



**James Marta & Company**  
**Certified Public Accountants**

*Accounting, Auditing, Consulting, and Tax*

**Financial Accountability:**  
*Good Decisions are Based on Good  
Information*

Presented by  
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# Overview

- What you need to understand about your District to make good decisions

## EXECUTIVE DECISION MAKING SYSTEM



# Areas we will cover

- Understanding your District and Services
- Where is the operational risk
- What should the manager and board review
- Understanding your financial information
- Making the decisions



# Types of Special Districts

- Water
- Sewer
- Fire
- Airport
- Parks and Recreation
- Community Services
- Many more.....



# Understanding Special Districts

- Enterprise Activities
  - User fees
- Non-enterprise Activities
  - Property taxes
- Independent
  - Locally elected board
- Dependent
  - County board or city council



# Limitation of Funding Sources

- Customers
- Property owners
- Debt Financing



# Board Member Role

- Understand organization governance – from their own work experience
- Provide an understanding of management, financing, capitalization and funding
- Introduce enough knowledge, so they can ask staff the right questions



# Key Elements to fulfilling Board Role

- **BOARDS MUST:**
- Understand the Concepts of Budget and Finance
- Adopt Appropriate Financial Policies
- Ensure Board Receives and Reviews Key Financial Reports
- Understand the Right Questions to Ask
- Relate Fiscal Activities to the Mission of District

# What the board should review

## ■ Budget

- How reliable are your revenue projections?
- How accurate are your expenditure estimates?
- Are long-term goals considered?
- Is the budget clear?

## ■ Financial statements

## ■ Consultant reports

- Financial audit
- Investment advisor
- Facilities



# Understanding Financial Reporting



- I. **Statement of Net Assets**
  - What does this statement tell you?
    - A picture in time
    - $\text{Assets} - \text{Liabilities} = \text{Net assets}$
    - Net assets are a cushion for contingencies
  - What should the manager consider when reviewing this statement?
    - Comparative periods and trends
    - Determine the nature of significant changes
  - The basic misconceptions
    - Large cash and investment balances are good
    - Net assets vs. expendable assets

# Understanding Financial Reporting



## II. Statement of Revenues and Expenditures

- What does this statement tell you?
  - Summarizes transactions over a period of time
  - The matching principle
- What should the manager consider when reviewing this statement?
  - Net income (loss)
  - One-time funding / assessments
  - Comparative periods and trends
  - Why are changes occurring
- The basic misconceptions
  - Earned and expended vs. received and paid
  - Capital assets and depreciation

	<u>2003</u>	<u>2002</u>
<b>Operating Revenues:</b>		
Member contributions	\$ 13,844,189	\$ 13,258,802
Other Income	2,162	5,330
Total Operating Revenues	<u>13,846,351</u>	<u>13,264,132</u>
<b>Operating Expenses:</b>		
Loss and loss adjustment expense	11,060,347	10,526,895
Claims administration	408,137	385,565
Excess insurance	1,108,278	849,429
Assessments	587,537	12,214
Salaries and benefits	1,040,877	1,006,423
Legal and professional	24,798	15,378
Meeting expense	14,370	14,207
Outside services	136,704	59,747
Operations cost	332,423	425,976
Travel and conferences	34,129	25,393
Depreciation	51,807	63,185
Dividend expense	695,400	596,000
Total Operating Expenses	<u>15,494,807</u>	<u>13,980,412</u>
Operating Income (Loss)	<u>(1,648,456)</u>	<u>(716,280)</u>
<b>Non-Operating Revenues and (Expenses)</b>		
Investment Income	1,032,226	1,204,385
Gain or (loss) on investments	2,124	6,719
Change in Fair Market Value (investments)	257,802	201,381
Gain or (loss) on disposition of assets	(2,482)	(1,826)
Net Non-Operating Income	<u>1,289,670</u>	<u>1,410,659</u>
<b>Net Income (Loss)</b>	(358,786)	694,379
<b>Beginning Net Assets</b>	9,389,033	8,694,654
<b>Ending Net Assets</b>	<u>\$ 9,030,247</u>	<u>\$ 9,389,033</u>



