

## BoF Article #3 for the East Haddam News

The East Haddam Board of Finance is responsible for the oversight and submittal to the citizens of the Annual Town Budget. 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 third in a series of articles. This article explains the meaning of 6 additional financial terms. They are:

1. **Encumbrance** – In accounting, an amount of money that the government is required to spend for a specific purpose in the future. Examples are funds from requisitions and purchase orders that have been committed for the account, but not yet invoiced and paid. *Sources: Falex Financial Dictionary, Wall Street Words.* Encumbrances help prevent overspending.

2. **Zero-based Budgeting** – ZBB assumes that every activity must be analyzed and justified as if it were being proposed for the first time. ZBB is a comprehensive approach. Each program is challenged for its very existence during (the budget process for) every budget year and no base or minimum funding level is presumed for any activity. Its purpose is to discourage perpetuation of programs which may no longer be valid or have less priority than new programs which may seek funding. *Source: Handbook for Connecticut Boards of Finance.*

3. **Surplus** – The amount by which (all of) the revenue of a government from taxes, ...and other sources exceeds its expenditures. *Source: Farlex Financial Dictionary*

4. **Transfers** - A transfer is movement of funds from one account to another with the appropriate approvals.

5. **Balance Sheet** – A Balance Sheet is a summary of the financial balances of a Government entity. Balance sheet accounts show the financial status of each fund and may be classified into accounts for resources, obligations and surplus. Resources are actual assets owned by the municipality – cash, taxes receivable, land, buildings, etc. – plus items expected to become assets. Asset accounts may be classified as current, non-current and fixed assets. Obligations are actual liabilities, such as vouchers payable and expected liabilities such as appropriations and reserves for encumbrances. Surplus is the excess of resources over obligations. *Source: Handbook for Connecticut Boards of Finance*

6. **Deficit** – A situation in which outflow of money exceeds inflow. That is, a deficit occurs when a government spends more than it receives in a given period of time, usually a year. *Source: Farlex Financial Dictionary.* A budget deficit is the excess of government expenditures over government taxation and other receipts in any one fiscal year. *Source: Collins Dictionary of Economics*