576,000</u>	<u>93,832,000</u>	<u>108,580,000</u>
Net position:			
Unrestricted	<u>\$ 73,380,000</u>	<u>87,455,000</u>	<u>66,061,000</u>
Total net position	<u>\$ 73,380,000</u>	<u>87,455,000</u>	<u>66,061,000</u>

Assets

The Authority's assets totaled \$161,956,000 on June 30, 2017, a decrease of \$19,331,000, or 11%, as compared to the previous year. The decrease is mainly attributed to the decrease in investments (note 3) of \$23,946,000 due to increased insurance payments, increased dividend distributions, and investment loss. Prepaid expenses increased by \$1,720,000 due to the timing and coverage period of various insurance premiums. The Authority's assets totaled \$181,287,000 on June 30, 2016, an increase of \$6,646,000, or 4%, as compared to the previous year. The increase is mainly attributed to the increase in investments and other long-term investments of \$28,675,000 and \$4,036,000, respectively, due to the timing of the prepayment to California State Association of Counties Excess Insurance Authority (CSAC EIA or the EIA). Prepaid expenses decreased by \$26,552,000 due to the timing of payment as previously noted. The Authority's investments represent 90% and 94% of total assets as of June 30, 2017 and 2016, respectively, and consist of the Authority's share of the CSU Consolidated Investment Pool and investments held in Morgan Stanley Smith Barney.

Liabilities

The Authority's liabilities totaled \$88,576,000 on June 30, 2017, a decrease of \$5,256,000, or 6%, as compared to the previous year. The Authority's liabilities totaled \$93,832,000 on June 30, 2016, a decrease of \$14,748,000, or 14%, as compared to the previous year. These decreases are primarily due to the enrollment in the EIA, effective January 1, 2015, resulting in a decrease in claims liability, current and noncurrent, in the

CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY
A Discretely Presented Component Unit of the California State University
Management's Discussion and Analysis
June 30, 2017 and 2016
(Unaudited)

amount of \$8,108,000 and \$13,708,000 as of June 30, 2017 and 2016, respectively. The EIA is responsible for all covered losses within the amount of the self-insurance layer for the campus and Auxiliary Organizations Risk Management Alliance (AORMA) workers' compensation program (note 7); thus, the Authority is not liable for the layers covered by the EIA. Claims liability, current and noncurrent, represents 80% and 84% of the total liabilities as of June 30, 2017 and 2016, respectively.

Net Position

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

The Authority's net position totaled \$73,380,000 on June 30, 2017, a decrease of \$14,075,000, or 16%, as compared to the previous year. This is primarily due to increases in insurance premiums and dividends paid, and investment loss. The Authority's net position totaled \$87,455,000 on June 30, 2016, an increase of \$21,394,000, or 32%, compared to the previous year. This is primarily due to a decrease in claim losses and loss adjustment expenses and a decrease in claims liabilities, current and noncurrent, as discussed above.

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

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

Condensed Schedules of Revenues, Expenses and Changes in Net Position

June 30, 2017, 2016, and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 94,006,000	93,477,000	88,376,000
Operating expenses	<u>106,980,000</u>	<u>76,716,000</u>	<u>84,800,000</u>
Operating (loss) income	(12,974,000)	16,761,000	3,576,000
Nonoperating (expenses) revenues, net	<u>(1,101,000)</u>	4,633,000	<u>1,749,000</u>
Change in net position	(14,075,000)	21,394,000	5,325,000
Net position, beginning of year	<u>87,455,000</u>	<u>66,061,000</u>	<u>60,736,000</u>
Net position, end of year	<u>\$ 73,380,000</u>	<u>87,455,000</u>	<u>66,061,000</u>

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Operating Revenues and Expenses

During fiscal year 2017, the operating revenues totaled \$94,006,000, an increase of \$529,000, or 1%, which is primarily due to an increase in member contributions and reinsurance premiums (notes 6 and 7 (b)). The increase in contributions is mainly due to recommended funding for the campus-covered programs and is calculated by an independent actuarial firm employed by the Authority (note 2(g)). During fiscal year 2016, the operating revenues totaled \$93,477,000, an increase of \$5,101,000, or 6%, which is primarily due to an increase in member contributions and a decrease in reinsurance premiums. Member contributions increased during 2016 consistent to the increase during 2017, as previously noted.

During fiscal year 2017, operating expenses totaled \$106,980,000, an increase of \$30,264,000, or 39%, as compared to the previous year. The increase is primarily due to increases in claim losses and loss adjustment expenses in the amount of \$9,496,000, insurance premiums of \$13,879,000, and dividends paid of \$5,729,000. The increase in insurance premiums is primarily due to excess insurance premiums paid to the EIA and other insurance carriers. During fiscal year 2016, operating expenses totaled \$76,716,000, a decrease of \$8,084,000, or 10%, as compared to the previous year. The decrease is primarily due to a decrease in claim losses and loss adjustment expenses in the amount of \$22,747,000, which was offset by an increase in insurance premiums of \$14,799,000. The increase in insurance premiums was primarily due to excess insurance premiums paid to the EIA.

Operating expenses consist of claim losses and loss adjustment expenses of \$26,671,000 and \$17,175,000, claims administration of \$9,324,000 and \$8,717,000, insurance premiums of \$52,555,000 and \$38,676,000, dividend distributions of \$15,401,000 and \$9,672,000, general and administrative of \$1,508,000 and \$1,415,000, and miscellaneous services of \$1,521,000 and \$1,061,000 for the years ended June 30, 2017 and 2016, respectively. Claim losses and loss adjustment expenses include actual claim payments made, as well as adjustments for reserves on claims. Claim case reserves are adjusted as claims develop and mature and more information about potential loss amounts is known. Reserves for claims incurred but not reported, as determined by independent actuaries, are also included in this expense category. Claims administration includes expenses incurred by the Authority for claims administrator's fees and program administrator's fees, and brokerage commissions. Dividend distributions represent the return of contributions to CSU campuses and Auxiliary Organization members. In providing insurance coverage and risk management services to its members, the Authority incurs general and administrative and miscellaneous services expenses that are budgeted and approved by the Board of Directors annually.

