

Sunset Public Hearing Questions for
Baccalaureate Education System Trust Fund, Board of Trustees
Created by Section 49-7-804, *Tennessee Code Annotated*
(Sunset termination June 2015)

1. Provide a brief introduction to the board, including information about its purpose, statutory duties, staff, and attachment.

The legislative intent in establishing the Baccalaureate Education System Trust (BEST) Prepaid Program in 1996 was to provide a vehicle for parents and others to save for the future expenses of higher education. This vehicle would encourage timely financial planning for higher education expenses through the purchase of tuition units. Since 1996 BEST has been the state's educational service plan. However, starting in 2012 the board approved TNStars which is the state's educational investment plan (formerly the education savings plan). For the purpose of answering the following questions, BEST will be used to refer to the prepaid educational service plan. TNStars is used to refer to the state's educational investment plan (formerly the education savings plan) which was created in 2012 and is overseen by the BEST Board of Trustees.

The BEST Board of Trustees is composed of nine members. Members of the Board may designate members of their staffs to attend meetings and to exercise their right to vote in their absence.

Statutory Duties of the Board outlined in Tennessee Code Annotated Section 49-7-805 provides the following:

- 1) Invest funds of the trust fund in any instrument, obligation, security, or property that constitutes legal investments for assets of the Tennessee Consolidated Retirement System as Described in Tennessee Code Annotated Section 8-37-104;
- 2) Purchase of insurance from insurers licensed to do business in the state providing for coverage against any loss in connection with the program's property, assets, or activities or to further ensure the value of tuition units and educational savings accounts;
- 3) Make, execute, and deliver contracts, conveyances and other instruments necessary to exercise and discharge of powers and duties of the board;
- 4) Contract for the provision of all or any part of the services necessary for the management and operation of the program and contract with any other college savings program established pursuant to Section 529 of the Internal Revenue Code in order to provide similar benefits for Tennessee residents;
- 5) Contract with financial consultants, actuaries, auditors and other consultants as necessary to carry out its responsibilities under this part;
- 6) Promote, advertise and publicize the program;
- 7) Solicit and accept monetary gifts, including monetary gifts made by will, trust or other disposition, grants, loans, and other monetary aids from any personal source or to participate in any other way in any federal, state or local governmental programs in carrying out the purposes of this part;
- 8) Impose reasonable requirements on the eligibility of individuals to be designated as beneficiaries of tuition contracts, including, without limitation, residency and age requirements;

- 9) Impose reasonable limits on the number of contract participants in the program at any given period of time;
- 10) Impose and collect application fees and other administrative fees and charges in connection with any transaction under this part;
- 11) Impose limits on the number of tuition units which may be purchased on behalf of a beneficiary under the educational services plan;
- 12) Impose limits on the amount of contributions which may be made on behalf of a beneficiary under the educational investment plan (formerly the education savings plan);
- 13) Impose restrictions on the substitution of another individual for the original beneficiary;
- 14) Define the terms and conditions for payment withdrawals from the program and impose reasonable charges for such withdrawal;
- 15) Impose reasonable time limits on the use of tuition benefits provided by the program;
- 16) Promulgate reasonable substantive and procedural rules as are necessary to carry out the purpose and intent of this part;
- 17) Enter into agreements with any public or private employer under which an employee may agree to have a designated amount deducted in each payroll period from the wages or salary due the employee for the purpose of purchasing tuition units pursuant to a tuition contract or for the purpose of making contributions to a savings account established pursuant to a tuition contract.

Additionally pursuant to 49-7-808 the board shall develop a plan for offering educational savings accounts. Currently the board has done this by creating the TNStars College Savings 529 Program.

The State Treasurer is the Chairman of the Board. The Board is attached to the Department of Treasury for all administrative purposes. The Board delegates to the Treasurer the duty to carry out the day-to-day operations and responsibilities of the program.

2. Briefly describe the BEST program, how the program works, who can participate and what colleges and universities are covered. What is the current status of the program?

The Tennessee General Assembly created the Baccalaureate Education System Trust (BEST) Program in 1996 as a division of the Tennessee Treasury Department as a way to make higher education more affordable for citizens of Tennessee. The BEST Program is a Section 529 Plan as prescribed under the Internal Revenue Code. The BEST Program is comprised of the BEST Prepaid Plan and the TNStars College Savings 529 Program.

As of 2009, the BEST Board stopped allowing the purchase of additional units and stopped allowing new accounts to be opened. Existing account owners were allowed to continue in the plan with the number of units in their account as of July 1, 2009. As of the latest actuarial reported dated September 30, 2013 there were 6,374 units still in the plan with a present value of \$86,702,081. The actuarial report is attached.

The BEST Prepaid Plan allowed any person to pay for college tuition and mandatory fees in advance on behalf of an eligible beneficiary through the purchase of affordable tuition units. These units, which were purchased at the then current weighted average tuition, are used at a

later date. The value of a tuition unit increases each year to reflect the cost of inflation at Tennessee’s public colleges and universities.

Parents, grandparents, relatives, friends or other sponsors who desired to help prepay college tuition for a child could set up a BEST account. Either the purchaser of the account or the child for whom the units are purchased must be a resident of Tennessee at the time the account was opened. In 2009 the program stopped the sale of additional tuition units.

