

CITY OF SAN JOSE
2014-2015 PROPOSED CAPITAL BUDGET

SIGNIFICANT ACCOUNTING PRACTICES

The following information summarizes the significant accounting practices of the City of San José.

BUDGETARY BASIS

The budget is prepared in accordance with Generally Accepted Accounting Principles, except for encumbrances being recognized as expenditures. The budget for governmental funds has been prepared on a modified accrual basis. The modified accrual basis recognizes expenditures when the related fund liability is incurred. Revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

FUND STRUCTURE AND BASIS OF ACCOUNTING

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Under the modified accrual basis of accounting, revenues are recognized only to the extent that they are susceptible to accrual, which means “when they become both measurable and available to be used to finance expenditures of the fiscal period.” Revenue is considered to be available when it is “collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.” If accrued revenues is not yet available, the related revenue is not yet available, the related receivable is matched by a deferred inflow of resources for unavailable revenue and revenue recognition occurs only when the revenue becomes available. Under the accrual basis of accounting, transactions are recognized when they occur, regardless of when cash is received or disbursed. The various funds are grouped into three broad fund categories (governmental, proprietary, and fiduciary). A general description of each follows:

- ***Governmental Fund Types***

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City’s expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. Governmental funds include the General, Special Revenue, Debt Service, and Capital Project funds of the City. These funds are maintained on a modified accrual basis where the measurement focus is on the current financial resources and the recognition of revenue in the period when the revenue becomes both measurable and available to finance expenditures of the fiscal period.

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- *Proprietary Fund Types*

Proprietary funds, which include Enterprise and Internal Service funds, are used to account for the City's business-type activities. Proprietary funds use the economic resources measurement focus and accrual basis of accounting, which is the same as used for private-sector business enterprises. These funds are used where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

- *Fiduciary Fund Types*

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Fiduciary funds include pension (and other employee benefits) trust funds, investment trust funds, private-purpose trust funds, and agency funds. Investment trust funds are used to report on the external portion of investment pools. Private-purpose trust funds are used to report on trust arrangements under which principal and income benefit individuals, private organizations, or other governments, and to report the assets and liabilities of the dissolved Redevelopment Agency. Agency funds are used to account for resources held in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

OVERHEAD COST ALLOCATION

All overhead costs are allocated to the appropriate program within the limits of local, State and federal laws. The City utilizes a two step method (double step down method) where costs are first allocated among the central service support programs to arrive at the total cost of the central service programs. These total costs are then allocated down to the departments and funds that are benefiting from these expenses. The Finance Department uses this process to develop overhead rates that recover these central support program costs from various funds and fee programs. The corresponding revenue is collected by the General Fund.