Nonoperating Revenues (Expenses), net

During fiscal year 2017, the nonoperating revenues totaled \$(1,101,000), a decrease of \$5,734,000, or 124%, which is primarily due to the decrease in investment income from the investment portfolio where the Authority's investments are held (note 3). During fiscal year 2016, the nonoperating revenues totaled \$4,633,000, an increase of \$2,884,000, or 165%, which is primarily due to the increase in investment income from the investment portfolio where the Authority's investments are held.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Factors Impacting Future Periods

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

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

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

Generally, the commercial insurance and reinsurance market is stable with a favorable outlook due in large part to catastrophic property claims being well below the average for the past ten years. However, weather extremes, catastrophic loss, and investment losses are areas of concern for commercial insurance carriers.

The market for excess liability for California public entities has begun to firm following several years of softening. This is largely due to a significant rise in the cost of claims, especially those involving employment practices and injuries to minors. The Authority has managed this risk by developing long-term underwriting relationships and attracting other insurers to the program.

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

The rates charged by the Authority for member contributions for the future year are generally not expected to change significantly. In the May 2017 Board of Director's meeting, the fiscal year 2018 budget was approved for operating revenues of \$90,279,000 and operating expenses of \$100,478,000.

The CSU has asked CSURMA to evaluate utilization of a captive insurer in the near future. If a captive insurer is effected, CSURMA would likely transfer commensurate assets and liabilities to the captive. Use of a captive would likely reduce CSURMA's assets but have a positive overall impact on CSURMA's financial position as the captive would be implemented if it could create overall efficiencies and reduce the CSU's total cost of risk.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**
A Discretely Presented Component Unit of California State University

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets:		
Current assets:		
Cash and cash equivalents	\$ —	88,000
Investments (note 3)	13,011,000	35,579,000
Accounts receivable	7,109,000	2,505,000
Loans receivable from affiliates, current portion (note 4)	613,000	1,048,000
Interest receivable	—	5,000
Prepaid expenses	5,872,000	4,152,000
Reinsurance recoverable – workers' compensation	172,000	197,000
Total current assets	26,777,000	43,574,000
Noncurrent assets:		
Loans receivable from affiliates, net of current portion (note 4)	2,413,000	3,569,000
Other long-term investments (note 3)	132,766,000	134,144,000
Total noncurrent assets	135,179,000	137,713,000
Total assets	161,956,000	181,287,000
Liabilities:		
Current liabilities:		
Accounts payable	9,532,000	5,319,000
Unearned revenues	43,000	40,000
SELF assessment liability, current portion (note 9)	1,364,000	1,364,000
Claims liability for losses and loss adjustment expenses – current portion (note 5):		
Reported claims	12,089,000	13,672,000
Claims incurred but not reported	8,286,000	9,374,000
Total current liabilities	31,314,000	29,769,000
Noncurrent liabilities:		
SELF assessment liability, net of current portion (note 9)	6,818,000	8,182,000
Claims liability for losses and loss adjustment expenses – noncurrent portion (note 5):		
Reported claims	29,930,000	33,152,000
Claims incurred but not reported	20,514,000	22,729,000
Total noncurrent liabilities	57,262,000	64,063,000
Total liabilities	88,576,000	93,832,000
Net position:		
Unrestricted	73,380,000	87,455,000
Total net position	\$ 73,380,000	87,455,000

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY
A Discretely Presented Component Unit of California State University
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Member contributions (note 6)	\$ 103,447,000	100,363,000
Reinsurance premiums (note 7)	(9,441,000)	(6,886,000)
Total operating revenues	94,006,000	93,477,000
Operating expenses:		
Claim losses and loss adjustment expenses (note 5)	26,671,000	17,175,000
Claims administration	9,324,000	8,717,000
Insurance premiums	52,555,000	38,676,000
Dividend distributions (note 6)	15,401,000	9,672,000
General and administrative	1,508,000	1,415,000
Miscellaneous services	1,521,000	1,061,000
Total operating expenses	106,980,000	76,716,000
Operating (loss) income	(12,974,000)	16,761,000
Nonoperating revenues (expenses):		
Investment (loss) income, net	(1,149,000)	4,570,000
Interest income from loans	48,000	63,000
Total nonoperating (expenses) revenue, net	(1,101,000)	4,633,000
Change in net position	(14,075,000)	21,394,000
Net position, beginning of year	87,455,000	66,061,000
Net position, end of year	\$ 73,380,000	87,455,000

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of California State University

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts of member contributions	\$ 99,256,000	99,076,000
Payments to providers	(73,762,000)	(31,147,000)
Payments of claims	(35,163,000)	(30,743,000)
Dividend distribution to pool participants	(14,860,000)	(9,770,000)
Net cash (used in) provided by operating activities	(24,529,000)	27,416,000
Cash flows from noncapital and related financing activities:		
Loans disbursed to related entities	—	(1,000,000)
Payments received on loans to related entities	1,591,000	1,751,000
Loan interest income received	53,000	63,000
Net cash provided by noncapital and related financing activities	1,644,000	814,000
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	789,229,000	651,608,000
Purchases of investments	(767,398,000)	(683,418,000)
Investment (loss) income , net	966,000	3,668,000
Net cash provided by (used in) investing activities	22,797,000	(28,142,000)
Net change in cash and cash equivalents	(88,000)	88,000
Cash and cash equivalents at beginning of year	88,000	—
Cash and cash equivalents at end of year	\$ —	88,000
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:		
Operating (loss) income	\$ (12,974,000)	16,761,000
Adjustments to reconcile net operating (loss) income to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Decrease (increase) in prepaid expenses	(1,720,000)	26,552,000
Increase in accounts receivable	(4,604,000)	(1,705,000)
Decrease in reinsurance recoverable – workers' compensation	25,000	556,000
Increase in accounts payable	4,213,000	320,000
Increase in unearned revenues	3,000	3,000
Decrease in SELF assessment liability	(1,364,000)	(1,363,000)
Decrease in claims liability for losses and loss adjustment expenses	(8,108,000)	(13,708,000)
Net cash (used in) provided by operating activities	\$ (24,529,000)	27,416,000

