

PTSC-MTA RISK MANAGEMENT AUTHORITY

A Component Unit of the
Los Angeles County Metropolitan Transportation Authority

Basic Financial Statements and Required Supplementary Information

**For the Fiscal Year Ended June 30, 2024
(With Independent Auditor's Report Thereon)**



2355 Crenshaw Blvd. Suite 150 Torrance, CA 90501
t: (310) 792-4640 f: (310) 792-4140

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)

TABLE OF CONTENTS

	Page
Independent Auditor's Report.....	1
Management's Discussion and Analysis (Unaudited).....	4
Basic Financial Statements	
Statement of Net Position.....	6
Statement of Revenues, Expenses, and Changes in Net Position.....	7
Statement of Cash Flows.....	8
Notes to the Basic Financial Statements	9
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21



2355 Crenshaw Blvd. Suite 150
Torrance, CA 90501

Telephone: 310.792.4640
Facsimile: 310.792.4331
www.bcawr.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
PTSC-MTA Risk Management Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of PTSC-MTA Risk Management Authority (PRMA), a component unit of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise PRMA's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PRMA as of June 30, 2024, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PRMA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions of events, considered in the aggregate, that raise substantial doubt about PRMA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment with generally accepted auditing standards.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PRMA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PRMA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2024 on our consideration of PRMA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PRMA's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "BCA Watson Rice, LLP". The signature is written in a cursive, flowing style.

Torrance, California
December 2, 2024

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
June 30, 2024

As management of the PTSC-MTA Risk Management Authority (PRMA), we offer readers of PRMA's basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2024. This discussion and analysis are designed to assist the readers in focusing on the significant financial issues and activities of PRMA.

All dollar amounts are expressed in thousands unless otherwise indicated.

Financial Highlights

- Net position remained at \$0. The net position did not change as the Los Angeles County Transportation Authority (LACMTA) reimburses all PRMA's expenses.
- Current and other assets as of June 30, 2024, decreased by \$15,646 or 3.34% compared to June 30, 2023 as a result of reporting the net amount due to other funds in the liabilities section of the Statement of Net Position offset by favorable performance of the investment portfolio.
- Current and non-current liabilities as of June 30, 2024, decreased by \$15,646 or 3.34% compared to June 30, 2023 as a result of reporting the net amount due to other funds in the liabilities section of the Statement of Net Position offset by an increase in claims liability.
- PRMA's expenses decreased by \$29,809 or 16.24% in fiscal year 2024 as compared to fiscal year 2023 which included a \$81,606 adjustment to the actuarially determined claim liabilities.

Overview of the Basic Financial Statements

This management's discussion and analysis serves as an introduction to PRMA's basic financial statements. PRMA's basic financial statements are (1) the statement of net position, (2) the statement of revenues, expenses, and changes in net position, (3) the statement of cash flows, and (4) the notes to the basic financial statements.

PRMA's basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board (GASB). PRMA is structured as an Enterprise Fund, with revenues recognized when earned and measurable. Expenses are recognized when they are incurred. See notes to the basic financial statements for the summary of PRMA's significant accounting policies.

The statement of net position presents information on all of PRMA's assets and liabilities, with the difference between the two reported as net position. The statement of revenues, expenses, and changes in net position presents the results of PRMA's operations. The statement of cash flows presents the cash flows generated by PRMA to meet its obligations. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
June 30, 2024

Analytical Overview

The tables below are summaries of the statement of net position and statement of revenues, expenses, and changes in net position as of and for the years ended June 30, 2024, and 2023.