The TNStars College Savings 529 Program is Tennessee’s 529 college savings program. The program offers parents and other relatives a low-cost way to save for children’s college expenses with attractive investment options and special tax advantages. The plan offers an age-based track where the allocation becomes more conservative as the child approaches college. The plan also offers individual investment options including both domestic and international equities, balanced fund options, fixed income options, and an FDIC insured option. The underlying funds for each of the options are from a range of Fund Companies including Vanguard, DFA, Primecap, Maxim and First Tennessee Bank. The program offers the products at a competitive fee of 35 basis points.

BEST Prepaid and TNStars monies can be used at any accredited institution of higher learning in the United States. This includes four-year universities, trade schools, community colleges and technical schools.

3. Explain the concept of “tuition units,” including the cost of those units today and a projection of what they will be worth when paying college tuition in the future. If possible include information showing the estimated worth in five years, ten years and fifteen years.

One tuition unit represents one percent of the weighted average cost of tuition and mandatory fees of attending a four-year undergraduate Tennessee public university. Thus, the cost of tuition and fees for one academic year would, on average, be approximately 100 tuition units. Tuition units will increase in value at the same rate as the weighted average cost of tuition and mandatory fees increases at the Tennessee four-year undergraduate public universities. The basic concept is that if 100 units (one academic year) are purchased today, then a student will have, on average, one academic year of tuition and fees funded when they attend college at any point in the future. However, since 100 units are based on an average of Tennessee public universities, a student may actually need more or less than 100 units to finance one academic year. More expensive schools will require more units while less expensive schools will require fewer units. The table below reflects the value of one unit as of August 1, 2013 and projections of one unit value through 2032.

Enrollment Year Beginning	Projected Unit Value
8/1/2013	\$ 81.11
8/1/2014	\$ 87.19
8/1/2015	\$ 93.73
8/1/2016	\$ 100.76
8/1/2017	\$ 108.32
8/1/2018	\$ 116.44

8/1/2019	\$	125.17
8/1/2020	\$	134.56
8/1/2021	\$	144.65
8/1/2022	\$	155.50
8/1/2023	\$	167.16
8/1/2024	\$	179.70
8/1/2025	\$	193.18
8/1/2026	\$	207.67
8/1/2027	\$	223.25
8/1/2028	\$	239.99
8/1/2029	\$	257.99
8/1/2030	\$	277.34
8/1/2031	\$	298.14
8/1/2032	\$	320.50

4. Describe any limits on the number of contract participants in the BEST program, the number of units that may be purchased on behalf of a beneficiary, or the amount of time over which the benefits may be used.

There are no limits as to the overall number of contract participants in the BEST prepaid program. For all accounts held with the plan for the same beneficiary, no more than \$235,000 may be contributed, nor can the account owner(s) make additional contributions once the entire account balance for the same beneficiary (principal and earnings) reaches \$235,000.

For the BEST plan a beneficiary becomes eligible to use units in the account once he/she is accepted for enrollment in an institution of higher education. There is no absolute time period within which a beneficiary must use the units. A beneficiary may delay enrolling in an institution of higher education, attend an institution of higher education on a part-time basis, or take time off between academic terms. However, if there is inactivity for up to ten consecutive years after the units are eligible to be used, BEST will take reasonable measures to contact the participants and may close the account and remit the value of the account to the Tennessee Unclaimed Property Division if the participants cannot be located. The ten-year period commences when the beneficiary reaches 18 years old, or the year the account was established, whichever is later.

5. Define the terms and conditions under which payments may be withdrawn from the program, and the charges or penalties for such withdrawal.

For both BEST and TNStars withdrawals for qualified educational expenses as defined in Section 529 of the Internal Revenue Code are exempt from taxation. Qualified educational expenses include tuition and mandatory fees, room and board (on or off campus), books, supplies and equipment required for enrollment or attendance at an institution of higher education.

Withdrawals not used for qualified higher educational expenses are considered non-qualified withdrawals. Income taxation on the earnings and an additional 10 percent tax will apply to all non-qualified withdrawals.

When a contract is established in the BEST program or a savings account under TNStars, the account owner designates himself/herself or the beneficiary to be the recipient of a refund, if a refund has to be given on an account. There are essentially, two categories of refunds: (1) those due to the receipt of a qualified scholarship by the beneficiary or the beneficiary's attendance at military academy and (2) those due to termination of the contract in the Prepaid Plan or a refund request in the TNStars Plan.

The earnings portion of refunds due to the receipt of a qualified scholarship or the beneficiary's attendance at a military academy is subject to regular federal income taxation. However, the earnings portion of the refund is not subject the additional 10 percent tax penalty that is assessed for non-qualified withdrawals or refunds due to termination of the contract.

6. Discuss the benefits and costs for Tennesseans using this program to save for their children's college education instead of saving and investing on their own.

The primary benefit of using the BEST Prepaid Program as a college savings vehicle is that withdrawals for qualified higher educational expenses are permanently tax free. Second, the earnings realized on a BEST account are attributable to the weighted average tuition inflation increases at Tennessee's four-year universities. As such, participants are not subject to market volatility that they may experience by using other college savings vehicles. Although the pricing and payout structure of the program are based on the weighted average tuition increases at Tennessee's four-year public universities, money in BEST accounts may be used at any accredited college or university, in state or out-of-state, and may be applied toward the cost of tuition, mandatory fees, books, supplies and room and board expenses.

