Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

Metro

Board Report

File #: 2023-0355, **File Type:** Oral Report / Presentation **Agenda Number:** 4.

PTSC-MTA RISK MANAGEMENT AUTHORITY
MAY 19, 2023

SUBJECT: AUDITED ANNUAL FINANCIAL ACTIVITIES

RECOMMENDATION

RECEIVE AND FILE report of audited annual financial activities for 2021-2022.

ATTACHMENT A

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, 2022
(With Independent Auditor's Report Thereon)

BCA Watson Rice LLP
Certified Public Accountants and Advisors

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

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ATTACHMENT B

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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, 2022, 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, 2022, 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 judgement 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 judgement, 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.

BCA Watson Rice, LLP

Torrance, California
November 21, 2022

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, 2022. This discussion and analysis is 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. Net position did not change as the Los Angeles County Metropolitan Transportation Authority (LACMTA) reimburses all of PRMA's expenses.

- Current and other assets as of June 30, 2022 decreased by $37,128 or 8.7% compared to June 30, 2021 due to the reduction in the estimated investment reserves resulting from the decrease in estimated liabilities.

- Current and non-current liabilities as of June 30, 2022 decreased by $37,128 or 8.7% compared to June 30, 2021 due to lower claims for workers' compensation casualties.

- PRMA's expenses increased by $660 or 0.7% in fiscal year 2022 as compared to fiscal year 2021. The increase was due to the net effect of the decrease in workers' compensation claims payments and casualty and public liability payments made during the current fiscal year with the increase in professional and technical service fees and miscellaneous expense payments. Consequently, PRMA's revenues for services increased by $660 or 0.7% due to higher billings for related claims paid in fiscal year 2022.

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.

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, 2022 and 2021.

Condensed statement of net position

	2022	2021
Current and other assets	$ 391,620	$ 428,748
Total assets	391,620	428,748
Current and other liabilities	107,600	90,793
Noncurrent liabilities	284,020	337,955
Total liabilities	391,620	428,748
Net position	$ -	$ -

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

	2022	2021
Revenues	$ 97,867	$ 97,207
Expenses	97,867	97,207
Operating income (loss)	-	-
Non-operating revenue	-	-
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	$ -	$ -

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 of 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, 2022
(Amounts Expressed in Thousands)

Assets	
Current Assets	
Cash and cash equivalents	$ 4,275
Investments	379,580
Prepaid expense and other assets	7,765
Total assets	391,620
Liabilities	
Current Liabilities	
Accounts payable	725
Due to other funds	7,743
Claims payable	99,132
Total current liabilities	107,600
Non-current Liabilities	
Claims payable	284,020
Total non-current liabilities	284,020
Total liabilities	391,620
Net Position	$ -

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, 2022
(Amounts Expressed in Thousands)

Operating revenues:	
Charges for services	$ 97,867
Total operating revenues	97,867
Operating expenses:	
Workers' compensation	35,293
Casualty and liability	54,502
Professional and technical services	4,466
Other expenditures	3,606
Total operating expenses	97,867
Net operating income (loss)	-
Net position - beginning of year	-
Net position - end of year	$ -

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, 2022
(Amounts Expressed in Thousands)

Cash flows from operating activities		
Receipts from customers	$	97,867
Payment to suppliers		(135,947)
Net cash flows from operating activities		(38,080)
Cash flows from investing activities		
Proceeds from sale and maturity of investments		404,089
Purchase of investments		(380,937)
Net cash flows from investing activities		23,152
Net increase in cash and cash equivalents		(14,928)
Cash and cash equivalents – beginning of year		19,203
Cash and cash equivalents – end of year	$	4,275
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:		
Increase in prepaid expense		(952)
Increase in accounts payable		120
Decrease in due to other funds		(7,043)
Decrease in claims payable		(30,205)
Total adjustments		(38,080)
Net cash flows from operating activities	$	(38,080)

See Accompanying Notes to the Basic Financial Statements

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 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.

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 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 2017, GASB issued **Statement No. 87, Leases**. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. This Statement is not applicable for PRMA.

In May 2019, GASB issued **Statement No. 91, Conduit Debt Obligations**. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional

Note 1 - Summary of Significant Accounting Policies (Continued)

Effects of New GASB Pronouncements (Continued)

commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. This Statement is not applicable for PRMA.

In January 2020, GASB issued **Statement No. 92, Omnibus 2020**. 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 implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following (not an exhaustive list):

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports.
- The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.

This Statement is not applicable for PRMA.

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 results 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. This Statement is not applicable for PRMA.

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 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):

- Classification of provisions in Statement No. 87, Leases, as amended, related to the determination of lease term, classification of lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.

Note 1 - Summary of Significant Accounting Policies (Continued)

Effects of New GASB Pronouncements (Continued)

- 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 flows 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. This statement does not apply to PRMA.

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 Jun 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. This statement does not apply to PRMA.