Condensed statement of net position

	<u>2024</u>	<u>2023</u>
Current and other assets	\$ 453,202	\$ 468,853
Noncurrent assets	<u>5</u>	<u>-</u>
Total assets	<u>453,207</u>	<u>468,853</u>
Current and other liabilities	140,163	186,404
Noncurrent liabilities	<u>313,044</u>	<u>282,449</u>
Total liabilities	<u>453,207</u>	<u>468,853</u>
Net position	<u>\$ -</u>	<u>\$ -</u>

Condensed statement of revenues, expenses, and changes in net position

	<u>2024</u>	<u>2023</u>
Operating revenues	\$ 153,798	\$ 183,607
Operating expenses	<u>153,798</u>	<u>183,607</u>
Operating loss	-	-
Non-operating revenues	<u>-</u>	<u>-</u>
Change in net position	-	-
Net position - beginning of year	<u>-</u>	<u>-</u>
Net position - end of year	<u>\$ -</u>	<u>\$ -</u>

Factors Impacting Future Periods

The main economic factors affecting PRMA's financial capacity include the following:

- Economic conditions affecting local sales taxes.
- Inflation

PRMA uses forecasts from LACMTA's various governmental sources as a basis for its future funding assumptions. PRMA uses LACMTA's revenue sources in constructing its budget that balances anticipated revenues with the need for managing risks associated with its capital program. PRMA's projected expenses and revenue sources are incorporated in LACMTA's annual budget.

Further Information

This report has been designed to provide other interested parties with a general overview of PRMA's financial condition and related issues. Inquiries should be directed to the Accounting Department, One Gateway Plaza, Mail Stop 99-20-7, Los Angeles, CA 90012-2952.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Statement of Net Position
June 30, 2024
(Amounts Expressed in Thousands)

Assets

Current Assets		
Cash and cash equivalents	\$	401
Investments		439,335
Prepaid expenses and other assets		13,466
Total current assets		<u>453,202</u>
Noncurrent assets		
IT subscription asset, net of amortization		5
Total noncurrent assets		<u>5</u>
Total assets		<u>453,207</u>

Liabilities and Net Position

Current Liabilities		
Accounts payable and other liabilities		1,716
Due to other funds		5,029
IT subscription liability		4
Claims payable		133,414
Total current liabilities		<u>140,163</u>
Noncurrent liabilities		
IT subscription liability		1
Claims payable		313,043
Total noncurrent liabilities		<u>313,044</u>
Total liabilities		<u>453,207</u>
Net Position	\$	<u><u>-</u></u>

See Accompanying Notes to the Basic Financial Statements

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2024
(Amounts Expressed in Thousands)

Operating Revenues	
Charges for services	\$ 153,798
Total operating revenues	<u>153,798</u>
Operating Expenses	
Workers' compensation	85,355
Casualty and liability	57,190
Professional and technical services	5,459
Other expenditures	5,790
Amortization	<u>4</u>
Total operating expenses	<u>153,798</u>
Net operating income (loss)	<u>-</u>
Net Position	
Net position - beginning of year	<u>-</u>
Net position - end of year	\$ <u><u>-</u></u>

See Accompanying Notes to the Basic Financial Statements

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2024
(Amounts Expressed in Thousands)

Cash flows from operating activities

Receipts from customers	\$ 153,915
Payment to suppliers	<u>(137,282)</u>
Net cash provided by operating activities	<u>16,633</u>

Cash flows used for financing activities

Principal payments - Right-to-use lease assets	<u>(4)</u>
Net cash flows used for financing activities	<u>(4)</u>

Cash flows from investing activities

Proceeds from sale and maturity of investments	180,590
Purchase of investments	<u>(216,484)</u>
Net cash used for investing activities	<u>(35,894)</u>

Net decrease in cash and cash equivalents (19,265)

Cash and cash equivalent - beginning of year	<u>19,666</u>
Cash and cash equivalent - end of year	<u>\$ 401</u>

Reconciliation of net operating income (loss) to net cash flows provided by operating activities

Net operating income (loss)	\$ -
Adjustments to reconcile operating loss to net cash flows provided by operating activities:	
Decrease in accounts receivable	117
Increase in prepaid expense	(1,295)
Decrease from other funds	33,457
Increase in accounts payable	1,256
Increase in subscription liability	5
Decrease in due to other funds	(41,745)
Increase in claims payable	<u>24,838</u>
Total adjustments	<u>16,633</u>
Net cash flows provided by operating activities	<u>\$ 16,633</u>

See Accompanying Notes to the Basic Financial Statements

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

The notes to the basic financial statements are a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying basic financial statements.