Likewise the primary benefit of using the TNStars College Savings Program is that withdrawals for qualified higher educational expenses are permanently tax free. Also, the plan is affordable, charging only 35 basis points annually making Tennessee's plan one of the lowest cost plans in the country. Account owners may open an account with as little as \$25. And from now through fiscal year 2015 account owners can be eligible for up to \$375 in incentives. Plans are quick and easy to start and the TNStars staff is available from 8:00 – 4:30 Monday – Friday to help answer questions about both TNStars and the BEST plan.

There was no application fee for the prepaid plan and there is no application fee for the TNStars plan.

7. Describe how funds transferred from the small and minority-owned business assistance program are being used to establish an incentive plan as authorized in 49-7-805(4) for the benefit of low-income individuals. Has the board promulgated rules relative to the implementation and administration of this plan as authorized in 49-7-808(d)?

The BEST board approved rules for a matching grant program to benefit low to moderate income Tennesseans at their board meeting on December 19, 2013. The effective date of the rules is September 28, 2014. As stated in the rules, eligible account owners will be eligible for a

4:1 match on contributions made into a TNStars account. The eligible account holder will receive up to a \$500 match for a \$125 contribution into their account.

Beyond the establishment of administrative rules, the plan is still being conceptualized with the final plan being presented at the BEST board meeting on July 16, 2014 for the board to establish the income eligibility level and the qualifying period for the grant incentive.

8. **Provide a list of current board members and describe how membership complies with Section 49-7-804(a), Tennessee Code Annotated. Please indicate each member's county of residence, race, gender and which members, if any, are 60 years of age or older. Are there any vacancies on the board and, if so, what is being done to fill those vacancies?**

Board Members

Designee

The Honorable David Lillard
State Treasurer - Chairman
1st Floor State Capitol
(615) 741-2956

Steve Curry
15th Floor
Andrew Jackson Building
(615) 532-8045

The Honorable Justin Wilson
Comptroller of the Treasury
1st Floor State Capitol
(615) 741-2501

Shiri Anderson
14th Floor
James K Polk Building
(615) 401-7743

The Honorable Tre Hargett
Secretary of State
1st Floor State Capitol
(615) 741-2819

Keith Boring
8th Floor
William Snodgrass Tower
(615) 741-2819

The Honorable Larry Martin
Commissioner
Finance & Administration
1st Floor State Capitol
(615) 741-2401

Mr. Greg Turner
16th Floor
William Snodgrass Tower
(615) 532-8362

John Morgan
Chancellor
Board of Regents
1415 Murfreesboro Rd.
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(615) 366-4400

Renee Stewart
1415 Murfreesboro Road
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(615) 366-4416

Dr. Joe DiPietro
President
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800 Andy Holt Tower
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(865) 974-1000

Butch Peccolo
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The University of Tennessee
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(865) 974-2302

Dr. Richard Rhoda
Executive Director
Higher Education Commission
404 James Robertson Parkway

(615) 741-7561

Russ Deaton
Higher Education Commission
404 James Robertson Parkway

(615) 532-3860

Dr. Richard Rhoda
TN Student Assistance Corporation
404 James Robertson Parkway, Suite
(615) 741-7561

Peter Abernathy
TN Student Assistance Corporation
404 James Robertson Parkway
(615) 741-7561

Dr. Betty Sue McGarvey
TN Independent Colleges and Universities Association
1003 Monroe Avenue
Memphis, TN 38104
(901) 575-2247

All board members are ex officio except the representative of the Tennessee Independent College and Universities Association (TICUA), which is appointed by the Treasurer from a list of two nominees submitted by the Board of Directors of TICUA. The Treasurer encourages TICUA to include minority candidates for consideration.

There are member(s) of the board over age 60. There are not any members who are a racial minority except that there are board designees who are racial minorities. There is a female member of the board, and there are board designees who are females. There are no vacancies.

9. How many times has the board met in the past year, and how many members were present at each meeting?

In the past fiscal year, the BEST Board of Trustees convened three times- July 17, 2013, September 26, 2013, and December 19, 2013. Section 49-7-804(b), Tennessee Code Annotated allows members of the board to designate members of their staff to attend meetings of the board and to exercise their right to vote in their absence. At the July 17, 2013 meeting of the board, there were 9 members represented (three board members and six designees), at the September 26, 2013 meeting of the board, there were nine members represented (three board members and six designees), and at the December 19, 2013 meeting of the board, there were eight members represented (two board members and six designees).

10. What per diem or travel reimbursement do members receive? How much was paid to board members during fiscal year 2013 and to date for fiscal year 2014?

Members of the board serve without compensation, but Section 49-7-804(c), Tennessee Code Annotated allows for reimbursement of actual expenses by board members. However, no travel reimbursements were paid to board members during fiscal year 2013 and none paid to date during fiscal year 2014.

11. In addition to the disclosure requirements placed on individual members of the board at Section 8-50-501, Tennessee Code Annotated, how does the board ensure that its members and staff are operating in an impartial manner and there are no conflicts of interest? If the board operates under a formal conflict of interest policy, please attach a copy of that policy.

Pursuant to Tennessee Code Annotated, Section 49-7-818, the Board has delegated to the State Treasurer the power to invest and reinvest the assets of Tennessee's Baccalaureate Education Trust (BEST) under the investment policies adopted by the Board. The BEST program is also administered by Treasury staff.

The Treasury Department has established a Standards of Professional Conduct for all Treasury employees. As part of an employee's annual evaluation, the employee must confirm in writing that they re-read the standard. The Standards provide that an employee must immediately notify his or her supervisor any time a potential conflict of interest arises.