Note 2 - Cash and Investments

As of June 30, 2022, the following are PRMA's cash and investments:

Cash deposits	$	704
Debt securities		
Asset backed securities		40,260
Medium term notes		128,745
Fixed income		
Pooled funds and mutual funds		3,572
U.S. Treasury obligations		139,754
U.S. Agencies securities		70,820
Total cash and investments	$	383,855
Reported in the Statement of Net Position		
Cash and cash equivalents	$	4,275
Investments		379,580
Total cash and investments	$	383,855

Note: A portion of PRMA's investments totaling $3,572 is classified as cash and cash equivalents on the Statement of Net Position based on their maturity date.

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.

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 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, 2022, the following are PRMA's investments set forth by level within the fair value hierarchy:

	Level 1	Level 2	Total
Debt securities			
Asset backed securities	$ -	$ 40,260	$ 40,260
Medium term notes	-	128,745	128,745
Fixed income			
Pooled funds	-	3,572	3,572
US Treasury obligations	139,755	-	139,755
US Agencies securities	-	70,820	70,820
Total investments	$ 139,755	$ 243,397	$ 383,152

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 February 24, 2022, 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.

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.

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 price to decline. The tables above for short-term investments and 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, 2022, 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.

Note 2 - Cash and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rate 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 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 financings. 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 the cash deposits or investments. As of June 30, 2022, 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.

Note 6 - Claims Payable

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 the 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, 2022 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 $17.5 million per occurrence. LACMTA has acquired outside insurance coverage for losses of $300 million inclusive of 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 $14.6 billion on a probable maximum loss basis with policy limits of $450 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, 2022:

	Property and Casualty	Workers' Compensation	Total
Unpaid claims and claim adjustment reserves – beginning of year	$ 131,724	$ 281,633	$ 413,357
Provisions for insured events	54,577	31,462	86,039
Interest income	(5,134)	(11,979)	(17,113)
Total incurred claims and claims adjustment expense	181,167	301,116	482,283
Payment attributable to insured events	(35,039)	(64,092)	(99,131)
Total unpaid claims and claim adjustment reserves – end of year	$ 146,128	$ 237,024	$ 383,152

As of June 30, 2022, $99,131 of the total claims' liability is considered current. Claims payable is reported in the Statement of Net Position.

Note 6 - Claims Payable (Continued)

Operations (Continued)

As of June 30, 2022, a designated investment has been set aside in the amount of $146,128 equal to the property and casualty liabilities.

The workers' compensation program is both self-insured and self-administered by LACMTA. As of June 30, 2022, a designated investment has been set aside in the amount of $237,024 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 – COVID-19 Impact and Considerations

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. The economic impact has been highly variable depending on the segment of the population and economy involved. Low-income workers have been experiencing job loss at disproportionately high rates, small businesses are closing at higher levels due to drastically decreased revenues and low levels of liquidity, and non-essential service industries that rely on person-to-person interaction are faring worse than essential industries and knowledge-based industries which were able to transition to remote work.

All major industry sectors saw a decline in employment, with Leisure and Hospitality and Trade, Transportation and Utilities, which includes retail, experiencing the largest negative employment shocks. The region continues to recover jobs in the wake of the pandemic, however, many industries facing the most severe restrictions are still trailing behind in the recovery process including: arts, entertainment and recreation; food services and drinking places; information (with large declines in the motion picture and sound recording industry); and other services (which includes personal care services such as hair and nail salons).

While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. PRMA expects this matter to negatively impact its operating environment; however, the related financial impact and duration cannot be reasonably estimated at this time.

Note 8 - Subsequent Events

In preparing these basic financial statements, PRMA has evaluated events and transactions for potential recognition or disclosure through November 21, 2022, the date the financial statements were available to be issued. Based on this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the basic financial statements.

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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, 2022, 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 21, 2022.

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.

BCA Watson Rice, LLP

Torrance, CA
November 21, 2022

Metro

REGULAR BOARD MEETING
May 19, 2023

PRMA

PTSC-MTA
Risk
Management
Authority

One Gateway Plaza
MS: 99-10-01
Los Angeles, CA
90012

213-922-6000

SUBJECT: 2021 – 2022 AUDITED FINANCIAL ACTIVITIES

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file report on the audited PTSC-MTA Risk Management Authority (PRMA) financial activities for the fiscal year ending June 30, 2022.

ISSUE

Financial statements reflecting the financial activities for PRMA are submitted to the California State Controller's Office annually.

DISCUSSION

PRMA is a California Joint Powers Authority (JPA) and is subject to Special Districts Financial Transaction reporting requirements under Government Code sections 26909 and 53891. Metro's Accounting department prepares the basic financial statements. Metro contracts with certified public accounting (CPA) firm BCA Watson Rice LLP to provide an Independent Auditor's Report.

NEXT STEPS

PRMA By-Laws specify the Treasurer-Auditor shall cause an annual independent audit be made by a CPA. The Basic Financial Statements, Independent Auditor's Management Letter to the Board and Independent Auditor's Report on Internal Control over financial reporting are attached.

ATTACHMENTS

A. Basic Financial Statements with Independent Auditor's Report for the Fiscal Year Ended June 30, 2022.

B. Management Letter to the Board for the Fiscal Year Ended June 30, 2022.

C. Independent Auditor's Report on Internal Control for the Fiscal Year Ended June 30, 2022.

Prepared by Claudia Castillo del Muro, Executive Officer, (213) 922-4518.

Kenneth Hernandez
PRMA President