# How to Judge Fiscal Health

- Historical Perspective
- Justifiable
- Programmatic Elements
- Red Flags
  - Financial Indicators
  - Non-Financial Indicators
  - Organizational Indicators

# Consultant Reports

- What questions should you ask?
  - Financial Audit / Management Discussion and Analysis (MD&A)
  - Investment Advisor
  - Facilities Manager



# Taking the Mystery out of Special District Administration

- Communication, education and training
- Make your operation transparent
- Demonstrate you and your staff know what you're doing
- Give the Board the requisite skills to make intelligent, informed decisions



# Training Opportunities



- Board Member Orientation
- Annual Report
- Board Agendas with comprehensive staff reports
- Consultant Presentation: auditor, facilities, investment advisor
- Strategic Planning Retreats
- Annual Training Days
- Risk Management
- Facilities Needs
- Newsletters

# Making the Decisions

- What decisions are you making?
- What data should you be generating to help make these decisions?
- How can you help the decision-makers understand the impact of their decisions?



# Decision-making



- Decision makers need information to understand the range of impact their decision will make.

For example; when the City of San Diego granted generous retirement did they understand how much it would cost in the future and plan for the funding.

If your board makes a conscious decision to keep rates down today do they understand that rates may have to climb quicker later?

# PERSPECTIVE

- Everything is relative
- Where have you been?– Historical
- Where are you now?
- Where are you headed?
- Equity reserves - Deciding how much to retain
- Long-term considerations



# Customer Wants vs. Needs

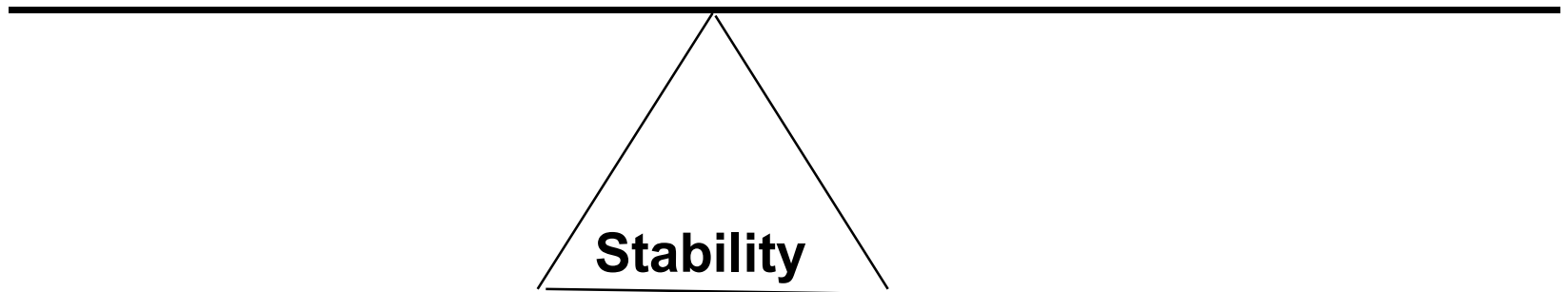
- Financial Stability
- Market Cycles
- Equity Policy
- Assessment Policies
- How some Districts got into trouble



# Balancing wants and needs

**Low Rates**

**Program Funding**



**"If you have money you have options"**

# Financial Stability of a Special District

- “When a District has money the District has options”



