



**RESERVE POLICIES
FOR THE
VILLAGE COMMUNITY DEVELOPMENT DISTRICT #12
GENERAL FUND**

**ADOPTED BY THE BOARD OF SUPERVISORS OF THE VILLAGE
COMMUNITY DEVELOPMENT DISTRICT #12 ON JULY 11TH, 2024**

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GENERAL PURPOSES OF DISTRICT RESERVE POLICIES

The Village Community Development District #12 (the "District") recognizes that one of the keys to the long-term sound financial management of the District's general fund is the adoption of formal reserve policies associated with the financial management and creditworthiness of the District (the "Reserve Policies"). This view is supported by bond rating agencies, investors, and the Government Finance Officers Association. The Reserve Policies are primarily intended to help protect the financial resources of the District through:

- Formal adoption of recognized best practices for local government financial management;
- Guiding the managers of the District in the financial planning cycle and decision-making process;

- Establishing appropriate levels of operating and capital cash reserves, and providing available funds for emergencies and extraordinary expenditures;
- Developing a process to efficiently finance necessary capital improvements;
- Providing a framework for the District to achieve and maintain strong credit ratings; and
- Maintaining reasonable Maintenance Assessment levels to ensure the fiscal health, stability, and sustainability of the District.

Capitalized terms are defined in the "Definitions" section of this document.

BACKGROUND

The Villages community is comprised of several special purpose districts, established pursuant to Florida State Statutes, which are responsible for a variety of functions including maintenance, recreation, public safety, sanitation, water, and wastewater services.

The District's mission, goals, and objectives are supported through funding accounted for in the District's governmental funds. Per the Governmental Accounting Standards Board ("GASB") statements, governmental fund balance categories were defined to provide a better understanding of the purposes for which governments have chosen to use particular funds.

For the District, in accordance with GASB 54 and as explained in the annual audit, there are currently three fund balance categories utilized by the District:

- Restricted: Includes amounts for which constraints have been placed on the use of the resources either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The District's restricted fund balances relate to external debt service restrictions.
- Unassigned: Relates to the Working Capital reserve balance. These funds have not been assigned to other funds and have not been restricted, committed or assigned to a specific purpose within the General Fund.
- Committed: The District's Renewal and Replacement ("R&R") reserve balances are considered committed, as they are to be used for specific purposes as established by the Board of Supervisors. The District's R&R reserve balances

consist of the General R&R Reserves and the Roads R&R Reserves.

The Board can unrestrict or commit fund balances at any time.

DEFINITIONS

The following are definitions of key terms that are may be referenced or used in current or future Reserve Policies, and are presented to provide general guidance associated with the interpretation of these policies:

Board or Board of Supervisors means the Board of Supervisors of the District.

Capital Improvement Plan represents the capital expenditures for the District identified over a multi-year period, generally five (5) to twenty (20) years, that are planned to be constructed by the District and which are included in the budget and financial plan for the District governmental funds.

Capital Improvements represent expenditures for asset additions, betterments, replacements, and upgrades for the District that benefit future periods and are capitalized for financial reporting and cost recovery purposes.

Capital Projects Fund is a fund used to account for Capital Improvements.

Cash Reserves represent the amount of cash or cash equivalents (short-term, highly liquid investments that are readily convertible into cash within six months) on deposit, net of liabilities and Encumbrances, which are held in a separate account or fund for use by the District.

Committed Cash Reserves are to be used for a specific purpose as established by the Board of Supervisors.

Debt Assessment or Bond Assessment is a non-ad valorem special assessment levied by the Board to repay the outstanding indebtedness of the District. For the purposes of these Reserve Policies, Debt Assessment revenues are not included as a component of Revenues.

Debt Service represents the annual principal and interest payments on outstanding indebtedness of the District to be paid primarily from District Debt Assessments.

Debt Service Fund is the fund used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.

District means the Village Community Development District #12.

Fiscal Year means the period commencing on October 1 of each year and continuing through the next succeeding September 30, or such other period as may be prescribed by law as the fiscal year of the District.

Fixed Assets means the total depreciable and non-depreciable capital assets of the District's Governmental Funds, including construction-work-in-progress.

Force Majeure Incidents are caused by the usual and natural consequences of external forces (e.g., severe weather event), are beyond the reasonable control of the District, and may result in an inability to meet the objectives of these Reserve Policies.

General Fund is the primary operating fund of the District. The General Fund is used to account for all financial resources of the District except for those required or designated to be accounted for in another fund.

General Renewal and Replacement (R&R) Reserves are unrestricted and committed funds that may be used, among other purposes, to i) fund emergency, unplanned, and unforeseen expenditures; ii) fund the new and replacement capital projects for sustainability, aesthetics, technology, and other criteria as identifies by the Board of Supervisors; and iii) provide additional funds as needed for possible increases in the Project Wide allocation.

Governmental Funds, in accordance with GASB standards, are used to account for activities primarily supported by Maintenance Assessments, Debt Assessments, grants, and similar revenue sources. The District maintains three governmental funds: the General Fund, Debt Service Fund, and Capital Projects Fund.

Maintenance Assessment is an assessment levied by the Board to pay for the maintenance of infrastructure and the operations of the District.

