

**PRMA****SUBJECT: 2012 – 2013 AUDITED FINANCIAL ACTIVITIES****ACTION: RECEIVE AND FILE****PTSC-MTA
Risk
Management
Authority****RECOMMENDATION**

Receive and file report on the audited PTSC-MTA Risk Management Authority (PRMA) financial activities for 2012 – 2013.

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 Bazilio Cobb Associates 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 independent auditor's report is attached along with their Management Letter to the Board.

ATTACHMENTS

- A. BASIC FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013.
- B. MANAGEMENT LETTER FILED WITH INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

Prepared by Tim Rosevear, Risk Financing Manager, (213) 922-6354

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Gregory Kildare
PRMA Acting President

PTSC-MTA RISK MANAGEMENT AUTHORITY

(A Component Unit of the Los Angeles County
Metropolitan Transportation Authority)

Basic Financial Statements
With Independent Auditor's Report
For the Fiscal Year Ended June 30, 2013

BCA Bazilio Cobb Associates

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

BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

TABLE OF CONTENTS

	Page
Independent Auditor's Report.....	1
Management Discussion and Analysis.....	3
Basic Financial Statements	
Statement of Net Position	6
Statement of Revenues, Expenses, and Changes in Net Position	7
Statement of Cash Flows	8
Notes to the Basic Financial Statements	9
Independent Auditor's Report on Internal Control	
Over Financial Reporting and on Compliance and Other	
Matters Based on an Audit of the Basic Financial Statements	
Performed in Accordance with <i>Government Auditing Standards</i>	20

INDEPENDENT AUDITOR'S REPORT

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

Report on the Basic Financial Statements

We have audited the accompanying basic 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 year ended June 30, 2013, and the related notes to the basic financial statements, which collectively comprise PRMA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of PRMA as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2014 on our consideration of PRMA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PRMA's internal control over financial reporting and compliance.

Basilio Cabt Associates

Torrance, California
March 12, 2014

PTSC-MTA RISK MANAGEMENT AUTHORITY

(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2013

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 years ended June 30, 2013 and 2012. 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.
- Total assets and liabilities decreased by \$5,201 or 1.83% as of June 30, 2013 as compared to June 30, 2012. The decrease is mainly due to the decrease in claims and judgment payable.
- PRMA's expenses increased by \$5,496 or 6.59% in fiscal year 2013 compared to fiscal year 2012. The increase was mainly due to the increase in workers' compensation expenses and higher cost of professional and technical services.
- PRMA's revenue for services increased by \$5,496 or 6.59% in fiscal year 2013 compared to fiscal year 2012. The increase is mainly due to the increased billing for workers' compensation.

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) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) the notes to the basic financial statements.

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

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

PTSC-MTA RISK MANAGEMENT AUTHORITY

(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2013

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, 2013 and 2012. As mentioned earlier, net position was \$0 as PRMA's operations are funded by LACMTA.

Condensed statement of net position

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 278,826	\$ 284,027
Total assets	<u>278,826</u>	<u>284,027</u>
Current and other liabilities	990	1,445
Noncurrent liabilities	<u>277,836</u>	<u>282,582</u>
Total liabilities	<u>278,826</u>	<u>284,027</u>
Net position	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2013</u>	<u>2012</u>
Revenues	\$ 88,864	\$ 83,368
Expenses	<u>88,864</u>	<u>83,368</u>
Operating 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>

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis
June 30, 2012

Factors Impacting Future Periods

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

- Economic conditions influencing local sales tax revenues
- Inflation

These are the same factors affecting LACMTA, the primary customer of PRMA.

PRMA uses forecasts from LACMTA's various governmental sources as a basis of its future funding assumptions. The budget for FY14, based on the austere measures taken in the past two years restructuring the bus and rail system and managing the capital program and reducing costs better, takes into account challenges and opportunities in a still unstable economy. PRMA uses LACMTA's revenue sources in constructing its budget that balances anticipated revenues with an area of transportation needs.