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

(1) Organization

On January 1, 1997, the University and certain Auxiliary Organizations of the University established the California State University Risk Management Authority pursuant to the provisions of Section 6500 et seq. of the California Government Code (the Code). The Code authorizes the CSU and Auxiliary Organizations to establish and operate pooled coverage programs and to provide related services. The Authority provides entity risk pooling programs for workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, property, construction, and other risk-related programs for its member organizations (the Members). Members participating in the Authority's coverage programs at June 30, 2017 and 2016 are as follows:

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

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

Campus location	Members
Fresno	California State University, Fresno
Fresno	Associated Students, Inc. of California State University, Fresno
Fresno	California State University, Fresno Association, Inc.
Fresno	California State University, Fresno Foundation
Fresno	Fresno State Programs for Children, Inc.
Fresno	The Agricultural Foundation of California State University, Fresno
Fresno	The California State University, Fresno Athletic Corporation
Fullerton	California State University, Fullerton
Fullerton	Associated Students, California State University, Fullerton, Inc.
Fullerton	Cal State Fullerton Philanthropic Foundation
Fullerton	CSU Fullerton Auxiliary Services Corporation
Humboldt	Humboldt State University
Humboldt	Associated Students, Humboldt State University
Humboldt	Humboldt State University Advancement Foundation
Humboldt	Humboldt State University Center Board of Directors
Humboldt	Humboldt State University Sponsored Programs Foundation
Long Beach	California State University, Long Beach
Long Beach	Associated Students, California State University, Long Beach
Long Beach	California State University, Long Beach Research Foundation
Long Beach	CSULB 49er Foundation
Long Beach	Forty-Niner Shops, Inc., CSU Long Beach
Los Angeles	California State University, Los Angeles
Los Angeles	Associated Students, California State University, Los Angeles, Inc.
Los Angeles	Cal State L.A. University Auxiliary Services, Inc.
Los Angeles	California State University, Los Angeles Foundation
Los Angeles	University-Student Union Board, California State University, Los Angeles
Maritime Academy	California Maritime Academy
Maritime Academy	California Maritime Academy Foundation, Inc.
Maritime Academy	The Associated Students of the California Maritime Academy
Monterey Bay	California State University, Monterey Bay
Monterey Bay	Foundation of California State University, Monterey Bay
Monterey Bay	The University Corporation at Monterey Bay
Northridge	California State University, Northridge
Northridge	Associated Students, California State University, Northridge, Inc.
Northridge	California State University, Northridge Foundation
Northridge	North Campus University Park Development Corporation
Northridge	The University Corporation, CSU Northridge
Northridge	University Student Union of California State University, Northridge

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

Campus location	Members
Pomona	California State Polytechnic University, Pomona
Pomona	Associated Students Inc., California State Polytechnic University, Pomona
Pomona	The Cal Poly Pomona Foundation, Inc.
Sacramento	California State University, Sacramento
Sacramento	Associated Students of California State University, Sacramento
Sacramento	Capital Public Radio, Inc., CSU Sacramento
Sacramento	The University Foundation at Sacramento State
Sacramento	University Enterprises, Inc., CSU Sacramento
Sacramento	University Union Operation of CSUS, Inc.
San Bernardino	California State University, San Bernardino
San Bernardino	Associated Students Inc., California State University, San Bernardino
San Bernardino	CSUSB Philanthropic Foundation
San Bernardino	Santos Manuel Student Union of California State University, San Bernardino
San Bernardino	University Enterprises Corporation at CSUSB
San Diego	San Diego State University
San Diego	Associated Students, San Diego State University
San Diego	Aztec Shops, Ltd., San Diego State University
San Diego	San Diego State University Research Foundation
San Diego	The Campanile Foundation
San Francisco	San Francisco State University
San Francisco	Associated Students, Inc., San Francisco State University
San Francisco	San Francisco State University Foundation
San Francisco	The University Corporation, San Francisco State
San Jose	San Jose State University
San Jose	Associated Student, San Jose State University
San Jose	San Jose State University Research Foundation
San Jose	Spartan Shops, Inc., San Jose State University
San Jose	The Student Union of San Jose State University
San Jose	The Tower Foundation, San Jose State University
San Luis Obispo	California Polytechnic State University, San Luis Obispo
San Luis Obispo	Associated Students, Inc., California Polytechnic State University at San Luis Obispo

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

Campus location	Members
San Luis Obispo	Cal Poly Corporation
San Luis Obispo	California Polytechnic State University Foundation
San Marcos	California State University, San Marcos
San Marcos	California State University San Marcos Foundation
San Marcos	San Marcos University Corporation
San Marcos	The Associated Students of California State University, San Marcos
San Marcos	University Auxiliary and Research Services Corporation
Sonoma	Sonoma State University
Sonoma	Associated Students of Sonoma State University
Sonoma	Sonoma State Enterprises, Inc.
Sonoma	Sonoma State University Academic Foundation, Inc.
Stanislaus	California State University, Stanislaus
Stanislaus	Associated Students, Inc., California State University, Stanislaus
Stanislaus	California State University, Stanislaus Auxiliary and Business Services
Stanislaus	California State University, Stanislaus Foundation
Stanislaus	University Student Union of California State University, Stanislaus
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

The accompanying financial statements are also included in the CSU 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 members participating in the program each policy year and by interest earnings on the accumulated funds. Premiums are based on a cost allocation plan and rating formula developed by the Authority with the assistance of an actuary, risk management consultant, and other qualified persons. The premium for each member participating in the shared risk programs includes the member's share of expected program

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

losses, program reinsurance costs, and program administrative costs for the year. If the Authority experiences unusually large losses in one of the aforementioned programs during a policy year, those pooled funds for the program may be exhausted or depleted before the next annual premiums are due. The board of directors may, upon consultation with an actuary, impose assessments on all participating members in the respective program, which, in total amount, will assure adequate funds to the Authority for the payment of all incurred losses.