All dollar amounts are expressed in thousands unless otherwise indicated.

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

In October 1998, the Public Transportation Services Corporation (PTSC) and the Los Angeles County Metropolitan Transportation Authority (LACMTA) entered into a joint powers agreement to create the PTSC-MTA Risk Management Authority (PRMA) for the purpose of establishing and operating a program of cooperative self-insurance and risk management. PRMA provides workers' compensation insurance coverage for all LACMTA and PTSC employees. PRMA also provides public liability and property damage insurance coverage for all LACMTA and PTSC properties. The costs of these services are shared by PTSC and LACMTA in accordance with the joint powers' agreement.

PRMA is currently governed by a three-member Board of Directors, two of whom are appointed by the LACMTA and one appointed by PTSC in accordance with the bylaws.

Component Unit of LACMTA

PRMA receives all of its funding from LACMTA and PTSC. As PTSC also derives its funding from LACMTA, PRMA is a component unit of LACMTA and is included in LACMTA's financial statements as a blended component unit. The specific elements of oversight criteria considered in defining a reporting entity are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The financial statements presented in this report cover only the operations of PRMA, which is only a portion of LACMTA. PRMA's financial information is included in LACMTA's basic financial statements.

Pooling Self-Insurance

PRMA is responsible for obtaining reinsurance as directed by PTSC and LACMTA.

Basis of Presentation and Accounting

PRMA's basic financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Government Accounting Standards Board (GASB). Under this method, revenues are recognized when earned and expenses are recorded when the related liability is incurred.

Fund Accounting

PRMA utilizes a proprietary fund to account for ongoing operations and activities similar to those found in the private sector, where the determination of net income is necessary or useful to provide sound financial administration. PRMA accounts for the goods and services provided to PTSC and LACMTA on a cost-reimbursement basis through the process of chargebacks.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

PRMA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, producing and delivering goods and services in connection with PRMA's ongoing operations. PRMA's principal operating revenues are charges to PTSC and LACMTA for workers' compensation and casualty and liability claims. Operating expenses include contracted costs, professional technical services, office supplies, and other costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Investments

Cash and cash equivalents include all highly liquid assets such as cash on hand, demand deposits, and short-term investments with original maturities of 90 days or less at the acquisition date. Otherwise, they are considered investments.

Capital Assets

In accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA), PRMA has recorded an intangible right to use subscription asset in the Statement of Net Position as of June 30, 2024. The right-to-use subscription asset is equal to the amount of the initial measurement of the subscription liability, plus any payments made to the vendor at or before the commencement date of the subscription term and direct ancillary costs necessary to place the asset into service. It is being amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying asset. An amortization expense is recognized representing the decrease in the useful life of the right to use subscription asset over the lease term. Any remeasurement of the subscription liability requires a corresponding change in the right to use subscription asset.

Intangible right-to-use subscription assets are amortized over the subscription term of the underlying asset, as follows:

Asset Type	Useful Life in Years	Lease Term in Years
Intangible right-to-use IT subscription assets	-	3-5 years

Amortization on these capital assets is included in the Statement of Revenues, Expenses, and Changes in Net Position.

Use of Estimates

The preparation of the basic financial statements in conformity with Accounting Principles Generally Accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

Subscription-Based Information Technology Arrangement (SBITA)

Effective July 1, 2022, PRMA implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which establishes standards of accounting and financial reporting for SBITAs by a government end user. Subscription-based information technology arrangements provide governments with access to vendors' IT software and associated tangible capital assets for subscription payments without granting governments perpetual licenses or titles to the IT software and associated tangible capital assets. GASB Statement No. 96 requires that certain SBITA results in the recognition of a right-to-use IT subscription asset, an intangible asset, and a corresponding subscription liability. Prior to the issuance of this Statement, there was no accounting or financial reporting guidance specifically for SBITAs.

