

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, 2023
(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)

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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, 2023, 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, 2023, 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, we:
- 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.

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

Torrance, California
November 28, 2023

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
June 30, 2023

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, 2023. 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 Metropolitan Transportation Authority (LACMTA) reimburses all PRMA's expenses.
- Current and other assets as of June 30, 2023, increased by \$77,233 or 19.72% compared to June 30, 2022, due to the increase in the estimated investment reserves resulting from the increase in estimated liabilities.
- Current and non-current liabilities as of June 30, 2023, increased by \$77,233 or 19.72% compared to June 30, 2022, due to higher claims for workers' compensation casualties.
- PRMA's expenses increased by \$85,740 or 87.61% in fiscal year 2023 as compared to fiscal year 2022. The increase is due to higher workers' compensation claims made during the current fiscal year and increases in the actuarially determined expected liability claims related to fiscal year 2023.

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.

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Management's Discussion and Analysis (Unaudited)
June 30, 2023

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, 2023, and 2022.

Condensed statement of net position

	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 468,853	\$ 391,620
Total assets	<u>468,853</u>	<u>391,620</u>
Current and other liabilities	186,404	107,600
Noncurrent liabilities	<u>282,449</u>	<u>284,020</u>
Total liabilities	<u>468,853</u>	<u>391,620</u>
Net position	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2023</u>	<u>2022</u>
Revenues	\$ 183,607	\$ 97,867
Expenses	<u>183,607</u>	<u>97,867</u>
Operating income (loss)	-	-
Non-operating revenue	<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.

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Management's Discussion and Analysis (Unaudited)
June 30, 2023

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, 2023
(Amounts Expressed in Thousands)

Assets

Current Assets	
Cash and cash equivalents	\$ 19,666
Investments	403,591
Prepaid expense and other assets	45,596
Total assets	<u>468,853</u>

Liabilities

Current Liabilities	
Accounts payable	460
Due to other funds	46,774
Claims payable	139,170
Total current liabilities	<u>186,404</u>
Non-current Liabilities	
Claims payable	282,449
Total non-current liabilities	<u>282,449</u>
Total liabilities	<u>468,853</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, 2023
(Amounts Expressed in Thousands)

Operating revenues:	
Charges for services	\$ 183,607
Total operating revenues	<u>183,607</u>
Operating expenses:	
Workers' compensation	121,438
Casualty and liability	52,209
Professional and technical services	4,859
Other expenditures	5,101
Total operating expenses	<u>183,607</u>
Net operating income (loss)	-
Net position - beginning of year	-
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, 2023
(Amounts Expressed in Thousands)

Cash flows from operating activities	
Receipts from customers	\$ 183,607
Payment to suppliers	(144,205)
Net cash flows from operating activities	<u>39,402</u>
Cash flows from investing activities	
Proceeds from sale and maturity of investments	328,905
Purchase of investments	(352,916)
Net cash flows from investing activities	<u>(24,011)</u>
Net increase in cash and cash equivalents	15,391
Cash and cash equivalents – beginning of year	4,275
Cash and cash equivalents – end of year	<u><u>\$ 19,666</u></u>

**Reconciliation of operating income to net cash flows
from operating activities:**

Net income (loss)	\$ -
Adjustments to reconcile net income (loss) to net cash flows from operating activities:	
Decrease in prepaid expense and due from LACMTA	(37,831)
Decrease in accounts payable	(265)
Increase in due to other funds	39,031
Increase in claims payable	38,467
Total adjustments	<u>39,402</u>
Net cash flows from operating activities	<u><u>\$ 39,402</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)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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.

Use of Estimates

The preparation of 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 reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Effects of New GASB Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on the basic financial statements:

In May 2020, GASB issued **Statement No. 96, Subscription-Based Information Technology Arrangements**. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA result in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. PRMA implemented the new reporting requirements in the fiscal year ended June 30, 2023 and there is no effect on the financial statements.

In April 2022, GASB issued **Statement No. 99, Omnibus 2022**. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. This Statement addresses a variety of topics and includes specific provisions about the following (not an exhaustive list):

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Note 1 - Summary of Significant Accounting Policies (Continued)

Effects of New GASB Pronouncements (Continued)

- Classification of provisions in Statement No. 87, Leases, as amended, related to the determination of lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Classification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payments Arrangements related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Classification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of SBITA as short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualified evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.
- Terminology used in Statement 53 to refer to resource flow statements.

The requirements of this Statement related to the extension of the use of LIBOR, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. PRMA implemented the new reporting requirements in the fiscal year ended June 30, 2023 and there is no effect on the financial statements.

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. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. If applicable, PRMA plans to implement the new reporting requirements in Fiscal Year 2024.

In June 2022, GASB issued **Statement No. 101, Compensated Absences**. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. If applicable, PRMA plans to implement the new reporting requirements in Fiscal Year 2024.

