

Glossary of Terms

Accrual Basis Accounting - Under this accounting method, transactions are recognized when they occur, regardless of the timing of related cash receipts and disbursements.

Adoption - Formal action by the Town Council which sets the spending limits for the fiscal year. The Town's budget is adopted by Council resolution.

Appropriation - An authorization made by the Town Council that permits officials to incur obligations against and to make expenditures of government resources. Appropriations are typically granted for a one-year period.

Audit - Prepared by an independent Certified Public Accountant (CPA), the primary objective of an audit is to determine if the Town's Financial Statements present fairly the Town's financial position and results of operations in conformity with generally accepted accounting principles. In conjunction with its performance of an audit, it is customary for an independent auditor to issue a Management Letter stating the adequacy of the Town's internal controls as well as recommending improvements to the Town's financial management practices.

Bonds - A bond is a written promise to pay a specified sum of money (called the face value or principal amount) at a specified date or dates in the future (called the maturity date) together with period interest at a specified rate. Bonds are typically used to finance capital facilities.

Budget - As the Town's financial operating plan for the fiscal year, the budget displays the estimated expenditures (costs) for providing services and the estimated sources of revenue (income) to pay for them. Once the Town Council adopts the budget, the total becomes the maximum spending limit. Los Gatos' budget encompasses a single fiscal year (July 1 through June 30).

Budget Amendment - The Council has the sole responsibility for adopting the Town's budget and may amend or supplement the budget at any time after adoption. The Town Manager has the authority to approve administrative adjustments to the budget as outlined in the Financial and Administrative Policies set by Council.

Budget Document - The official financial spending and resource plan submitted by the Town Manager and adopted by the Town Council explaining the approved budget to the public and Town Council.

Budget Message - Included in the opening section of the budget, the Budget Message provides the Council and the public with a general summary of the most important aspects of the budget, comparative data from previous fiscal years, goals and objectives, and the views and recommendations of the Town Manager.

Budget Overview - This section provides an overview of the changes adopted in the budget. Additionally, the significant impacts of budgetary changes are outlined along with dollar amounts (increase/decrease).

Budget Policies - General and specific guidelines adopted by the Council that govern the financial plan's preparation and administration.

Capital or Community Improvements - Capital or community improvements are major construction, acquisition, or maintenance/repair projects. Typical examples of major construction would include new

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street improvements, park development, and public buildings. Acquisition includes land for parks and open space. Major maintenance/repairs may include street resurfacing or modifications to public buildings.

Capital Improvement Program (CIP) - The plan or schedule of expenditures for major construction of roads, sidewalks, Town facilities, and/or park improvements and for the purchase of equipment. The Town of Los Gatos' CIP follows a five-year schedule. Although the Town adopts the CIP budget in a process which is separate from the adoption of the budget, the budget incorporates the first year of the five-year CIP.

Capital Projects Fund - In governmental accounting, a fund that accounts for financial resources to be used for the acquisition or construction of capital facilities. The total cost of a capital project is accumulated in a single expenditures account which accumulates until the project is completed, at which time the fund ceases to exist.

Capital Outlay - Expenditures which result in the acquisition of or additions to fixed assets. Examples include land, buildings, machinery, equipment, and construction projects.

Capital Assets – See “Fixed Assets.”

Cash Basis Accounting - A basis of accounting under which transactions are recognized only when cash is received or disbursed.

CDBG (Community Development Block Grant) - Federal grant funds distributed from the U.S. Department of Housing and Urban Development that are passed through to the Town. The Town primarily uses these funds for housing rehabilitation, public improvements, and local social programs.

Construction Tax - A construction tax is imposed upon the construction of any building, portion of a building, or a mobile home lot. Construction by definition means either new construction or enlargement. The taxes imposed are based upon a set rate per square foot as follows:

- a) **Capital Improvement Tax** - \$0.18 for each square foot of building addition or alteration
- b) **Underground Utility Tax** - \$0.18 for each square foot of building addition or alteration
- c) **Park Fund Tax** - \$0.04 for each square foot of building addition or alteration

Contingency - A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted.

Contingent Liabilities - Items which may become liabilities of the Town but are undetermined at a given date, such as pending lawsuits, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts.

Contract Services - Services provided to the Town from the private sector or other public agencies.