The investment staff must adhere to an additional Code of Ethics and Standards of Professional Conduct relative to their role of investing the assets of the BEST program. Investment staffs are required to make monthly and annual disclosure statements.

The Treasury Department has developed a conflict of interest policy that it is asking all members of boards that are administered by the Treasury Department to approve. The conflict of interest policy is on the agenda for the BEST board meeting on July 16, 2014.

Moreover, the Treasury Department has developed a vision statement, mission statement, and core values statement that clearly describe the expectation of how employees should behave. Excerpts are state below:

Vision Statement

- *To be faithful stewards of the State's financial and human resources.*
- *To be passionate about achieving our Mission and living by our Core Values.*

Mission Statement

We will be a leader by providing exceptional service to our customers honestly, efficiently, and effectively.

Treasury Team Commitment

In order for us to provide exceptional service, both management and employees will foster an environment that respects, challenges, motivates, and rewards each team member. Each of us has a responsibility to develop and maintain this environment so that together we can achieve our Mission and live by our Core Values.

Department Core Values

Impeccable Honesty

We will develop relationships and interact with one another and with our customers in a manner that fosters and encourages trust. We will maintain the highest ethical and professional standards in everything that we do.

Mutual Respect

We will treat everyone equitably and with honor. We will communicate in a manner, which promotes open dialogue with our customers, within the department, and with our peers in state government.

Continuous Improvement

We will continually challenge ourselves to improve the level of service that we provide by being innovative, collaborative, creative, and efficient. We will work to be the best at what we do.

Shared Accountability

We will work as a team and will purposely strive to leverage the strengths and overcome the weaknesses of each team member. We will accept responsibility individually and collectively for the service that we provide to our customers.

Exceptional Service

We will be innovative in how we provide services to our customers and in how we do our work. We will be relentless in our pursuit of quality and excellence in everything that we do. We will focus not only on solving customer's problems but also anticipating their needs.

Exemplary Leadership

We will be visionary leaders and positive role models for our peers. We strive to be highly respected both inside and outside state government.

The Treasury Department has a rigorous pre-employment screening process that includes background checks (education verification, employment verification, professional certification verification, and reference checks) and criminal background checks.

- 12. Please describe what policies and procedures the board has in place to address potential conflicts of interest by board staff and employees. How does the board ensure that it is operating in an impartial manner and that there are no conflicts of interest as required by Section 49-7-817, *Tennessee Code Annotated*?**

The BEST board will consider the attached conflict of interest policy at the next BEST board meeting on July 16, 2014. Further explanation can be found under Question 11.

- 13. Is the board subject to Sunshine Law requirements (Section 8-44-101, *Tennessee Code Annotated*) for public notice of meetings, prompt and full recording of minutes, and public access to minutes? If so, what procedures does the board have to inform the public of its meetings and to make its minutes available to the public?**

Yes. The Board is subject to Sunshine law requirements and the Board has promulgated rules relative to meeting notice requirements. Tenn. Comp. R. & Regs. Rule 1700-05-04-.02(1) [BOARD OPERATIONS] and Rule 1700-05-01-.02(2) [BOARD MEMBERSHIP AND OPERATIONS] provides that "[n]otice of Board meetings shall be posted in the Legislative Plaza by the Board Secretary at least forty-eight (48) hours prior to any Board meeting." Also, prior to each meeting, public notices are posted on the State's Public Participation Calendar, the Department's main webpage and the main webpage for the Board of Trustees for the Baccalaureate Education System Trust Fund Program. In addition, Board meeting minutes are approved by the Board and available for public inspection.

- 14. What were the board's revenues (by source) and expenditures (by object) for fiscal year 2013 and to date for fiscal year 2014? Does the board carry a fund balance and, if so, what is the total of that fund balance? If expenditures exceeded revenues, and the board does not carry a fund balance, what was the source of the revenue for the excess expenditures?**

Please see the attached budgets for both the BEST Prepaid Program and the TNStars College Savings Program.

- 15. What reports does the board prepare concerning its activities, operations and accomplishments? Who receives copies of these reports? Please attach copies of any reports issued during fiscal year 2013 and to date for fiscal year 2014.**

The Board receives various reports at its meetings. The reports include statistical data, investment performance reports, actuarial valuation reports, reports regarding the calculation of the tuition unit price, and financial reports.

Quarterly investment performance reports are mailed to Board members between meetings.

The audit committee of the Board reviews various aspects of the financial statements, internal controls, audits, and other items as set out in the audit charter as adopted by the Board.

Sample reports are attached. For the prepaid plan the actuarial valuation, investment report, annual financial statement, and investment policy can be found on our web site at treasury.tn.gov/best. For the TNStars program the investment options and disclosure brochure can be found at tnstars.com.

- 16. Describe any steps the board has taken to increase public awareness of the Tennessee Baccalaureate Education System Trust Fund Program, as required by Section 49-7-805(6), *Tennessee Code Annotated*.**

BEST maintains a website that contains up-to-date program information, which allows easy access for all Tennessee citizens to obtain information about the program. Since new purchases of tuition units has been suspended by the board, no marketing is being employed at this time for the BEST Prepaid Program.