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, 2013
(Amounts expressed in thousands)

Assets		
Assets		
Cash and cash equivalents—unrestricted	\$	990
Investments—unrestricted		<u>277,836</u>
Total assets		<u>278,826</u>
 Liabilities		
Liabilities		
Due to other funds		990
Claims and judgment payable		<u>277,836</u>
Total liabilities		<u>278,826</u>
Net Position	<u>\$</u>	<u>-</u>

See accompanying notes to the basic financial statement

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 Year Ended June 30, 2013
(Amounts expressed in thousands)

Operating revenues:	
Charges for services	\$ 88,864
Total operating revenues	88,864
Operating expenses:	
Workers' compensation expense	41,058
Casualty and liability expense	36,337
Professional and technical services	8,415
Other expenditures	3,054
Total operating expenses	88,864
Net Income	-
Net position - beginning of year	-
Net position - end of year	\$ -

See accompanying notes to the basic financial statement

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Statement of Cash Flows
For the Year Ended June 30, 2013
(Amounts expressed in thousands)

Cash flows from operating activities	
Receipts from customers	\$ 88,864
Payment to suppliers	<u>(93,610)</u>
Net cash used for operating activities	<u>(4,746)</u>
Cash flows from non-capital financing activities	
Transfer from other funds	<u>4,291</u>
Net cash flows from non-capital financing activities	<u>4,291</u>
Net decrease in cash and cash equivalents	(455)
Cash and cash equivalents – beginning of year	<u>1,445</u>
Cash and cash equivalents – end of year	<u>\$ 990</u>

Reconciliation of operating income (loss) to net cash flows from (used for) operating activities:

Net income (loss)	\$ -
Adjustments to reconcile net income (loss) to net cash flows from (used for) operating activities:	
Increase (decrease) in claims and judgment payable	<u>(4,746)</u>
Total adjustments	<u>(4,746)</u>
Net cash used for operating activities	<u>\$ (4,746)</u>

See accompanying notes to the basic financial statement

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

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. *Unless otherwise stated, all dollar amounts are expressed in thousands.*

1. Summary of Significant Accounting Policies

a) 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.

PRMA receives all of its funding from LACMTA and PTSC. As PTSC also derives its funding from LACMTA, PRMA is a component unit of the 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.

b) Pooling Self-Insurance

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

c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Fund Accounting

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

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (Continued)

d) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation (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, material and supplies and other costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of Accounting

The accrual basis of accounting is utilized by a proprietary fund type. On this basis, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred.

Effects of New Pronouncements

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

In March 2012, GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limits the use of the term deferred in the financial statement presentations. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2012. PRMA plans to implement the new reporting requirements of GASB 65 for the fiscal year ending June 30, 2014, if applicable.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (Continued)

d) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Effects of New Pronouncements (Continued)

In March 2012, GASB issued Statement No. 66, "Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62." This statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. It amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. It also amends Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. PRMA plans to implement the new reporting requirements of GASB 66 for the fiscal year ending June 30, 2014, if applicable.

In June 2012, GASB issued Statement No. 67, "Financial Reporting for Pension Plans". This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and GASB 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of GASB 25 and GASB 50 remain applicable to pension plans that are not administered through trusts covered by this Statement and to the defined-contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. PRMA plans to implement the new reporting requirements of GASB 67 for the fiscal year ending June 30, 2014, if applicable.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (Continued)

d) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Effects of New Pronouncements (Continued)

In June 2012, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions". This Statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of GASB 50, Pension Disclosures," as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This statement establishes standards for governmental employer recognition, measurement, and presentation of information about pensions provided through pension plans that are within the scope of this statement. It also establishes requirements for reporting information about pension-related financial support provided by entities that make contributions to pension plans that are used to provide pensions to the employees of other entities. The requirement of this Statement is effective for fiscal years beginning after June 15, 2014. PRMA plans to implement the new reporting requirements of GASB 68 for the fiscal year ending June 30, 2015, if applicable.

