

The East Haddam Board of Finance is responsible for the oversight and submittal of the Annual Town Budget to the citizens. The Annual Town Budget includes the Board of Education Budget and the Town Government Budget. The preparation of the Annual Town Budget is the result of a process that starts with a Tri-Board meeting of the Board of Finance, Board of Education and Board of Selectmen. The process continues from the Tri-Board Meeting with a series of meetings, workshops and public hearings. The conclusion of the process is the Budget Referendum. One of the areas where the BoF believes it can help the budget development process be more effective is by helping to make sure that the discussions in the meetings, workshops and public hearings are clear and understandable for the citizens in attendance. Consequently, the BoF has written a series of articles to be printed in the East Haddam News. The purpose of this series of articles is to explain the financial terms commonly used in the budget meetings. In this week's EHN we are printing the second in a series of articles. This article explains the meaning of 6 additional financial terms. They are:

1. **General Fund** - The General Fund is the general operating fund of the Town and operates under a legal budget. It is used to account for all financial resources except those required to be accounted for in another fund.

2. **Reserve Fund** – The Board of Finance may recommend the Town establish a reserve fund for capital and non-recurring expenditures. The fund is created by a majority vote of a town meeting. The fund may be built-up by:

- a. Transferring to it any general fund cash surplus available at the end of any fiscal year.
- b. Levying an annual tax of not more than 4 mils earmarked for the fund.
- c. Including in it surplus cash funds already held in reserve for capital and nonrecurring expenditures (S.7-361). *Source: Handbook for Connecticut Boards of Finance*

3. **Capital Budget** - The capital budget is a specific program of capital projects to be undertaken and the method of financing them. It is the implementation of the long-range capital improvement program and the setting forth of definite plans to be undertaken and completed in a specific period of time.

Source: Handbook for Connecticut Boards of Finance

4. **Capital Reserve** – A capital reserve is a type of account on a municipality'sbalance sheet that is reserved for long-term capital investment projects or other large and anticipated expenses that will be incurred in the future. *Source: www.investopedia.com* See Reserve Fund.

5. **Bonds** – A bond is a fixed income investment in which an investor loans money to an entity (typically corporate or governmental), which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debt holders or creditors of the issuer. *Source: www.investopedia.com*

6. **Debt Service** – The amount of money required to make payments on the principal and interest on outstanding loans, the interest on bonds, or the principal of maturing bonds. *Source: Farlex Financial Dictionary* Debt service is usually expressed as the amount paid over one year. For example, money spent paying off the bond or loan for a capital project such as a school.