For the TNStars College Savings Program, the BEST Board of Directors contracted with Walker and Associates, a marketing firm located in Shelby County, to help target the message of TNStars to families across the state. This has resulted in television and radio ads, direct mail campaigns and professionally produced marketing materials. Additionally, TNStars staff engages in grassroots, low costs marketing initiatives to increase awareness of the program. Such initiatives include, but are not limited to, distribution of program brochures throughout the Tennessee library system, coordination with the Department of Human Resources Vital Records Division to insert program flyers in birth certificates that are mailed to new parents and coordination with the Department of Revenue to insert program flyers in car tag renewal notices. Additionally, staff attends new employee orientations and employee benefit fairs, conducts presentations for employers, educational organizations, and schools.

17. Does the board have a website? If so, please provide the web address. What kind of public information is provided on the site?

For the BEST program the address is www.treasury.tn.gov/best. The website includes information about how to request refunds from the program and contract termination requests. There is a Questions and Answers section that addresses the board's decision to stop selling tuition units. Financial data such as the actuarial report, investment policy, investment report and annual financial statement are all available on the website.

For the TNStars program the address is www.tnstars.com. The website includes information on how to start a savings account, a savings calculator, a college savings tutorial on the importance of saving for college, information about the different investment options and an investment option performance guide that is updated quarterly. Finally, the annual disclosure document that is provided to every account owner each year is available on our website for non-account owners to access.

18. Has the board set goals and measured its performance compared to those goals? What performance indicators or goals does management use to measure the effectiveness and efficiency of the board? How well has the board performed based on those performance indicators?

The TNStars program aims to increase college savings across the state. A growth projection was provided to the Tennessee General Assembly when TNStars was created in 2012. The program has grown to more than \$15 million in less than two years with almost 5,000 account holders located in 86 Tennessee counties. While there is still a lot of work to be done in advancing college savings in the state, we believe that TNStars is making big strides in reaching those goals.

19. Has the board promulgated rules and regulations as authorized at Section 49-7-805(16), Tennessee Code Annotated? If so, please cite the reference.

Yes. Chapter 1700-5-1, 1700-5-2, 1700-5-3, 1700-5-4 of the Official Compilation of the Rules and Regulations of the State of Tennessee.

17. Describe any items related to the board that require legislative attention and your proposed legislative changes.

None at this time.

18. Should the board be continued? To what extent and in what ways would the absence of the board affect the public health, safety, or welfare?

Yes, the BEST Board should continue. The TNStars program is an outstanding program and vehicle for saving for the expenses of higher education. Furthermore, it is an integral part of the governor's Drive to 55 initiative but increasing awareness of the importance of saving for higher education.

The current composition of the Board provides diverse perspectives, backgrounds, and expertise; all of which are beneficial in ensuring that the program remains valuable to participants and to citizens of the State of Tennessee. Tennesseans are concerned about rising tuition costs and their ability to pay higher education costs in the future, and BEST addresses this need. The Board has the responsibility to monitor what is happening at the local and federal levels regarding the programs and to make changes as appropriate and to make recommendations to the members of the General Assembly who created BEST and TNStars. The absence of the Board would weaken the program's effectiveness, which could have an adverse effect on the public welfare.

19. Please list all board programs or activities that receive direct or indirect federal financial assistance and, therefore are required to comply with Title VI of the Civil Rights Act of 1964. Include the amount of federal funding received by program/activity.

The BEST Program does not receive federal financial assistance.

If the board does receive federal assistance, please answer questions 20 through 27. If the board does not receive federal assistance, proceed directly to question 26.

20. Does the board prepare a Title VI plan? If yes, please provide a copy of the most recent plan.

Not Applicable – the BEST Program does not receive federal financial assistance.

21. Does the board have a Title VI coordinator? If yes, please provide the Title VI coordinator's name and phone number and a brief description of his/her duties. If not, provide the name and phone number of the person responsible for dealing with Title VI issues.

Not Applicable – the BEST Program does not receive federal financial assistance.

22. To which state or federal agency (if any) does your board report concerning Title VI? Please describe the information your board submits to the state or federal government and/or provide a copy of the most recent report submitted.

Not Applicable – the BEST Program does not receive federal financial assistance.

23. Describe the board’s actions to ensure that council staff and clients/program participants understand the requirements of Title VI.

Not Applicable – the BEST Program does not receive federal financial assistance.

24. Describe the board’s actions to ensure it is meeting Title VI requirements. Specifically, describe any board monitoring or tracking activities related to Title VI, and how frequently these activities occur.

Not Applicable – the BEST Program does not receive federal financial assistance.

25. Please describe the board’s procedures for handling Title VI complaints. Has your board received any Title VI-related complaints during the past two years? If yes, please describe each complaint, how each complaint was investigated, and how each complaint was resolved (or, if not yet resolved, the complaint’s current status).

Not Applicable – the BEST Program does not receive federal financial assistance.

26. Please provide a breakdown of current board staff by title, ethnicity, and gender.

BEST/TNStars Staff		
Title	Ethnicity	Gender
Director	Black	Female
Service Counselor II	White	Male
Service Counselor II	Black	Female
Service Counselor I	White	Male
Service Counselor I	White	Female
Account Technician II	Black	Female

27. Please list all board contracts, detailing each contractor, the services provided, the amount of the contract, and the ethnicity of the contractor/business owner.