Contributed Capital - Resources which are extremely restricted for the acquisition or construction of capital assets. This category includes, but is not limited to, capital grants, residual equity transfers in, and contributions from developers.

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Cost Allocation - A fair and equitable methodology for identifying and distributing direct and indirect cost from a service provider to the service consumer. In the Town's case, the general fund is the service provider and the external funds are the service consumer.

Deficit - The excess of liabilities over assets.

Department - A major organizational unit of the Town that has been assigned overall management responsibility for an operation or a group of related operations within a functional area.

Developer Fees and Permits - Fees that are charged for various development-related services or permits based upon actual cost to the Town for providing the service or permit.

Documentary Transfer Tax - Imposed on the transfer of real property, exclusive of any lien or encumbrance. The Town receives 50% of such revenue collected by Santa Clara County.

Encumbrance - Commitment against an approved budget for unperformed (executory) contract for goods or services. Encumbrances cease when the obligation is paid or otherwise terminated. A purchase order is a common encumbrance.

Expenditure - The outflow of funds paid or to be paid for an asset obtained or goods and services obtained. An encumbrance is not an expenditure; an encumbrance reserves funds to be expended.

Fiscal Year - A 12-month period to which the annual operating budget applies and at the end of which the Town determines its financial position and results of its operations. The Town's fiscal year runs from July 1 to June 30.

Five-Year Financial Forecast - Estimates of future revenues and expenditures to help predict the future financial condition of the community.

Fixed Assets - Assets which are intended to be held or used for a long term, such as land, buildings, improvements other than buildings, machinery and equipment.

Fund - An independent fiscal and accounting entity with a self-balancing set of accounts in which financial transactions relating to revenues, expenditures, assets, and liabilities are recorded. Funds other than the General Fund typically have a unique funding source and purpose. Establishing funds enables the Town to account for the use of restricted revenue sources and carry on specific activities or pursue specific objectives.

Fund Accounting - System used by non-profit organizations, particularly governments. Since there is no profit motive, accountability is measured instead of profitability. The main purpose is stewardship of financial resources received and expended in compliance with legal requirements.

Fund Balance - Also known as financial position, fund balance is the excess of current assets over current liabilities and represents the cumulative effect of revenues and other financing sources over expenditure and other financing uses.

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GAAP - (Generally Accepted Accounting Principles) - Uniform standards for financial accounting and reporting. They govern the form and content of the basic financial statements of the Town.

Gas Tax Fund - The Gas Tax Fund is used to account for revenues and expenditures apportioned under the Streets and Highways Code of the State of California. Expenditures may be made for any street-related purpose in the Town's system of streets.

General Fund - In governmental accounting, fund used to account for all assets and liabilities of a non-profit entity, except those particularly assigned for other purposes in another more specialized fund. The General Fund is the primary operating fund of the Town.

General Government – Includes offices and departments to support the Town Council, Town Clerk, Town Manager, Town Attorney, Town Treasurer, Human Resources, Finance, Community Development, Police, Parks and Public Works, and Library functions.

General Liability Self Insurance Fund - The General Liability Self Insurance Fund is used to provide the Town with liability and property insurance. Coverage is provided through the Town's participation in a joint powers agreement through the Association of Bay Area Governments (ABAG).

Grant - External contribution, and/or gift of cash, or other asset typically from another governmental entity to be used or expended for a specific purpose, activity, or facility. An example is Community Development Block grant funding from the federal government.

Housing Set-Aside Fund – This fund is used to account for the Redevelopment Agency's 20% set-aside property tax increment revenues and the associated expenditures to be used for increasing or improving low and moderate income housing.

Improvements - Buildings, structures, or attachments to land such as sidewalks, trees, drives, tunnels, drains, and sewers.

Intergovernmental Revenue - Revenue received from other governmental agencies and municipalities, such as grants from the state or federal government.

Inter-Fund Transfers - When the Town moves money between its various funds, it makes an inter-fund transfer, referred to as "transfers in" and "transfers-out." In aggregate, transfers in and out offset each other for the fiscal year.

Levy - (Verb) To impose taxes, special assessments, or service charges for the support of governmental activities. (Noun) The total amount of taxes, special assessments, or service charges imposed by Santa Clara County levying property taxes.