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

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

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

The Authority considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents. The Authority considers amounts included in the Morgan Stanley

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

Smith Barney and the CSU Consolidated Investment Pool to be investments. Certain transactions recorded as revenues or expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Position include transactions between entities that are also participants in the Investment Pool. The Authority considers changes in the respective participants' equity in the Investment Pool resulting from these transactions to represent cash flows of the Authority in the accompanying Statements of Cash Flows.

(d) Investments

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

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

(e) Accounts Receivable

Accounts receivable represents amounts due from the Members as of June 30, 2017 and 2016.

(f) Reinsurance Recoverable

Reinsurance recoverable represents estimated amounts due from reinsurers, who reinsured the CSU's workers' compensation claims liability for claims incurred during the fiscal year. The reported amounts represent recoverable estimates related to paid claims and claim adjustment expenses as of June 30, 2017 and 2016. The estimated amounts recoverable from the reinsurers that are related to the liabilities for unpaid claims and claim adjustment expenses are deducted from those claims liabilities for losses and loss adjustment expenses; refer to note 2(h).

(g) Member Contributions

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

(h) Claims Liability for Losses and Loss Adjustment Expenses

The claims liability for losses and loss adjustment expenses included in the accompanying financial statements reflect the estimated ultimate cost of settling claims relating to events that have occurred on or before June 30, 2017 and 2016. 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

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

reinsurer that are related to the liability for unpaid claims and claim adjustment expenses. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. The liability is not discounted.

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

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

(i) 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. Dividends to CSU campuses are based on the review of the funding status report by the Executive Committee and are distributed to each member by their pro rata contributions over the past five completed fiscal years. Dividends to any participating Auxiliary Organization are calculated and distributed in accordance with the Dividends and Assessment Policy. Dividend distributions are accrued as dividend expense once they are approved and declared by the Executive Committee and the Auxiliary Organizations Risk Management Alliance (AORMA) Committee.

(j) Net Position

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

(k) Classification of Revenues and Expenses

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

(l) Income Taxes

The Authority was formed pursuant to the 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.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

(m) Use of Estimates

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

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

The Authority's cash, cash equivalents, and investments as of June 30, 2017 and 2016 are classified in the accompanying Statements of Net Position as follows:

	2017	2016
Cash and cash equivalents	\$ —	88,000
Short-term investments	13,011,000	35,579,000
Other long-term investments	132,766,000	134,144,000
Total investments	\$ 145,777,000	169,811,000

(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, 2017 and 2016, the Authority's cash and cash equivalents consist of demand deposits held at a financial institution. The carrying amount of the cash in demand deposit accounts were \$110,000 and \$188,000 at June 30, 2017 and 2016, respectively. The primary difference between the book and bank balance is due to outstanding checks and cash awaiting investment in the CSU Consolidated Investment Pool.

(b) Investments

At June 30, 2017 and 2016, the Authority's investment portfolio consists of investments held in Morgan Stanley Smith Barney and the CSU Consolidated Investment Pool. Separate accounting is maintained as to the amounts allocable to the various funds and programs.

(i) 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

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

Code Sections 16430 and 53601, and Education Code Section 89724, subject to certain limitations. In general, the Authority's investment policy permits investments in obligations of the Federal and California state governments, certificates of deposit, high-quality domestic corporate and fixed-income securities, and certain other investment instruments.

(ii) Custodial Credit Risk

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

(iii) Interest Rate Risk

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

Durations of the Authority's investment portfolio for each investment type as of June 30, 2017 are presented in the table below.

Investment type	Fair value	Duration (in years)
Asset-backed securities	\$ 4,662,000	3.45666
Certificates of deposit	552,000	0.28861
Corporate bonds	25,016,000	2.90613
International bonds	1,242,000	5.30739
Money market funds	1,252,000	—
Mortgage-backed securities	6,880,000	3.62214
Municipal bonds	5,418,000	6.29680
Repurchase agreements	37,000	0.00813
U.S. agency securities	8,772,000	2.70064
U.S. Treasury securities	91,946,000	3.66613
Total investments	<u>\$ 145,777,000</u>	

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

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

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

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

(iv) Credit Risk

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

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

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

Ratings of the Authority's investment portfolio for each investment type as of June 30, 2017 are presented in the table below.

Investment type	Fair value	Rating as of year-end				
		AAA	AA	A	BBB	Not rated
Asset-backed securities	\$ 4,662,000	3,832,000	194,000	636,000	—	—
Certificates of deposit	552,000	233,000	69,000	250,000	—	—
Corporate bonds	25,016,000	677,000	1,674,000	12,611,000	6,309,000	3,745,000
International bonds	1,242,000	—	1,242,000	—	—	—
Money market funds	1,252,000	—	—	20,000	—	1,232,000
Mortgage-backed securities	6,880,000	—	5,587,000	—	—	1,293,000
Municipal bonds	5,418,000	—	5,418,000	—	—	—
Repurchase agreements	37,000	—	—	9,000	—	28,000
U.S. agency securities	8,772,000	72,000	6,656,000	—	—	2,044,000
U.S. Treasury securities	91,946,000	—	91,946,000	—	—	—
Total investments	\$ 145,777,000	4,814,000	112,786,000	13,526,000	6,309,000	8,342,000

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

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

(v) *Concentration Risk*

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

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

As of June 30, 2017 and 2016, there were no investments of the CSU Consolidated Investment Pool and CSU Risk Management Authority of SB FAM Program (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of the Authority's total investment portfolio.

(vi) *Fair Value Measurements*

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

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

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

The following table presents investments that are measured at fair value on a recurring basis at June 30, 2017:

<u>Investment type</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Net Asset Value</u>
Asset-backed securities	\$ 4,662,000	1,113,000	3,549,000	—
Certificates of deposit	552,000	—	552,000	—
Corporate bonds	25,016,000	479,000	24,537,000	—
International bonds	1,242,000	—	1,242,000	—
Money market funds	1,252,000	—	—	1,252,000
Mortgage-backed securities	6,880,000	—	6,880,000	—
Municipal bonds	5,418,000	—	5,418,000	—
Repurchase agreement	37,000	—	37,000	—
U.S. agency securities	8,772,000	2,372,000	6,400,000	—
U.S. Treasury securities	91,946,000	—	91,946,000	—
Total investments	\$ <u>145,777,000</u>	<u>3,964,000</u>	<u>140,561,000</u>	<u>1,252,000</u>

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

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

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

Investments are classified in Level 1 as fair value are obtained at the last sale price on the last business day of the current fiscal year, as quoted on a recognized exchange or an industry

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

standard pricing service, when available. Investments for which no sale was reported as of the close of the last business day of the current fiscal year are valued at the quoted bid price provided by the Authority's external investment managers or their custodians.