Contractor: Bryan, Pendleton, Swats & McAlister ⁽¹⁾
 Services: Actuary Services
 Maximum Contract Amount: \$121,000
 Ethnicity of Contractor/Owner: Corporation

Contractor: Walker + Associates
 Services: Marketing
 Maximum Contract Amount: \$3,293,500
 Ethnicity of Contractor/Owner: White/Female

Contractor: Envision Financial Systems, Inc.
Services: Recordkeeping system
Maximum Contract Amount: \$2,154,397
Ethnicity of Contractor/Owner: Corporation

Contractor: AKF Consulting
Services: 529 Consultant
Maximum Contract Amount: \$52,500
Ethnicity of Contractor/Owner: Jewish/Woman

Contractor: Great West ⁽²⁾
Services: Transfer Agent
Maximum Contract Amount: \$37,500
Ethnicity of Contractor/Owner: Corporation

Contractor: Deloitte & Touche LLC
Services: Advisory services and technical assistance
Maximum Contract Amount: \$536,000
Ethnicity of Contractor/Owner: Corporation

⁽¹⁾ Joint Contract with the Tennessee Consolidated Retirement System

⁽²⁾ Joint Contract with the Tennessee Deferred Compensation Program

Documents Attached

1. BEST Actuarial Study
2. BEST Budget
3. TNStars Budget
4. Conflict of Interest Policy

Document #1



Bryan Pendleton, Swats & McAllister, LLC
A Wells Fargo Company

March 11, 2014

The Honorable David H. Lillard, Jr.
Chairman
Baccalaureate Education System Trust
State of Tennessee Treasury Department
Suite 1340, Andrew Jackson Building
Nashville, TN 37243-0253

Dear Treasurer Lillard:

Submitted herewith are the results of the actuarial valuation of the Tennessee Baccalaureate Education System Trust prepared as of September 30, 2013 pursuant to T.C.A. § 49-7-818. This report details information concerning the Educational Services Plan (otherwise known as the "Prepaid Plan"). This report does not contain any information relating to the Educational Savings Plan.

We trust this report will be helpful in the formulation of policy with respect to the operation and financing of the program. We appreciate the opportunity to serve the State of Tennessee, and we will be pleased to supplement this report in any way, as you request.

This report has been prepared under the supervision of J. Sterling Price, F.S.A., a member of the American Academy of Actuaries, a Fellow of the Society of Actuaries, and a consulting actuary with Bryan, Pendleton, Swats, and McAllister, LLC of Brentwood, Tennessee, who has met the Qualifications Standards of the American Academy of Actuaries to render the actuarial opinions herein. To the best of my knowledge this report has been prepared in accordance with generally accepted actuarial standards, including the overall appropriateness of the analysis, assumptions, and results and conforms to appropriate Standards of Practice as promulgated from time to time by the Actuarial Standards Board. I am not aware of any direct or material indirect financial interest or relationship, including investment management or other services that could create, or appear to create, a conflict of interest that would impair the objectivity of our work. This report has been reviewed as part of our firm's peer review process.

The information contained in this report was prepared for the State of Tennessee in connection with our actuarial valuation of the plan. It is not intended nor necessarily suitable for other purposes. Further distribution of use of all or part of this report to other parties is expressly prohibited without BPS&M's prior written consent.

Respectfully submitted,

J. Sterling Price, F.S.A.

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**TENNESSEE
BACCALAUREATE EDUCATION
SYSTEM TRUST**

**ACTUARIAL VALUATION
AND REPORT**

SEPTEMBER 30, 2013

Executive Summary	1
Summary of Funded Status	1
Development and Discussion of Actuarial Gain or Loss.....	3
Yearly Comparison of Selected Plan Information.....	5
Funding and Other Issues	5
Surplus/Deficit Equilibrium	6
Assets	8
Balance Sheet.....	8
Summary of Operation	8
Comparative Rates of Investment Returns	9
Basis of Valuation	10
Summary of Provisions of the Program.....	10
Summary of Actuarial Assumptions.....	12
Experience Study	13
Summary of Experience Study	13
2013 – 2014 Weighted Average Tuition	14
History of Payout Value and Purchase Price.....	15
Projection of Payout Value and Purchase Price	16
History of Increases – Tuition and Fees.....	17
History of Increases – Tuition only	18
History of Increases – Fees only	19
Cash Flow Analysis.....	20
Beneficiary Data	21
Unit Purchases by Year	21
New Contracts by Year	22
Units Outstanding by Age Group	23
Unit Purchases by Age	24

An actuarial valuation of the Tennessee Baccalaureate Education System Trust ("BEST") program was conducted as of September 30, 2013. This valuation only relates to the Educational Services Plan. It does not contain any information relating to the Educational Savings Plan. The purpose of the valuation is to satisfy the requirements of T.C.A. § 49-7-818 which requires, among other things, that an actuary perform an actuarial valuation of the assets and liabilities of the fund at least once a year.

Summary of Funded Status

Generally, conclusions regarding the funded status of the program should be reached by examining the cost of the program's future obligations. Program obligations include: (i) future tuition obligations and (ii) future operational expenses.

Tuition obligations are funded by amounts received from the purchase of tuition units and investment earnings thereon. The cost of tuition obligations is expected to escalate from current unit values as a result of future tuition inflation.

Operational expenses of the BEST program are funded by (i) the per unit adjustment to the unit purchase price for expenses and (ii) that portion of the market value of assets which is reserved for future expenses (such amounts are collectively referred to as the "Administrative Reserve"). As of September 30, 2013, the Administrative Reserve has been sufficient to cover the annual expenses of the program. The current policy and practice of the program is that future annual operational expenses will be funded by the Administrative Reserve. Accordingly, future program obligations attributable to expenses are not reflected in this valuation report.

The following exhibits show the funded status of the BEST program on a present value basis and on a termination basis as of September 30, 2013. There are important differences between the two approaches as discussed below.

