

Sec. 1. PURPOSE OF POLICY.

Sec. 1.1. The Board of Directors (the “Board”) of IPS Enterprises, Inc. (“IPS”) considers that the prudent observance of generally accepted accounting standards of fiscal management requires the maintenance of sufficient economic and financial resources to provide adequate net assets to support a balanced and firm financial foundation for IPS’s operations. This policy shall also track the policies of IDEA Public Schools subject to Board differentiation contained herein or otherwise approved by the IPS Board.

Sec. 1.2. Through this policy, the Board shall address the legal requirements, as applicable, promulgated at Texas Business Organizations Code (“Tex. Bus. Org. Code”) Sections 3.101, 22.201, 22.221 and 22.235.

Sec. 2. AUTHORITY OVER FISCAL MATTERS.

- (a) Subject to the provisions of Section 4.4 of the IPS Bylaws relating to actions to be approved by the Chief Executive Officer (“CEO”) or the Sole Member, the business, property, and affairs of IPS shall be managed and all powers of IPS shall be exercised by or under the direction of the Board. In the event of a conflict between this policy and any other Board policy, such conflict shall be brought to the Board for resolution. Refer to the Board’s Authority Over Fiscal Matters Policy (the “Controlling Policy,” Finance Policy 1.0) for requirements applicable to this policy.
- (b) The Officers of IPS (as defined in Sec. 5 of the Controlling Policy) shall report to the Board any business arrangement or transaction with an individual that is an Officer and any conflicted, interested, or related party, as defined in other Board policy or applicable law. IPS (and its Officers) may not enter into a business arrangement or conduct a transaction in such a manner so as to circumvent this requirement.

Sec. 3. NET ASSETS WITH DONOR RESTRICTIONS.

The Chief Financial Officer (“CFO”) shall maintain records accounting for net assets with donor restrictions in a manner consistent with each donor’s restrictions and in accordance with generally accepted accounting principles. As appropriate and necessary, the CFO shall uniquely identify any donor-restricted endowment funds in IPS’s accounting records.

Sec. 4. BOARD DESIGNATIONS.

Sec. 4.1. At the Board’s request, from net assets without donor restrictions, the CFO shall present to the Board a proposal for the designation of surplus net assets for a specific purpose. Generally, the Board’s action under this section may be for capital campaigns, future programs, investments, contingencies, real property acquisitions, construction services or other capital outlays, or other uses.

Sec. 4.2. At the Board’s request, from net assets without donor restrictions, the CFO shall present to the Board a proposal for the establishment of an endowment to be invested to provide income.

Sec. 4.3. In preparing a proposal, the CFO shall:

- (a) Identify the amount of net assets without donor restrictions available for a Board

- designation or endowment;
- (b) Establish the purpose of the designation or endowment, including the period of time for when the designation or endowment shall exist;
- (c) Specify the fiscal impact to IPS of designating net assets or creating an endowment, particularly concerns relating to legal requirements and covenants;
- (d) Describe the safeguards that will be effectuated to ensure that IPS's overall financial condition shall remain favorable and in conformance with applicable legal requirements and covenants;
- (e) Provide the requirements that must be met to obtain a release of the designation or endowment from the Board;
- (f) Delineate the accounting classification(s) that will be used to discretely account for the designation or endowment; and
- (g) The authorized investments that will be utilized, including consideration of any investment objectives relating to the preservation and safety of principal, liquidity and yield.

Sec. 4.4. The Board may consider and approve, disapprove, conditionally approve or approve with modification the CFO's proposal.

Sec. 5. MAINTENANCE OF ADEQUATE NET ASSETS.

Sec. 5.1. To ensure that IPS has adequate net assets to provide a balanced and firm financial foundation for its operations, the CFO should ensure that net assets include the following general reserves.

- (a) A general reserve to provide cash flows for operating activities. This reserve may be calculated as the ratio of the number of days cash on hand, including current investments, to operating expenses. In this regard, IPS should maintain at least 50 days cash on hand.
- (b) A general reserve to provide for IPS's liquidity. This reserve may be calculated as the ratio of current assets to current liabilities. In this regard, IPS should maintain a ratio of no less than 1.75.
- (c) A general reserve to provide cash flows for financing activities. This net asset element may be calculated as:
 - 1) The ratio of long-term liabilities to total assets, which should be no less than 0.70; and
 - 2) The ratio of the difference between total revenues and total expenses to debt service (i.e., interest and principal payments), which should be no less than 1.15.
- (d) A general reserve to address unanticipated expenses and/or a decline in revenue, which should be no less than 20% of total expenses.

Sec. 5.2. Upon approval by the Board, the CFO or authorized investment representative may invest a general reserve in an authorized investment.

Sec. 5.3. The CFO's maintenance of a general reserve(s) under this section is discretionary and does not constitute a Board designation of net assets.

Sec. 6. EXPENDITURE OF NET ASSETS.

The CFO may only expend net assets pursuant to the Adopted Budget, as established under the Board Policy relating to the Authorization for the Obligation and Expenditure of Funds (Fiscal Policy 1.3). In the event that the CFO determines that an amount set aside in net assets, either by donor restriction or Board designation or endowment, requires use, the CFO shall submit a proposal to the Board for its consideration and approval, disapproval, conditional approval or approval with modification.

Sec. 7. DECLINE IN NET ASSETS.

Unless approved by the Board as part of IPS's annual operating budget, the CFO may not allow IPS to experience a decline in net assets.

Sec. 8. DEFICIENCY IN NET ASSETS.

The CFO may not allow IPS to operate with a deficit in net assets.

Sec. 9. MONITORING OF NET ASSETS.

At each regular meeting of the Board, the CFO shall report to the Board IPS's compliance with this policy, including the status of Board designations and endowments, and any projected deficit or deficiency in net assets.

Sec. 10. TRAININGS AND UPDATES.

The CFO or designee shall properly train or ensure training is provided to IPS Officers and employees on the requirements of this policy and any administrative procedures adopted to implement this policy. Additionally, the CFO or designee shall keep IPS Officers and employees informed of any changes to this policy and related requirements.

Sec. 11. ADMINISTRATIVE PROCEDURES.

The CEO and/or CFO shall formally adopt administrative procedures as reasonably necessary to properly administer this policy and to adhere to applicable law and rule. In doing so, the CEO and/or CFO shall not adopt, and are prohibited from adopting, an administrative procedure that conflicts with applicable law or this policy. Accordingly, the CEO and/or CFO shall confer with the Board or legal counsel before deviating from the requirements set forth in this policy. In the event that a deviation from this policy becomes necessary, the CEO and/or CFO shall either recommend an amendment to this policy or the Board's approval of a specific deviation, including the purpose, scope and duration of the requested deviation.

Sec. 12. DATE ADOPTED AND EFFECTIVE.

As set forth in the pertinent minutes to the meeting of the Board, the Board adopted this policy on January 15, 2021 and it became effective on January 15, 2021.

Sec. 13. RETENTION.

This policy shall be retained until superseded, expired or discontinued and for five years thereafter.

IPS Enterprises, Inc.
Net Assets

Finance Policy 1.10

Sec. 14. CERTIFICATION.

The Undersigned, being the Secretary of IPS, hereby certifies that the foregoing represents a true copy of the Board Policy relating to Net Assets, as originally adopted by the Board on January 15, 2021 which Policy is in full force and effect and has not been revoked or amended.

DocuSigned by:

Ryan Vaughan

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Ryan Vaughan, Secretary

Date: January 15, 2021