PTSC-MTA RISK MANAGEMENT AUTHORITY
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Note 2 - Cash and Investments

As of June 30, 2023, the following are PRMA's cash and investments:

Cash deposits	\$ 1,638
Debt securities	
Medium Term Notes	103,364
Commercial Paper	4,175
Asset backed securities	33,318
Fixed income	
Pooled funds and mutual funds	18,027
U.S. Treasury obligations	49,282
U.S. Agencies securities	213,453
Total cash and investments	<u>\$ 423,257</u>
Reported in the Statement of Net Position	
Cash and cash equivalents	\$ 19,666
Investments	403,591
Total cash and investments	<u>\$ 423,257</u>

Note: A portion of PRMA's investments totaling \$18,027 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.

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.

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Notes to the Basic Financial Statements
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Note 2 - Cash and Investments (Continued)

Fair Value Measurements (Continued)

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, 2023, the following are PRMA's investments set forth by level within the fair value hierarchy:

	Level 1	Level 2	Total
<u>Debt securities</u>			
Asset backed securities	\$ -	\$ 33,318	\$ 33,318
Commercial paper	-	4,175	4,175
Medium term notes	-	103,364	103,364
<u>Fixed income</u>			
Pooled funds	-	18,027	18,027
US Treasury obligations	213,453	-	213,453
US Agencies securities	-	49,282	49,282
Total investments	\$ 213,453	\$ 208,166	\$ 421,619

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 established a cash reserve for PRMA's Workers' Compensation and Public Liability and Property Damage equal to the liabilities. The cash and 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 23, 2023, requires LACMTA's investment program to meet three criteria in the order of their importance:

- 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.

PTSC-MTA RISK MANAGEMENT AUTHORITY
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Note 2 - Cash and Investments (Continued)

Investment Policy (Continued)

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	15% combined with any mortgage-backed securities	15%	AA
Mortgage-backed securities	5 years	15% combined with any asset-backed securities	15%	AA
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
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Note 2 - 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 shares. 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, 2023, LACMTA does not have any investments with more than 5 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 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.

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Note 2 - Cash and Investments (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, 2023, there is no exposure to currency risk as all LACMTA's cash deposits and investments are denominated in U.S. dollar currency.

Note 3 - Prepaid Expenses

Payment of insurance premiums that relate to future periods are recorded as prepaid expenses and are amortized over the period covered.

Note 4 - Accounts Payable and Due to Other Funds

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

Note 5 - Due to Other Funds

Due to other funds are amounts owed to LACMTA and PTSC for temporary loans in order to meet the operating needs of PRMA that will be repaid when sufficient cash becomes available.

Note 6 - 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.

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, 2023

Note 6 - Claims Payable (Continued)

Capital (Continued)

LACMTA purchased a construction project umbrella liability insurance program (super excess general liability policies) that provides additional coverage limits on LACMTA's five major capital projects currently underway. 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 these projects are approximately \$13 billion.

Operations

The reserves for public liability and property damage, and workers' compensation claims are actuarially determined and subject to periodic adjustment as conditions warrant. The reserves are discounted using an average discount rate of 3.0%. LACMTA believes that the estimated liability for self-insured claims as of June 30, 2023, will be sufficient to cover any costs arising from claims filed or to be filed for incidents that occurred through that date. The liability is based, in part, upon an independent actuarial estimate of reserves required for 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 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 its properties. The property insurance policy covers insurable values of approximately \$18.8 billion on a probable maximum loss basis with policy limits of \$550 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 reserves for the year ended June 30, 2023:

	Property and Casualty	Workers' Compensation	Total
Unpaid claims and claim adjustment reserves – beginning of year	\$ 146,128	\$ 237,024	\$ 383,152
Provisions for insured events	52,760	118,089	170,849
Interest income	1,684	5,103	6,787
Total incurred claims and claims adjustment expense	200,572	360,216	560,788
Payment attributable to insured events	(60,913)	(78,256)	(139,169)
Total unpaid claims and claim adjustment reserves – end of year	\$ 139,659	\$ 281,960	\$ 421,619

As of June 30, 2023, \$139,170 of the total claims' liability is considered current. Claims payable is reported in the Statement of Net Position.

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, 2023

Note 6 - Claims Payable (Continued)

Operations (Continued)

As of June 30, 2023, a designated investment has been set aside in the amount of \$139,659 equal to the property and casualty liabilities.

The workers' compensation program is both self-insured and self-administered by LACMTA. As of June 30, 2023, a designated investment has been set aside in the amount of \$281,960 equal to the workers' compensation liabilities.

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 7 - Subsequent Events

In preparing these basic financial statements, PRMA has evaluated events and transactions for potential recognition or disclosure through November 28, 2023, 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.

**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, 2023, and the related notes to the basic financial statements, which collectively comprise PRMA's basic financial statements, and have issued our report thereon dated November 28, 2023.

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 may exist that have not been 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
November 28, 2023