With the implementation of GASB 96, PRMA has recorded an intangible right-to-use subscription asset in the Statement of Net Position, equal to the initial amount of subscription liability, payments made to a SBITA vendor before the commencement of the subscription term, and the capitalizable of any implementation costs. It is amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT assets. An amortization expense is recognized representing the decrease in the useful life of the right-to-use subscription-based information technology arrangement assets and is being reported as an outflow of resources. Subscription assets are reported with other capital assets and subscription liabilities are reported separately on the Statement of Net Position.

PRMA determines the discount rate it uses to discount the expected SBITA payments to present value. PRMA uses the interest rate charged by the vendor as the discount rate. When the interest rate is not provided in the agreement, PRMA uses its estimated incremental borrowing rate as the discount rate for SBITA. The future subscription payments expected to be made are discounted using the interest rate implicit in the agreement given an average subscription term of 5 to 7 years. The SBITA terms and payments used are those that are stated in the executed agreements. The term includes the noncancellable period of the subscription. SBITA payments included in the measurement of the liability is composed of fixed payments and purchase option price that the PRMA is reasonably certain to exercise.

A SBITA modification is accounted as a separate SBITA if the SBITA modification gives the government additional subscription assets and if the increase in subscription payments for those additional subscription assets are not unreasonable. If SBITA modifications are not accounted for separately, then there will be a remeasurement of the subscription liability. The subscription asset is adjusted by the difference between the remeasured liability and the liability immediately before the SBITA modification. However, if the change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported as an inflow of resources. Changes in exercised options, discount rates, or events resulting in the extension or termination of the SBITA are subject to a remeasurement of the subscription liability.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 2 – Effect of New GASB Pronouncement

In June 2022, GASB issued Statement No. 100, Accounting Changes and Error Corrections. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate number of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. PRMA implemented the new reporting requirements in Fiscal Year ended June 30, 2024 and there were no material events requiring disclosure under GASB 100.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 3 – Cash and Investments

As of June 30, 2024, the following are PRMA’s cash and investments:

Cash and Investment Type

Debt securities		
Medium term notes	\$	152,655
Asset backed securities		48,898
Fixed income		
Pooled funds and mutual funds		401
US Agencies securities		29,857
US Treasury obligations		207,925
Total Cash and investments	\$	<u>439,736</u>

Reported in the Statement of Net Position

Cash and cash equivalents	\$	401
Investments		<u>439,335</u>
Total cash and investments	\$	<u>439,736</u>

Note: A portion of PRMA’s investments totaling \$401 is classified as cash and cash equivalents on the Statement of Net Position based on their maturity date.

Fair Value Measurements

In February 2015, GASB issued Statement No. 72, “*Fair Value Measurement and Application*”. This standard is applicable primarily to investments made by state and local governments, defines fair value and describes how fair value should be measured, identifies the assets and liabilities that should be measured at fair value, and requires specific information about fair value to be disclosed in the financial statement. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agency has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 3 – Cash and Investments (Continued)

Fair Value Measurements (Continued)

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Typically, the fair value reflects management's estimates of assumptions that market participants would use in pricing the asset or liability.

U.S. Treasury obligations and some marketable securities are classified as Level 1 and are valued using prices in active markets for identical assets. U.S. Agencies securities are classified as Level 2 and are valued using inputs that are observable but not active using the market approach. These inputs include matrix models and comparisons to prices of similar assets.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

As of June 30, 2024, the following are PRMA's investments set forth by level within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Debt securities				
Asset backed securities	\$ -	\$ 48,898	\$ -	\$ 48,898
Medium term notes	-	152,655	-	152,655
Fixed income				
Pooled funds and mutual funds	-	401	-	401
US Treasury obligations	207,925	-	-	207,925
US Agencies securities	-	29,857	-	29,857
	<u>\$ 207,925</u>	<u>\$ 231,811</u>	<u>\$ -</u>	<u>\$ 439,736</u>

Investment Policy

LACMTA internally pools all cash deposits and investments in which PRMA is a participant. For purposes of the Statement of Net Position and Statement of Cash Flows, all highly liquid investments, including restricted/designated assets with an original maturity date of 90 days or less when purchased, are considered to be cash and cash equivalents. Otherwise, they are classified as investments.