Investments are classified in Level 2 as fair value are calculated using valuations that include observable market quoted prices for similar assets or liabilities. Observable inputs other than quoted prices such as price services or indices, estimates, appraisals, assumptions, and other methods that are reviewed by management. Changes in market conditions and economic environments may impact the net asset value of the funds and consequently the fair value of the Authority's interests in the funds.

There were no assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2017 or 2016.

Money Market Funds are not categorized under the fair value hierarchy and are shown at Net Asset Value. These investments are measured at amortized cost when calculating NAV per share (or its equivalent) of the investment.

(c) Investment Income, Net

Investment income, net, included within the Statements of Revenues, Expenses, and Changes in Net Position comprises unrealized losses and gains of \$(2,115,000) and \$902,000, realized losses and gains of \$(1,465,000) and \$1,427,000, and interest and dividend income of \$2,431,000 and \$2,241,000 for the years ended June 30, 2017 and 2016, respectively.

(4) Loans Receivable from Affiliates

In November 2008, the Authority entered into a loan agreement with California State University, Fresno, in the amount of \$4,500,000. The loan term is for a 5-year period that amortizes based on a 20-year amortization schedule, with principal and interest due and payable quarterly, payable 30 days following the end of each calendar quarter. The interest rate is equal to the stated CSU Consolidated Investment Pool rate of return earned by the Authority (0.106% at June 30, 2017). The initial maturity date of the loan was October 31, 2013. On September 12, 2013, Executive Members approved California State University, Fresno's loan extension request in the amount of \$2,542,000 for an additional 5 years, extending the maturity date to September 30, 2018. The loan was paid off on November 3, 2016.

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 (0.106% at June 30, 2017). 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, maturing on October 31, 2017. On May 5, 2017, Executive Members approved the transfer of the loan to Humboldt State University, conditional on a payment of \$200,000 toward the loan, which was paid on June 20, 2017. The amounts outstanding on the loan were \$0 and \$2,000,000 as of June 30, 2017 and 2016, respectively.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

In June 2017, the Authority entered into a loan agreement with Humboldt State University in the amount of \$1,800,000. 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 (0.106% at June 30, 2017). The maturity date of the loan is October 31, 2022. The amounts outstanding on the loan were \$1,800,000 and \$0 as of June 30, 2017 and 2016, respectively.

In May 2014, the Authority entered into a line-of-credit agreement with California State University, Sacramento in the amount of \$4,000,000, and \$1,226,000 of which was drawn against the line as of June 30, 2017. 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 (0.106% at June 30, 2017). The maturity date of the line-of-credit is June 1, 2019. The amounts outstanding on the loan were \$1,226,000 and \$2,353,000 as of June 30, 2017 and 2016, respectively.

The following table summarizes the Authority's loans receivable from affiliates as of June 30, 2017 and 2016:

	2017	2016
California State University, Fresno	\$ —	264,000
Humboldt State University Advancement Foundation	—	2,000,000
Humboldt State University	1,800,000	—
California State University, Sacramento	1,226,000	2,353,000
Total loans receivable from affiliates	3,026,000	4,617,000
Less current portion	(613,000)	(1,048,000)
Loans receivable from affiliates, net of current portion	\$ 2,413,000	3,569,000

(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, 2017 and 2016.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

Changes in the Authority's claims liability for the years ended June 30, 2017 and 2016 are as follows:

Claims liability for losses and loss adjustment expenses, June 30, 2015	\$	92,635,000
Incurred claims for losses and loss adjustment expenses:		
Provision for insured events of the current fiscal year		56,800,000
Decrease in provision for reinsured events of the current fiscal year		(24,959,000)
Decrease in provision for insured events of prior fiscal years		<u>(14,666,000)</u>
Total incurred claims for losses and loss adjustment expenses		<u>17,175,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year		(18,993,000)
Claims and claim adjustment expenses attributable to recoveries from reinsured events of the current fiscal year		9,335,000
Claims and claim adjustment expenses attributable to insured events of prior fiscal years		<u>(21,225,000)</u>
Total payments		<u>(30,883,000)</u>

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

Claims liability for losses and loss adjustment expenses, June 30, 2016	\$ 78,927,000
Less current portion	<u>(23,046,000)</u>
Claims liability for losses and loss adjustment expenses, June 30, 2016, net of current portion	<u>55,881,000</u>
Incurring claims for losses and loss adjustment expenses:	
Provision for insured events of the current fiscal year	60,246,000
Decrease in provision for reinsured events of the current fiscal year	(26,653,000)
Decrease in provision for insured events of prior fiscal years	<u>(6,922,000)</u>
Total incurred claims for losses and loss adjustment expenses	<u>26,671,000</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(20,858,000)
Claims and claim adjustment expenses attributable to recoveries from reinsured events of the current fiscal year	13,800,000
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(27,721,000)</u>
Total payments	<u>(34,779,000)</u>
Claims liability for losses and loss adjustment expenses, June 30, 2017	70,819,000
Less current portion	<u>(20,375,000)</u>
Claims liability for losses and loss adjustment expenses, June 30, 2017, net of current portion	<u>\$ 50,444,000</u>

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

(6) Related-Party Transactions

The following represents a summary of the accounts receivable, contributions (premiums), dividend distribution for the years ended June 30, 2017 and 2016, and general liability insurance deductibles for the policy period detailed by campus:

June 30, 2017				
Members	Accounts receivable	Contributions for the fiscal year	Dividend distribution	General liability insurance deductibles per occurrence
Bakersfield	\$ —	1,642,000	(305,000)	35,000
California Maritime Academy	—	629,000	(105,000)	35,000
Chancellor's Office	5,492,000	12,501,000	(244,000)	100,000
Channel Islands	—	1,606,000	(279,000)	35,000
Chico	—	2,739,000	(525,000)	250,000
Dominguez Hills	—	2,531,000	(573,000)	100,000
East Bay	—	3,513,000	(531,000)	500,000
Fresno	—	3,279,000	(1,002,000)	250,000
Fullerton	—	4,337,000	(685,000)	250,000
Humboldt	—	2,227,000	(426,000)	50,000
Long Beach	—	6,283,000	(1,091,000)	250,000
Los Angeles	—	4,208,000	(697,000)	250,000
Monterey Bay	—	1,588,000	(290,000)	35,000
Northridge	—	5,678,000	(843,000)	750,000
Pomona	—	4,386,000	(753,000)	250,000
Sacramento	—	3,716,000	(625,000)	900,000
San Bernardino	—	3,090,000	(547,000)	50,000
San Diego	—	5,801,000	(843,000)	900,000
San Francisco	—	4,847,000	(939,000)	500,000
San Jose	—	5,013,000	(747,000)	750,000
San Luis Obispo	—	4,719,000	(651,000)	250,000
San Marcos	—	1,781,000	(320,000)	50,000
Sonoma	—	2,168,000	(397,000)	100,000
Stanislaus	—	1,694,000	(269,000)	35,000
Auxiliary Organizations	482,000	13,471,000	(1,714,000)	Various
	\$ 5,974,000	103,447,000	(15,401,000)	

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

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

(7) Excess Insurance and Reinsurance

(a) Excess Insurance

For the years ended June 30, 2017 and 2016, the Authority purchased excess insurance to protect the members from catastrophic losses. The Authority maintained excess public entity liability insurance coverage provided by School Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence until December 2009.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

The Authority maintained excess general liability insurance coverage provided by Ironshore Specialty Insurance Company and various other insurers with coverage for individual claims above \$5,000,000 up to \$200,000,000 per occurrence. The Authority purchased excess workers' compensation insurance provided by Safety National to statutory limits in excess of the \$2,500,000 self-insured retention for the years ended June 30, 2017 and 2016. For the AORMA workers' compensation program, the Authority purchased excess workers' compensation insurance provided by Safety National for the years ended June 30, 2017 and 2016 to statutory limits in excess of the \$500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

Effective January 1, 2015, the Authority joined the CSAC Excess Insurance Authority Excess Workers' Compensation Program, covered pursuant to the memorandum of coverage issued by the EIA. The EIA is responsible for all covered losses within the amount of the self-insured retention layer of \$2,500,000 for the campus workers' compensation program and \$500,000 for the AORMA workers' compensation program. The estimated amounts that are recoverable from the EIA and that reduce the liabilities as of June 30, 2017 and 2016 were \$42,125,000 and \$27,717,000 for the campus workers' compensation program and \$4,430,000 and \$2,943,000 for the AORMA workers' compensation program, respectively.

(b) Reinsurance

For the years ended June 30, 2017 and 2016, the Authority did not enter into the CSU's workers' compensation reinsurance contract. From the years ended June 30, 2008 through June 30, 2012, the Authority entered into a reinsurance contract with the Insurance Company of the State of Pennsylvania (the Reinsurer). This transaction reinsured the CSU's workers' compensation claims liability for claims incurred within the \$2,500,000 self-insured retention up to aggregate limits. The estimated amounts that are recoverable from the reinsurer and that reduce the liabilities as of June 30, 2017 and 2016 were \$15,210,000 and \$21,967,000, respectively. While such losses are reinsured, the Authority will not be relieved of its primary obligations to the policyholder in these reinsurance transactions.

For the years ended June 30, 2017 and 2016, the Authority purchased reinsurance for the campus and AORMA liability programs provided by Evanston, Great American, Ironshore, AWAC, and the General Reinsurance Corporation. This transaction reinsured the AORMA claims liability for individual claims incurred in excess of \$500,000 and up to \$5,000,000 per occurrence. The reinsurance premiums for the years ended June 30, 2017 and 2016 were \$3,066,000 and \$1,070,000, respectively. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

For the years ended June 30, 2017 and 2016, the Authority purchased reinsurance for the campus and AORMA property programs provided by the Public Entity Property Insurance Program (the PEPIP). This transaction reinsured the campus and AORMA property programs for individual claims in excess of \$100,000 for the AORMA program and \$1,000,000 for the Campus program and up to \$1,000,000,000 per occurrence. The reinsurance premiums for the years ended June 30, 2017 and 2016 were \$6,375,000 and \$5,816,000, respectively. The coverage terms and conditions are the same as provided by the PEPIP in prior years.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

A Discretely Presented Component Unit of the California State University

Notes to Financial Statements

June 30, 2017 and 2016

(8) SELF Assessment Liability

Prior to July 1, 2004, the Authority maintained excess workers' compensation insurance coverage provided by SELF, a public entity risk pool. The Authority remains liable for assessments from SELF in settlement of claims incurred prior to July 1, 2004. The assessment liabilities as of June 30, 2017 and 2016 were \$8,182,000 and \$9,546,000, respectively.

(9) Subsequent Events

Subsequent events have been evaluated through September 22, 2017, which corresponds to the date when the financial statements were issued. There are no subsequent events that require disclosure.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Supplementary Information

Reconciliation of Workers' Compensation Claims Liabilities

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

	<u>2017</u>	<u>2016</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 48,494,000	61,000,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	25,687,000	24,837,000
Decrease in provision for reinsured events of current fiscal year	(23,797,000)	(22,528,000)
Decrease in provision for insured events of prior fiscal years	<u>(4,526,000)</u>	<u>(6,424,000)</u>
Total incurred claims and claim adjustment expenses	<u>(2,636,000)</u>	<u>(4,115,000)</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	—	—
Claims and claim adjustment expenses attributable to recoveries from reinsured events of current fiscal year	12,779,000	8,887,000
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(18,934,000)</u>	<u>(17,278,000)</u>
Total payments	<u>(6,155,000)</u>	<u>(8,391,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ 39,703,000</u>	<u>48,494,000</u>