Minimum Cash Reserves Target means the minimum combined Unassigned Cash Reserves and Committed Cash Reserves within the District's General Fund to be established and maintained in accordance with these Reserve Policies.

Operating Expenses means the ongoing expenses for the operation, maintenance, repairs, and replacements with respect to the District, and includes administrative expenses, insurance, and other payments calculated in accordance with Generally Accepted Accounting Principles. These expenses are not capital expenditures. Operating Expenses typically included budgeted Project Wide allocations. For the purpose of these Reserve Policies, Operating Expenses do not include the annual depreciation expense.

Project Wide refers to expenditures to maintain common areas throughout the community development districts such as landscaped rights of way including street lighting and associated walls / fences; entry features; lakes, shorelines, conservation, stormwater management system, and buffer areas; transportation trails; and tunnels. The Project Wide budget allocation is intended to spread the cost and risk of infrastructure and facilities that benefit all residents in the community. Project Wide budgeted amounts are typically accounted for as Operating Expenses.

Reserve Policies or Fund Balance Policies mean these policies which are applicable to the District, as may be amended and adjusted from time to time.

Revenues means the total revenues derived from the operations of the General Fund and includes income from Maintenance Assessments, rates, fees, and charges; income on investments; and other revenues associated with the operation of the District. Revenues do not include revenues from Debt Assessments, property and cash capital contributions and non-recurring fees such as government grants.

Road Renewal and Replacement (R&R) Reserves are considered as unrestricted and committed funds that may be used, among other purposes, for capital road projects, typically mill and overlay projects. These reserves are not used for projects on roads maintained by Sumter County.

Unassigned Cash Reserves represent funds that have not be assigned to other funds and that have not been restricted, committed or assigned to a specific purpose within the General Fund.

Working Capital means the amount of current assets less current liabilities which is available to meet District current obligations as well as provide for any non-recurring or extraordinary expenditures or changes in revenues that would affect the District. Working Capital in these Reserve Policies relates to the amount of cash available to meet such current obligations after recognition of the current liabilities payable from such cash balances.

RESERVE POLICIES

The following Reserve Policies will guide financial management for the District's General Fund:

Cash Reserves provide a measure of the immediate liquidity of the District and the ability to meet unanticipated expenditures and changes in cash flow. Further, Cash Reserves serve to reduce the short-term financial risk of the District. The maintenance of Cash Reserves promotes the financial stability of the District and reduces overall financial risk.

Credit Rating Reserves Policy

The District shall strive to achieve and maintain Cash Reserves within its General Fund that are consistent with those of local governments with an uninsured bond rating of "AA" or better. A higher credit rating can result in lower borrowing costs and lower assessments over the long term for the benefit of District residents.

Minimum Cash Reserves Policy

1. Minimum Cash Reserves Policy – Within the General Fund, the District will establish and maintain a minimum combined Unassigned Cash Reserves and Committed Cash Reserves balance equal to 35% of Revenues (defined as the "Minimum Cash Reserves Target"), plus additional Unassigned Cash Reserves and Committed Cash Reserves equal to four (4) months of annual operating expenses. A policy based upon percentage helps to ensure that the reserves will continue to meet the purposes of these policies as the District's budgets grow over time.
 - 1.1 If the combined Unassigned Cash Reserves and Committed Cash Reserves balance at the end of the preceding fiscal year is less than the Minimum Cash Reserves Target, the District will develop a plan to re-establish such cash reserves to the Minimum Cash Reserves Target level over a period not to exceed three (3) fiscal years.
 - 1.2 Cash Reserves above the Minimum Cash Reserve Target may be used in the following ways:
 - Fund accrued liabilities.
 - Increase the pay-as-you-go contributions needed to fund Capital Improvements.
 - Stabilizing Maintenance Assessments.
 - Other lawful purposes of the District.

Other Required Deposits and Reserves

2. Other Required Deposits and Reserves – All other funds and accounts established separately by the District for funding specific Operating Expenses, renewals, replacements, or Capital Improvements, or as may be required under a separate policy approved by the Board, will be funded in accordance with the terms and conditions of the documents or policies for which the funds were established. When necessary and prudent, the District may create additional accounts for a specific purpose. These accounts may include funding for specific capital projects or periodic but non-recurring expenditures, risk

management, and revenue or rate stabilization, among others. The District may place restrictions on such accounts so that the account balances are not a component of Unassigned Cash Reserves and Committed Cash Reserves as recognized in these Reserve Policies.

Financial Planning

3. Financial Planning – At least once per year during the annual financial planning/budget process, the District staff will perform a high-level multi-year financial forecast to help ensure that the District has adequate Revenues and Cash Reserves to meet ongoing operating and capital requirements and to comply with the Reserve Policies. The financial forecasts will be provided to the Board.

Other Provisions

4. Other Provisions – The District staff will regularly evaluate cash needs and provide a current status of the reserve funds each year to the Board. All funding alternatives will be considered to meet financing needs and to achieve the most cost-efficient operations of the District General Fund while conforming with these Reserve Policies.

UPDATES TO RESERVE POLICIES

These policies will be reviewed and updated at a minimum once every five (5) years to reflect needed changes in policy or to add policies as appropriate.