LACMTA maintains investments designated to cover PRMA's Workers' Compensation and Public Liability and Property Damage liabilities. The investments are in the name of LACMTA.

All investments are stated at fair value. Net changes in the fair value of investments are recorded in the claims and judgment payable presented in the Statement of Net Position. LACMTA's most recent investment policy, adopted by the Board on March 28, 2024, requires LACMTA's investment program to meet three criteria in the order of their importance:

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 3 – Cash and Investments (Continued)

Investment Policy (Continued)

- Safety – preservation of capital and the protection of investment principal.
- Liquidity – investment portfolios will remain sufficiently liquid to enable PRMA to meet operating requirements that might be reasonably anticipated; and
- Return on Investments – LACMTA will maximize yield on the portfolio consistent with the safety and liquidity objectives.

The table below briefly describes LACMTA’s investment policy. This table does not address cash deposits and investments held by bond trustees that are governed by the provisions of LACMTA’s bond trust agreements.

Authorized Investment Type	Maximum Effective Maturity	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer	Minimum Ratings
Bonds issued by LACMTA	5 years	100%	100%	None
U.S. Treasury obligations	5 years	100%	100%	None
U.S. Unsecured unsubordinated obligations	5 years	30%	10%	AA
Bonds, notes or warrants of any local agency within the State of California	5 years	25%	25%	A1 short term or AA long term
U.S. Agency securities	5 years	100%	100%	None
Registered state warrants or treasury notes or bonds of other 49 states	5 years	25%	25%	A1 short term or AA long term
Bankers acceptance	180 days	40%	10%	A1+ / P1 short term
Commercial paper	270 days	40%	10%	A
Negotiable certificates of deposit	5 years	30%	10%	None
Placement Service Assisted Deposits	5 years	30%	10%	None
Repurchase agreements	90 days	20%	20%	None
Medium-term notes	5 years	30%	10%	A
Money Market, Mutual or Pooled funds	Not applicable	20%	10%	A1+ / P1 short term or AAA long term
Asset-backed securities	5 years	20% combined with any mortgage-backed securities	15%	AAA
Mortgage-backed securities	5 years	20% combined with any asset-backed securities	15%	AAA
Local Agency Investment Fund (LAIF)	Not applicable	Set by LAIF	Set by LAIF	Not applicable
Local Government Investment Pool (LGIP)	Not applicable	Set by LGIP	Set by LGIP	Not applicable

* The percentage of portfolio authorization is based on market value.

LACMTA’s investment policy prohibits investing in derivatives or reverse repurchase agreements.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 3 – Cash and Investments (Continued)

Risk

In accordance with GASB Statement No. 40, “*Deposit and Risk Disclosure – an Amendment of GASB Statement No.3*”, certain required disclosures regarding investment policies and practices with respect to the risk associated with their credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk are discussed in the following paragraphs.

Credit Risk

Investments are subject to credit risk, which is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer’s ability to make these payments will cause the price to decline. The tables above for short-term investments, bond proceeds, and debt service investments summarize the fair value of investments and the related credit ratings. LACMTA maintains policies to manage credit risk, which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations for its investments.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual securities. As disclosed above, LACMTA maintains investment policies that establish thresholds for holdings of individual securities. LACMTA does not have any holdings meeting or exceeding these threshold levels.