Present Value Basis

Under the present value concept, the current value of the tuition obligations of the program is calculated by determining the fund amount that would be needed on the valuation date to satisfy those obligations. The calculation assumes that program assets earn 6.25% per annum during the period between the valuation date and the date each obligation is assumed to be satisfied. The present value amount is then compared to existing program assets. A surplus or deficit occurs when program assets either exceed or are less than the present value of benefits.

The funded status of the program on a present value basis shown below is based on a comparison of the market value of assets as of September 30, 2013 to the present value of future tuition payments.

The present value of future payments was calculated and aggregated for each beneficiary as of September 30, 2013 using the investment return, tuition inflation and tuition unit usage assumptions provided in the Summary of Actuarial Assumptions.

Market Value of Assets	\$ 86,749,210
Present Value of Future Payments from the Trust Fund	<u>(86,702,081)</u>
Surplus/(Deficit)	\$ 47,129
Funded Percentage	100.05%

Termination Basis

In addition to the Present Value Basis discussed above, the funded status of the program has also been determined on a termination basis. This approach is of limited value in evaluating the ongoing funding status of the program but is

EXECUTIVE SUMMARY

useful as a short-term evaluation measure. The funded status of the program on a termination basis is based on a comparison of the market value of assets as of September 30, 2013 to the payout value of all tuition units outstanding as of September 30, 2013. The program termination payout value is based on the weighted average tuition in effect on September 30, 2013 and does not incorporate the projection of tuition unit values into the future.

Although there is no statutory requirement for the satisfaction of program liabilities on a termination basis, a comparison of the market value of assets to the termination liability as of September 30, 2013 may be helpful in analyzing a scenario whereby existing assets are used to settle the liability for outstanding units.

Market Value of Assets	\$ 86,749,210
Present Value of Accrued Benefits	(84,018,110)
Surplus/(Deficit)	<u>\$ 2,731,100</u>
Funded Percentage	103.25%

Funded Status under Various Investment Returns and Tuition Inflation Scenarios

The following summarizes the funded status on a present value basis under different investment return and future tuition inflation assumptions.

Tuition Assumption	Investment Returns Assumption							
	5.00%	5.50%	6.00%	6.25%	6.50%	7.00%	7.50%	8.00%
5.00%	2,731,041	3,764,412	4,762,096	5,248,082	5,725,766	6,657,002	7,557,294	8,428,048
5.50%	1,665,348	2,731,018	3,759,578	4,260,494	4,752,781	5,712,276	6,639,623	7,536,290
6.00%	570,948	1,670,089	2,730,639	3,247,019	3,754,430	4,743,188	5,698,542	6,622,028
6.50%	(552,433)	581,409	1,675,117	2,207,523	2,730,605	3,749,678	4,734,038	5,685,292
7.00%	(1,705,093)	(535,303)	592,743	1,141,743	1,681,047	2,731,497	3,745,872	4,725,851
7.50%	(2,889,837)	(1,682,746)	(519,079)	47,129	603,258	1,686,239	2,731,725	3,741,471
8.00%	(4,108,801)	(2,863,029)	(1,662,432)	(1,078,385)	(504,820)	611,873	1,689,591	2,730,168
8.50%	(5,357,901)	(4,072,055)	(2,833,210)	(2,230,691)	(1,639,074)	(487,487)	623,584	1,696,056
9.00%	(6,644,255)	(5,316,826)	(4,038,302)	(3,416,624)	(2,806,283)	(1,618,514)	(472,866)	632,663

Current assumptions are 6.25% investment return and 7.5% tuition inflation.

In the table above, positive numbers represent a surplus, negative numbers represent a deficit.

Development and Discussion of Actuarial Gain or Loss

Under the present value approach, the actuarial experience for the past year is such that an actuarial gain occurred during the period.