In January 2013, GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations". This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Government mergers include combinations of legally separate entities without the exchange of significant considerations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. PRMA plans to implement the new reporting requirements of GASB 69 for the fiscal year ending June 30, 2015, if applicable.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (Continued)

d) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Effects of New Pronouncements (Continued)

In April 2013, GASB issued Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees". Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in non-exchange transactions. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a non-exchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This Statement specifies the information required to be disclosed by governments that extend non exchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive non exchange financial guarantees. The requirements of this Statement are effective for fiscal years beginning after June 15, 2013. PRMA plans to implement the new reporting requirements of GASB 70 for fiscal year ending June 30, 2015, if applicable.

Cash and Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of 90 days or less at the date of acquisition. Investments include instruments or deposits beyond the 90-day original maturities.

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.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

2. Cash and Cash Equivalents

As of June 30, 2013, the following are PRMA's cash deposits and investments:

Cash Deposits and Investments

Cash deposits	\$ 900
Asset-backed securities	3,247
Commercial paper	8,118
Certificate of Deposits	5,417
Medium-term notes	7,786
Mortgage-backed securities	46,002
Pooled funds and mutual funds	31,877
U.S. Agency Securities	111,119
U.S. Treasury obligations	64,270
Total Fair Value	<u>\$ 278,736</u>

Reported in the Statement of Net Position

Cash and cash equivalents – Unrestricted	\$ 900
Investments – Unrestricted	277,836
Total	<u>\$ 278,736</u>

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 were 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.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

2. Cash and Cash Equivalents (Continued)

LACMTA's most recent investment policy, adopted by the Board on January 24, 2013, 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.

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%	None	None
U.S. Treasury obligations	5 years	100%	None	None
State of California obligations	5 years	25%	None	A1/P-1 short term or Aa/AA long term
Local Agency within the State of California	5 years	25%	None	A1/P-1 short term or Aa/AA long term
U.S. Agency securities	5 years	50%	15%	A
Bankers acceptance	180 days	40%	10%	Rating permitted by CGC
Commercial paper	270 days	25%	10%	A
Negotiable certificates of deposit	5 years	30%	10%	A
Repurchase agreements	90 days	20%	None	Rating permitted by CGC
Medium-term notes	5 years	30%	10%	A
Pooled funds and mutual funds	None	20%	10%	Rating permitted by CGC
Asset-backed securities	5 years	15% combined with any mortgage-backed	None	AAA
Mortgage-backed securities	5 years	15% combined with any asset-backed securities	None	AAA
State/County investment pool	None	None	Amount permitted by CGC	None

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

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

2. Cash and Cash Equivalents (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, 2013, 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.

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.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

2. Cash and Cash Equivalents (Continued)

Custodial Credit Risk (Continued)

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.

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, 2013 there is no exposure to currency risk as all LACMTA's cash deposits and investments are denominated in U.S. dollar currency.

3. Claims and Judgment Payables

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.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

3. Claims and Judgment Payables (Continued)

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, 2013 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 partially self-insured for public liability and property damage for non-construction activities up to \$5,000 per occurrence. LACMTA has acquired outside insurance coverage for losses of \$250,000 in excess of self-insurance retentions. LACMTA is self-insured for losses greater than \$250,000.

Furthermore, LACMTA has an all-risk property insurance program that covers all of its property. The property insurance policy covers insurable values of approximately \$9.3 billion on a probable maximum loss basis with policy limits of \$350,000 for damages (\$150,000 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.

As of June 30, 2013, a designated investment has been set aside in the amount of \$90,140 equal to the property and casualty liabilities.

The workers' compensation program is both self-insured and self-administered by LACMTA. As of June 30, 2013, a designated investment has been set aside in the amount of \$187,696 equal to the workers' compensation liabilities.

