

Silver Key Senior Services, Inc.

Board-Designated Operating Reserves Policy

PURPOSE

The purpose of this statement is to formalize Silver Key Senior Services' policy for building and maintaining its Operating Reserves.

The general purpose of the fund is to improve the ability of the organization to continuously carry out its mission by:

1. Helping to ensure the long-term financial stability of the organization;
2. Positioning it to respond to varying economic conditions and changes affecting the organization's financial position;
3. Creating an internal line of credit to manage financial flexibility; and
4. Seizing strategic opportunities.

Operating Reserves are intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. Operating Reserves may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as investment in infrastructure. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an on-going budget gap.

This Operating Reserve Policy shall act in concert with the other governance and financial policies of Silver Key Senior Services, and is intended to support and strengthen the goals and strategies contained in these related policies and operational plans.

DEFINITIONS AND GOALS

The "Board-Designated Operating Reserve" is defined as the designated funds set aside by action of the Board of Directors for Operating Reserves. The amount of designated Operating Reserves will vary from period to period depending upon the then available funds. A maximum amount will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months, as well as to cover various capital needs. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The target minimum Board-Designated Operating Reserve is equal to six months of average operating costs as well as funds for capital improvements and acquisitions. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, office, travel, program, and on-going professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes some expenses (for example, pass-through programs, one-time or unusual expenses, and capital purchases).

The amount of the Board-Designated Operating Reserve Fund target minimum will be determined each year as part of the annual budget approval process. The Fund balance will be reported to the Finance Committee and Board of Directors on a regular basis, and included in financial reports.

By way of example, the following illustrates the two internal funds that when combined together, make up the composition of the Operating Reserve:

OPERATING RESERVE COMPOSITION



ACCOUNTING FOR RESERVES

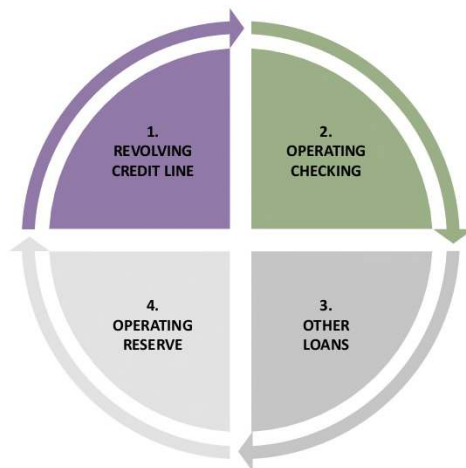
The Board-Designated Operating Reserve Fund will be recorded in the financial records as Board-Designated Operating Reserve. The Fund will be available as cash or marketable securities. Operating Reserves will not be commingled with the general operating cash of the organization. The Board-Designated Operating Reserves shall be invested prudently in accordance with Silver Key Senior Services’ Investment Policy Statement. The Treasurer or CFO will report the status of the Board-Designated Operating Reserves to the Board as part of the regular Financial Report.

FUNDING OF RESERVES

The Board-Designated Operating Reserve Fund will be funded with surplus unrestricted operating funds, once the following criteria have been met:

1. Pay off any outstanding balance on the organization’s revolving credit line; and
2. Reach the target minimum balance in the organization’s operating checking account; and
3. Pay off any other loans or outstanding debts of the organization.

The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Examples may include one-time gifts or bequests, special grants, or special appeals.



If the Operating Reserve is less than 50% of the targeted reserve level for two consecutive years, the Board of Directors will adopt an operational budget with a projected surplus to help rebuild operating reserves back to its targeted reserve level. If however, the Operating Reserve balance has exceeded its target level, excess funds shall be considered for remittance to the organization's endowment.

USE OF RESERVES

The Use of the Operating Reserves requires three steps:

1. **Identification of appropriate use of reserve funds.** The CEO will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using the reserves, and evaluation of the time period that the funds will be required and replenished.
2. **Authority to use Operating Reserves.** The CEO will submit a request to use Operating Reserves to the Finance Committee of the Board of Directors. The request will include analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds to restore the Board-Designated Operating Reserves to the target minimum amount. The Finance Committee will review and recommend the request to the Board of Directors, who has authority to approve of the request.
3. **Reporting and Monitoring.** The CEO and CFO are responsible for ensuring that the Board-Designated Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval for the use of Operating Reserve funds, the Treasurer or CFO will report the status of the Board-Designated Operating Reserves to the Board as part of the regular Financial Report.

REVIEW OF POLICY

The Board-Designated Operating Reserve Policy will be reviewed every three years, at minimum, by the Finance Committee, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance Committee to the Board of Directors.