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Supplementary Information

Reconciliation of General Liability Claims Liabilities

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

	<u>2017</u>	<u>2016</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 20,782,000	18,429,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	7,699,000	7,384,000
Decrease in provision for insured events of prior fiscal years	<u>(727,000)</u>	<u>(3,060,000)</u>
Total incurred claims and claim adjustment expenses	<u>6,972,000</u>	<u>4,324,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(4,291,000)</u>	<u>(1,971,000)</u>
Total payments	<u>(4,291,000)</u>	<u>(1,971,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ 23,463,000</u>	<u>20,782,000</u>

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Supplementary Information

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

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

	<u>2017</u>	<u>2016</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ —	—
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	<u>14,366,000</u>	<u>14,341,000</u>
Total incurred claims and claim adjustment expenses	<u>14,366,000</u>	<u>14,341,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(14,366,000)</u>	<u>(14,341,000)</u>
Total payments	<u>(14,366,000)</u>	<u>(14,341,000)</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

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>2017</u>	<u>2016</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>3,131,000</u>	<u>1,590,000</u>
Total incurred claims and claim adjustment expenses	<u>3,131,000</u>	<u>1,590,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(3,131,000)</u>	<u>(1,590,000)</u>
Total payments	<u>(3,131,000)</u>	<u>(1,590,000)</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

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>2017</u>	<u>2016</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 2,214,000	1,966,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	3,792,000	3,584,000
Decrease (increase) in provision for insured events of prior fiscal years	<u>(6,000)</u>	<u>496,000</u>
Total incurred claims and claim adjustment expenses	<u>3,786,000</u>	<u>4,080,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(1,839,000)	(1,759,000)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(1,833,000)</u>	<u>(2,073,000)</u>
Total payments	<u>(3,672,000)</u>	<u>(3,832,000)</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ 2,328,000</u>	<u>2,214,000</u>

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Supplementary Information

Reconciliation of Club Sports Claims Liabilities

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

	<u>2017</u>	<u>2016</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>42,000</u>	<u>14,000</u>
Total incurred claims and claim adjustment expenses	<u>42,000</u>	<u>14,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(42,000)</u>	<u>(14,000)</u>
Total payments	<u>(42,000)</u>	<u>(14,000)</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

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:

	2017	2016
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 5,944,000	8,995,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	3,041,000	2,714,000
Decrease in provision for reinsured events of current fiscal year	(2,856,000)	(2,431,000)
Decrease in provision for insured events of prior fiscal years	(703,000)	(1,553,000)
Total incurred claims and claim adjustment expenses	(518,000)	(1,270,000)
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	—	—
Claims and claim adjustment expenses attributable to recoveries from reinsured events of current fiscal year	1,021,000	448,000
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(2,570,000)	(2,229,000)
Total payments	(1,549,000)	(1,781,000)
Claims liability for losses and loss adjustment expenses, end of year	\$ 3,877,000	5,944,000

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Supplementary Information

Reconciliation of AORMA General Liability Claims Liabilities

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

	<u>2017</u>	<u>2016</u>
Claims liability for losses and loss adjustment expenses, beginning of year	\$ 1,493,000	2,245,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	1,085,000	1,181,000
Decrease in provision for insured events of prior fiscal years	<u>(960,000)</u>	<u>(4,125,000)</u>
Total incurred claims and claim adjustment expenses	<u>125,000</u>	<u>(2,944,000)</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(77,000)	(134,000)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(93,000)</u>	<u>2,326,000</u>
Total excess (payments) recoveries	<u>(170,000)</u>	<u>2,192,000</u>
Claims liability for losses and loss adjustment expenses, end of year	<u>\$ 1,448,000</u>	<u>1,493,000</u>

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Supplementary Information

Reconciliation of AORMA Property Claims Liabilities

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

	<u>2017</u>	<u>2016</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>248,000</u>	<u>238,000</u>
Total incurred claims and claim adjustment expenses	<u>248,000</u>	<u>238,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(248,000)</u>	<u>(238,000)</u>
Total payments	<u>(248,000)</u>	<u>(238,000)</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

Reconciliation of AORMA Crime Claims Liabilities

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

	<u>2017</u>	<u>2016</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>24,000</u>	<u>—</u>
Total incurred claims and claim adjustment expenses	<u>24,000</u>	<u>—</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(24,000)</u>	<u>—</u>
Total payments	<u>(24,000)</u>	<u>—</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

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>2017</u>	<u>2016</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>1,131,000</u>	<u>917,000</u>
Total incurred claims and claim adjustment expenses	<u>1,131,000</u>	<u>917,000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	<u>(1,131,000)</u>	<u>(917,000)</u>
Total payments	<u>(1,131,000)</u>	<u>(917,000)</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, 2017

(For inclusion in the California State University)

Assets:

Current assets:

Cash and cash equivalents	\$ —
Short-term investments	13,011,029
Accounts receivable, net	7,281,372
Notes receivable, current portion	612,880
Prepaid expenses and other assets	<u>5,871,995</u>
Total current assets	<u>26,777,276</u>

Noncurrent assets:

Notes receivable, net of current portion	2,412,880
Other long-term investments	<u>132,765,827</u>
Total noncurrent assets	<u>135,178,707</u>
Total assets	<u>161,955,983</u>

Liabilities:

Current liabilities:

Accounts payable	10,895,598
Unearned revenue	43,285
Claims liability for losses and LAE – current portion	<u>20,374,668</u>
Total current liabilities	<u>31,313,551</u>

Noncurrent liabilities:

Claims liability for losses and LAE, net of current portion	50,443,861
Other liabilities	<u>6,818,218</u>
Total noncurrent liabilities	<u>57,262,079</u>
Total liabilities	<u>88,575,630</u>

Net position:

Unrestricted	<u>73,380,353</u>
Total net position	<u>\$ 73,380,353</u>

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Schedule of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2017

(For inclusion in the California State University)