As of June 30, 2024, LACMTA does not have any investments with more than 10 percent of the total investments under one issuer except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

Custodial Credit Risk

LACMTA has no known custodial credit risk for deposits as financial institutions are required by the California Government Code to collateralize deposits of public funds by pledging government securities as collateral. Such collateralization of public funds is accomplished by pooling. The market value of pledged securities must be in accordance with the Government Code for the State of California. California law also allows financial institutions to collateralize public fund deposits by governmental securities with a value of 110 percent of the deposit or by pledging first trust deed mortgage notes having a value of 150 percent of a governmental unit’s total deposits. LACMTA may waive collateral requirements for deposits that are fully insured up to \$250,000 (amount not in thousands) by the FDIC. All investment securities purchased were held and registered in LACMTA’s name and maintained for the benefit of the LACMTA in the trust department or safekeeping department of a financial institution as established by a written third-party safekeeping agreement between LACMTA and the financial institution.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 3 – Cash and Investments (Continued)

Risk (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. LACMTA measures interest rate risk on its short-term investments using the effective duration method. LACMTA maintains a policy requiring the average duration of the externally managed short-term investments not to exceed 150 percent of the benchmark duration and the average duration of the internally managed short-term investments not to exceed three years. This policy does not apply to investments of proceeds related to bond financing. LACMTA measures interest rate risk on its bond proceeds and debt service investments using the weighted average maturity method.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of cash deposits or investments. As of June 30, 2024, there is no exposure to currency risk as all LACMTA's cash deposits and investments are denominated in U.S. dollar currency.

Note 4 – Prepaid Expenses

Represents payment of insurance premiums that relate to future periods and are amortized over the period covered.

Note 5 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2024 is as follows:

	<u>Balance</u> <u>July 1, 2023</u>	<u>Increases/</u> <u>(Decreases)</u>	<u>Balance</u> <u>June 30, 2024</u>
Intangible right-to-use subscription asset	\$ -	\$ 14	\$ 14
Total capital assets, being amortized	<u>-</u>	<u>14</u>	<u>14</u>
Less: Accumulated amortization	<u>-</u>	<u>(9)</u>	<u>(9)</u>
Net capital assets being amortized	<u>-</u>	<u>(9)</u>	<u>(9)</u>
Total capital assets, net	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 5</u>

Note 6 – Accounts Payable

Accounts payable represent amounts owed to vendors for services performed or goods purchased.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 7 – Due to Other Funds

Due to other funds are amounts owed to LACMTA and PTSC for temporary loans to meet the operating needs of PRMA.

Note 8 – Subscription Liability

PRMA, as a subscriber, has entered Subscription-Based Information Technology Arrangements (SBITA) for the use of software, access to vendors' database and use of vendors' computing power and storage. In fiscal year 2024, principal and interest payments of \$4,635 and \$179 (amounts not in thousands), respectively, represent the total amount of SBITA payments per executed contract. The amount of \$5 was reported as subscription liability in the Statement of Net Position for the fiscal year ending June 30, 2024. The amount was measured based on the present value of the of future SBITA payments expected to be made during the contract period.

As of June 30, 2024, the future payments under the SBITAs are as follows:

As of June 30	Principal	Interest	Total
2025	\$ 4,269	\$ 78	\$ 4,347
2026	1,067	4	1,071
Total	<u>\$ 5,336 *</u>	<u>\$ 82 *</u>	<u>\$ 5,418 *</u>

* Amounts not rounded in thousands.

Note 9 – Claims Payable

The primary emphasis of claims and judgment activities at PRMA is to prevent or reduce the risk of injury to persons and damage to or loss of property. Where losses cannot be prevented, LACMTA endeavors to self-insure or to assume such losses as it may deem advisable and economical, giving due consideration to the frequency and severity of probable losses. The consideration of the effect of potential self-insured or assumed losses is part of LACMTA's financial planning process.

Capital

For its construction projects, LACMTA requires contractors to maintain a contractor-controlled insurance program (CCIP) to minimize LACMTA's risk of exposure to construction related losses. These policies provide property, liability, and workers' compensation insurance and cover many of the risks arising from the work of contractors and subcontractors on LACMTA construction projects.