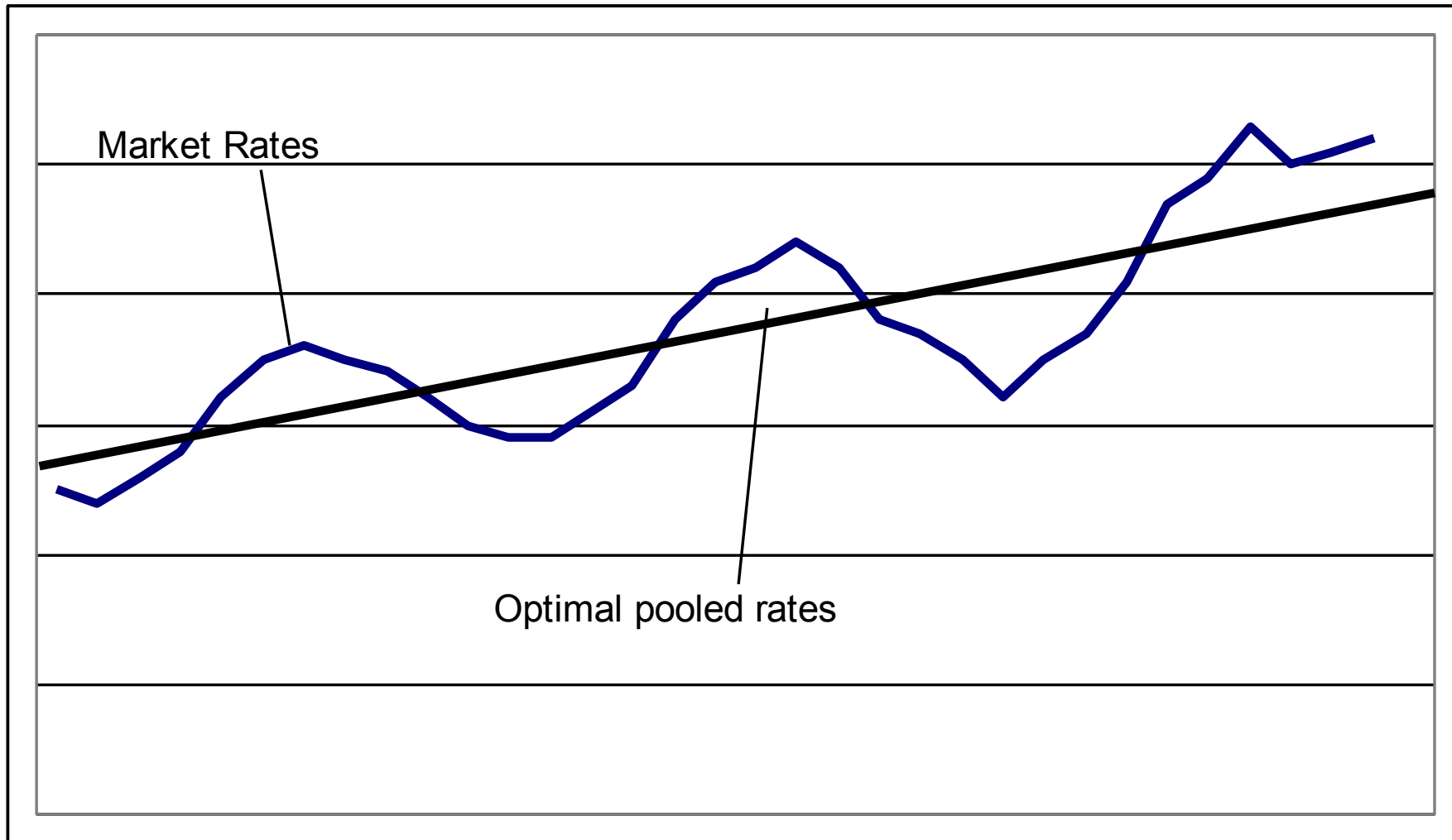
- Equity becomes the buffer between the customer and future rate increases.
- This enables the District to provide a more stable rate to customers over time.

# Risk Financing

- I. Risk financing smoothes rates over the years
  - Establishing an equity policy provides the capital to smooth the immediate impact of changes in your organization and future infrastructure costs.



# Funding for long-term stability



# Financial Stability of a District

Targeted Equity (Setting a benchmark for your District)

1. What does equity represent for Special Districts?
2. How much is enough?
3. Consideration when establishing target equity



# How to make good decisions

- A board member must:
  - Provide oversight
  - Monitor the environment
  - Be knowledgeable
  - Ask the hard questions
  - Understand the impact of decisions
- Only an informed board member can make good decisions



# Questions?

More questions

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