Revenues:		
Operating revenues:		
Other operating revenues	\$	<u>94,006,175</u>
Total operating revenues		<u>94,006,175</u>
Expenses:		
Operating expenses:		
Instruction		10,097,299
Research		121,401
Public service		110,998
Academic support		2,257,807
Student services		2,273,533
Institutional support		74,893,649
Operation and maintenance of plant		1,398,004
Auxiliary enterprise expenses		<u>425,898</u>
Total operating expenses		<u>91,578,589</u>
Operating income		<u>2,427,586</u>
Nonoperating revenues (expenses):		
Investment income, net		(1,101,141)
Other nonoperating expenses		<u>(15,401,150)</u>
Net nonoperating expenses		<u>(16,502,291)</u>
Increase in net position		(14,074,705)
Net position:		
Net position, beginning of year		<u>87,455,058</u>
Net position, end of year	\$	<u><u>73,380,353</u></u>

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Other Information

June 30, 2017

(For inclusion in the California State University)

	Current unrestricted	Total current	Noncurrent unrestricted	Total noncurrent	Total
Asset-backed securities	\$ 1,113,060	1,113,060	3,548,747	3,548,747	4,661,807
Certificates of deposit	551,918	551,918	—	—	551,918
Commercial paper	—	—	—	—	—
Corporate bonds	3,586,656	3,586,656	21,429,370	21,429,370	25,016,026
International bonds	—	—	1,242,197	1,242,197	1,242,197
Money market funds	55,904	55,904	1,196,429	1,196,429	1,252,333
Mortgage-backed securities	1,288	1,288	6,878,829	6,878,829	6,880,117
Municipal bonds	58,956	58,956	5,359,011	5,359,011	5,417,967
Repurchase agreements	36,625	36,625	—	—	36,625
U.S. agency securities	4,697,331	4,697,331	4,074,180	4,074,180	8,771,511
U.S. Treasury securities	2,909,291	2,909,291	89,037,065	89,037,065	91,946,356
Total investments	\$ 13,011,029	13,011,029	132,765,828	132,765,828	145,776,857

Fair value hierarchy in investments at June 30, 2017:

	Fair value measurements using				Net asset value (NAV)
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	
Asset-backed securities	\$ 4,661,807	1,113,060	3,548,747	—	—
Certificates of deposit	551,918	—	551,918	—	—
Commercial paper	—	—	—	—	—
Corporate bonds	25,016,027	478,906	24,537,121	—	—
International bonds	1,242,197	—	1,242,197	—	—
Money market funds	1,252,333	17	—	—	1,252,316
Mortgage-backed securities	6,880,117	—	6,880,117	—	—
Municipal bonds	5,417,967	—	5,417,967	—	—
Repurchase agreements	36,625	—	36,625	—	—
U.S. agency securities	8,771,510	2,371,693	6,399,817	—	—
U.S. Treasury securities	91,946,356	—	91,946,356	—	—
Total investments	\$ 145,776,857	3,963,676	140,560,865	—	1,252,316

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
RISK MANAGEMENT AUTHORITY**

Claims Development Information

(In thousands)

(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net earned required contribution and investment revenues:										
Earned	\$ 92,065	85,769	90,247	96,364	104,726	91,560	93,935	96,997	104,997	102,346
Ceded	—	18,469	19,024	18,879	16,149	3,005	11,626	6,872	6,886	9,441
Net earned	\$ 92,065	67,300	71,223	77,485	88,577	88,555	82,309	90,125	98,111	92,905
Unallocated expenses	\$ 49,872	43,306	52,578	39,257	48,776	41,755	30,116	44,878	60,194	80,309
Estimated incurred claims and expenses, end of policy year:										
Incurred	\$ 41,474	28,604	57,959	63,416	57,994	59,095	59,313	60,386	56,800	60,246
Ceded	—	17,996	17,118	19,834	19,575	—	—	14,527	24,959	26,653
	\$ 41,474	10,608	40,841	43,582	38,419	59,095	59,313	45,859	31,841	33,593
Paid (cumulative) as of:										
End of policy year	\$ 12,301	12,022	19,615	18,972	20,541	11,400	13,019	14,300	9,658	7,058
One year later	19,767	14,801	22,697	20,457	22,295	28,965	27,549	24,260	21,005	—
Two years later	25,324	20,511	23,082	23,664	23,853	35,942	32,559	26,281	—	—
Three years later	28,175	19,458	24,863	28,733	25,063	38,432	41,718	—	—	—
Four years later	26,667	20,063	25,543	29,004	25,282	40,302	—	—	—	—
Five years later	28,062	20,385	29,061	29,461	25,330	—	—	—	—	—
Six years later	29,240	20,624	29,370	29,617	—	—	—	—	—	—
Seven years later	30,032	20,762	29,545	—	—	—	—	—	—	—
Eight years later	31,033	20,804	—	—	—	—	—	—	—	—
Nine years later	31,932	—	—	—	—	—	—	—	—	—
Reestimated ceded claims and expenses	\$ —	18,767	17,996	22,643	21,685	—	—	14,527	24,959	26,653
Reestimated incurred claims and expenses:										
End of policy year	\$ 41,474	10,608	40,841	43,582	38,419	59,095	59,313	45,859	31,841	33,593
One year later	38,704	23,692	34,160	30,986	27,064	50,697	48,463	36,014	31,206	—
Two years later	38,858	24,655	29,484	28,962	27,864	50,636	49,235	33,781	—	—
Three years later	38,264	20,456	28,725	30,268	26,082	31,868	53,080	—	—	—
Four years later	33,533	20,742	28,024	30,168	25,906	37,005	—	—	—	—
Five years later	33,778	20,858	32,595	30,201	25,588	—	—	—	—	—
Six years later	34,125	21,110	32,360	30,079	—	—	—	—	—	—
Seven years later	35,327	21,154	32,491	—	—	—	—	—	—	—
Eight years later	42,337	21,141	—	—	—	—	—	—	—	—
Nine years later	34,074	—	—	—	—	—	—	—	—	—
Increase (decrease) in estimated incurred claims and expenses from end of policy year	\$ (7,400)	10,533	(8,350)	(13,503)	(12,831)	(22,090)	(6,233)	(12,078)	(632)	—

See accompanying independent auditors' report.