PTSC-MTA RISK MANAGEMENT AUTHORITY
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2013

3. Claims and Judgment Payables (Continued)

The following table summarizes changes in the claims reserves for the year ended June 30, 2013:

	Property and Casualty	Workers' Compensation	Total
Unpaid claims and claim adjustment reserves – beginning of year	\$ 93,907	\$ 188,675	\$ 282,582
Provisions for insured events	37,603	41,586	79,189
Interest income	157	645	802
Total incurred claims and claims adjustment expense	131,667	230,906	362,573
Payment attributable to insured events	(41,527)	(43,210)	(84,737)
Total unpaid claims and claim adjustment reserves – end of year	\$ 90,140	\$ 187,696	\$ 277,836

**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 year ended June 30, 2013, and the related notes to the basic financial statements and have issued our report thereon dated March 12, 2014.

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

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 determination of 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*.

We noted certain matters that we reported to management of PRMA in a separate letter dated March 12, 2014.

Restriction on Use

This report is intended for the information and use of PRMA, the Los Angeles County Metropolitan Transportation Authority and the California State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Bajilio Cabt Associates

Torrance, CA
March 12, 2014

The Board of Directors
PTSC-MTA Risk Management Authority

In planning and performing our audit of 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, 2013, we considered the internal control over financial reporting solely for the purpose of determining the nature, timing and extent of auditing procedures necessary for expressing our opinion on the basic financial statements.

During our audit, we noted a certain matter that we believe should be brought to management's attention. This matter is summarized below:

Non-Compliance With Certain Provisions in PRMA's By-laws

In reviewing PRMA's bylaws, we noted that the requirement to elect the officer positions of Vice President, Clerk and Treasurer-Auditor (Article II, Section 2a) has not been complied with. We understand that only the position of the President has been filled since 1998. Furthermore, we also noted that the requirement to hold at least one regular Board meeting of each year (Article 1, section 5) was not complied with by PRMA.

Not electing officer positions and holding at least annual Board meetings to discuss PRMA's ongoing business operations is an internal control weakness. According to PRMA management, these bylaw requirements were not adhered to because they believe that the election of officers and the holding of annual Board meetings are not material to PRMA's mission and purpose.

Recommendation

We recommend that PRMA comply with its' bylaws by electing officers and having at least an annual meeting of the Board of Directors. Discussion minutes of the meeting should be taken to clearly document all decisions made and approved by the Board. The minutes should also be retained as evidence of the meeting and related actions.

Management Response

The California State Controller's Office requested PRMA to submit a Special Districts Financial Transactions Report for the fiscal year 2013. The request requires PRMA to compile an annual basic financial statement which is audited. PRMA had not been previously required to complete this State reporting. As a component unit of LACMTA, PRMA financials were included in the LACMTA financial statement which was audited.

Consequently, there was no reason for PRMA Board to meet annually to discuss an independent audited basic financial statement.

PRMA's Board is not aware of any penalty or consequence for non-compliance with PRMA's bylaw to hold an annual meeting.

The requirement to hold an annual meeting of PRMA Board will be fulfilled going forward. A Board meeting will be scheduled within 60 days of the issuance of the Final Report on the basic financial statements for the year ended June 30, 2013. The Final Report on the basic financial statements will be presented to the Board during the annual meeting. The next Board of Directors meeting will also be scheduled as an agenda item to assure that the next annual meeting is held.

The positions of President, Vice-President, Clerk and Treasurer-Auditor will be appointed and filled at the next Board meeting. These actions will be recorded in the minutes of the meeting. All decisions made and approved by the Board will also be recorded. The minutes of the meeting will be retained for administrative purposes.

This report is intended solely for the use of PRMA and the management of LACMTA and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the opportunity to serve PRMA. We appreciate the courtesy and cooperation extended to us during our audit.

Bajilio Cobb Associates

Torrance, California
March 12, 2014