LACMTA purchased a construction project umbrella insurance program (super excess general liability policies) that provides additional coverage limits on identified LACMTA major capital projects. The program provides up to \$550 million in additional coverage over the dedicated limits of insurance provided by each of the Design-Build contractors. The Design-Build contract values for the ongoing and recently completed projects is approximately \$13 billion.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 9 – Claims Payable (Continued)

Operations

The estimated liabilities for public liability and property damage, and workers' compensation claims are actuarially determined and subject to periodic adjustment as conditions warrant. The estimated liabilities are discounted using an average discount rate of 3.0%. LACMTA believes that the estimated liability for self-insured claims as of June 30, 2024 will be sufficient to cover any costs arising from claims filed or to be filed for incidents that occurred through that date. The estimated liabilities are based, in part, upon an independent actuarial estimate of unsettled claims including losses that have been incurred but not reported, and legal expenses, but excluding direct administration costs both by LACMTA employees and third-party administrators.

LACMTA is partially self-insured for public liability and property damage for non-construction activities up to \$25 million per occurrence. In addition, LACMTA has established an excess liability program of insurance coverage with limits of \$300 million through the International and Domestic markets for claims more than self-insurance retentions.

Furthermore, LACMTA has an all-risk property insurance program that covers all of its property. The property insurance policy covers insurable values of approximately \$18.8 billion on a probable maximum loss basis with policy limits of \$650 million for damages (\$150 million for flood damages). Earthquake coverage is not included in the current program structure. LACMTA does not set aside funds to cover potential gaps in property insurance coverage in case of losses.

The following table summarizes changes in the claims liabilities for the year ended June 30, 2024:

	Property and Casualty	Workers' Compensation	Total
Unpaid claims and claims adjustment liabilities – beginning of year	\$ 139,659	\$ 281,960	\$ 421,619
Provisions for insured events	57,610	82,120	139,730
Investment income	5,557	12,964	18,521
Total incurred claims and claims adjustment expense	202,826	377,044	579,870
Payment attributable to insured events	(48,217)	(85,196)	(133,413)
Total unpaid claims and claims adjustment liabilities – end of year	\$ 154,609	\$ 291,848	\$ 446,457

As of June 30, 2024, \$133,414 of the total claims' liability is considered current. Claims payable is reported in the Statement of Net Position.

As of June 30, 2024, a designated investment in the amount of \$152,473 has been set aside for property and casualty liabilities.

The workers' compensation program is both self-insured and self-administered by LACMTA. As of June 30, 2024, a designated investment in the amount of \$286,862 has been set aside for workers' compensation liabilities.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2024

Note 9 – Claims Payable (Continued)

Operations (continued)

Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from the previous year.

Note 10 – Subsequent Events

In preparing these basic financial statements, PRMA has evaluated events and transactions for potential recognition or disclosure through December 2, 2024, the date the financial statements were available to be issued. Based on this evaluation, it was determined that no subsequent events occurred that required recognition or additional disclosure in the basic financial statements.



2355 Crenshaw Blvd. Suite 150
Torrance, CA 90501

Telephone: 310.792.4640
Facsimile: 310.792.4331
www.bcawr.com

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

To the Board of Directors of
PTSC-MTA Risk Management Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the PTSC-MTA Risk Management Authority (PRMA), a component unit of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the fiscal year ended June 30, 2024, and the related notes to the basic financial statements, which collectively comprise PRMA's basic financial statements, and have issued our report thereon dated December 2, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered PRMA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of PRMA's internal control. Accordingly, we do not express an opinion on the effectiveness of PRMA's internal control.

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

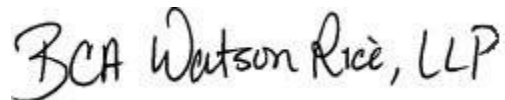
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

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

Purpose of This Report

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

A handwritten signature in black ink that reads "BCA Watson Rice, LLP". The signature is written in a cursive, flowing style.

Torrance, CA
December 2, 2024