Licenses and Permits - Revenues earned by the issuance of licenses or permits levied in accordance with the benefits conferred by the license or permit.

Lighting and Landscape Fund - The Town has formed six landscape and lighting district funds established by written consent of the property owners owning all of the property within the boundaries of the district.

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Objective - A statement of specific direction, purpose, or intent based on the needs of the community and the goals established for a specific program or service level.

Ordinance - A formal legislative enactment by the Town Council. It has the full force and effect of law within Town boundaries unless pre-empted by a higher form of law. An Ordinance has a higher legal standing than a Resolution and is typically codified in a Town's municipal code.

Operating Budget - The operating budget is the primary means by which most of the financing of acquisition, spending, and service delivery activities of a government are controlled. The use of annual operating budgets is required by law.

Personnel - Town staff.

Program - As subdivisions of departments, programs are budgetary or organizational units of government with limited sets of work responsibilities within their respective departments. Programs also serve to increase budgetary accountability. Los Gatos' budget is compiled on a program basis.

Property Tax – A tax imposed on real property (land and permanently attached improvements). The tax is based upon the assessed value of such property. The tax rate may not exceed 1% of assessed value.

Reserve - An account used to indicate that a portion of fund equity is designated, undesignated, or legally restricted for a specific purpose.

Resolution - A special order of the Town Council, which has a lower legal standing than an ordinance.

Resources - Total amounts available for appropriation including estimated revenues, inter-fund transfers, and beginning fund balances.

Revenue - Sources of income which the Town receives during a fiscal year. Examples of revenue include taxes, intergovernmental grants, charges for services, resources forwarded from the prior year, operating transfers for other funds, and other financing sources such as the proceeds derived from the sales of fixed assets.

Revenue Estimate - A formal estimate of how much revenue will be earned from a specific revenue source for some future period; typically, a fiscal year.

Road Impact Fees - Pursuant to Article III of Chapter 15 of the Town Code, the Town collects road impact fees to finance road construction and maintenance projects throughout the town. Article IX of Chapter 15 authorizes the establishment of special fund accounts known as Road Impact #1, Road Impact #2, and Road Impact #3, into which all such fees are deposited. Because the road systems generally follow drainage patterns, the existing drainage basin map boundaries are used to track and expend funds for road construction and maintenance.

The amount of each fee collected is based on an estimate of the weight of the loads to be hauled to or from the project and the weight of heavy vehicles to be used in connection with the project. The fee is collected for Building Permits, Grading and Landscape Permits, Improvement Contracts, and Encroachment Permits. Money collected from such fees is to be used solely for design, construction, and

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repair of Town streets and installation of sidewalk curb cut ramps when such a requirement is triggered by the level of work as provided by the Americans with Disabilities Act, within the prescribed area. Projects will be brought forward on an as-needed basis.

SA Trust Fund – Fund used to account for the proceeds of notes, and other forms of indebtedness, and the expenditure of these funds to pay the debt, administrative services and projects with the specified boundaries of the Successor Agency of the Town of Los Gatos Redevelopment Agency.

Sales Tax – 1% of taxable sales is returned to the Town by the State Board of Equalization on a monthly direct deposit basis. Under the “Triple Flip” agreement, 0.25% of the 1% is now received in association with property tax but remains sales tax in substance.

Special Revenue Fund - In governmental accounting, a fund used to account for the proceeds of a special revenue source (other than special assessments, expandable trusts, or for major capital projects) that are legally restricted to expenditure for a specified purpose.

Service Charge - Charges for specific services rendered.

Services and Supplies - Expenditures for services and supplies which are directly related to a department's primary service activities.

State Gas Tax Funds - Portions of the tax rate per gallon levied by the State of California on all gasoline purchases are allocated to cities throughout the state. These funds are restricted to expenditures for transit and street-related purposes.

Supplemental Appropriation - An appropriation approved by the Council after the initial budget is adopted.

Taxes - Compulsory charges levied by the Town, county, or state governments for the purpose of financing services performed for the community's benefit.

Town Code - A legal compilation of Town Council-approved ordinances currently in effect. The code defines Town policy with respect to areas such as planning, etc.

Transfers In/Out - Money transferred from one Town fund to another. Differs from revenues and expenses - see definition of these terms, above.

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