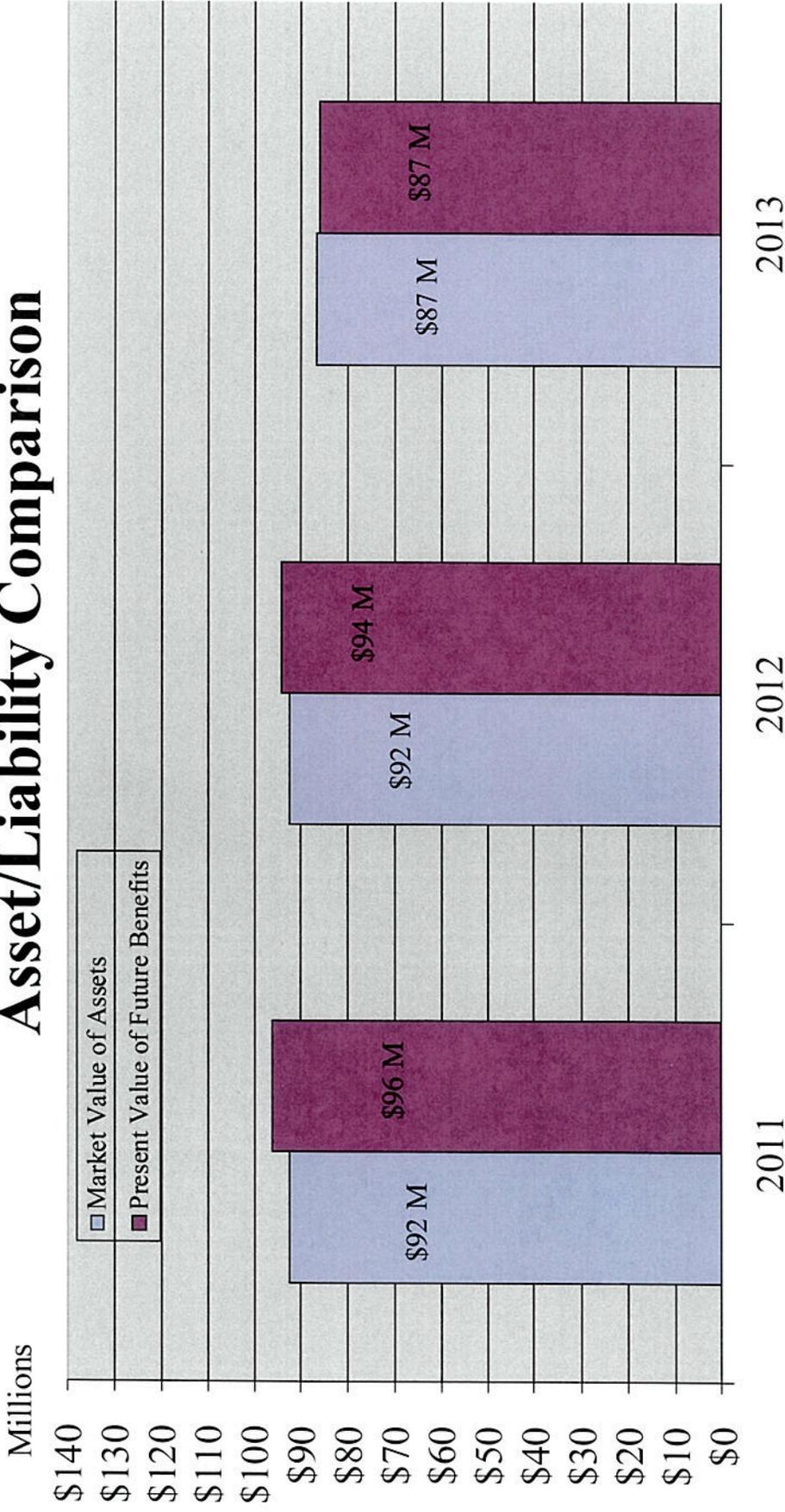
Actuarial gains and losses occur due to differences between anticipated and actual experience and may over significant periods of observation be important indicators of the accuracy of the actuarial assumptions used in determining surplus levels.

Among the identifiable sources of experience occurring during the year is an actuarial loss attributable to the investment return. The estimated market value dollar weighted investment return for the year of 6.02% was less than the actuarially assumed return rate of 6.25%. The difference in the rates of return is responsible for an actuarial loss of approximately \$530,000

An actuarial gain is associated with the assumed rate of tuition inflation of 7.5%. During the year, actual tuition increases were 5.50% resulting in a decrease to the expected liabilities for contracts in effect as of September 30, 2012. The actual tuition inflation resulted in an actuarial gain of \$2,100,000.

Other sources of actuarial experience gains and losses have not been identified but result from items such as the contract transfers, contract surrenders, operation of the expense reserve account, etc.

Asset/Liability Comparison



Yearly Comparison of Selected Plan Information

	Valuation Date				
	09/30/2009	09/30/2010 [#]	09/30/2011	09/30/2012	09/30/2013
Total Contracts	9,916	10,018	7,484	6,763	6,374
Units Purchased [^]	58,724	49,333	11,632	0	0
Outstanding Units	1,532,440	1,447,262	1,293,664	1,173,262	1,035,854
Present Value of Benefits	\$98,388,521	\$99,234,997	\$96,140,357	\$94,218,418	\$86,116,547
Market Value of Assets	\$83,225,900	\$99,508,527	\$92,341,306	\$92,072,912	\$86,749,210
Surplus/(Deficit)	(\$15,162,621)	\$273,530	(\$3,799,051)	(\$2,145,506)	\$632,663
Funded Percentage	84.59%	100.28%	96.05%	97.72%	100.73%

[^] Represents activity for 12-month period preceding the valuation date

[#] Additional capital contributed to the plan

Funding and Other Issues

Tuition Inflation and Fees. The 7.5% tuition inflation assumption utilized for this valuation is based on recommendations from BEST personnel in light of information concerning anticipated tuition and fee increases. This assumption was increased from 6.0% per year in 2007 after the Board conducted a study which indicated that future tuition rates were expected to increase at a rate higher than previously assumed.

Surplus/deficit Status – The surplus position of the program had deteriorated prior to 2007. This deterioration was as result of multiple years of actuarial losses caused by higher than assumed rates of actual tuition inflation and lower than assumed rates of investment return.

In 2007, the Board adopted a more conservative set of valuation assumptions. The use of these assumptions would hopefully decrease the likelihood that the program would experience actuarial losses going forward. However, the plan experienced extreme asset losses during the 2007-2008 plan year which caused the plan to return to a deficit status as of the prior valuation date. In 2007, \$25,950,000 was put into the plan to address the plan's unfunded liability. There was additional capital (\$14,750,000) contributed to the plan during the 2009-2010 plan year. The additional capital has been nearly sufficient to offset actuarial losses resulting from higher than assumed tuition inflation and lower than assumed investment returns.

Valuation Date - Prior to 2001, reports were prepared as of the end of the calendar year. The valuation date was changed to September 30 in order to provide up-to-date information for consideration by program officials and the legislature.

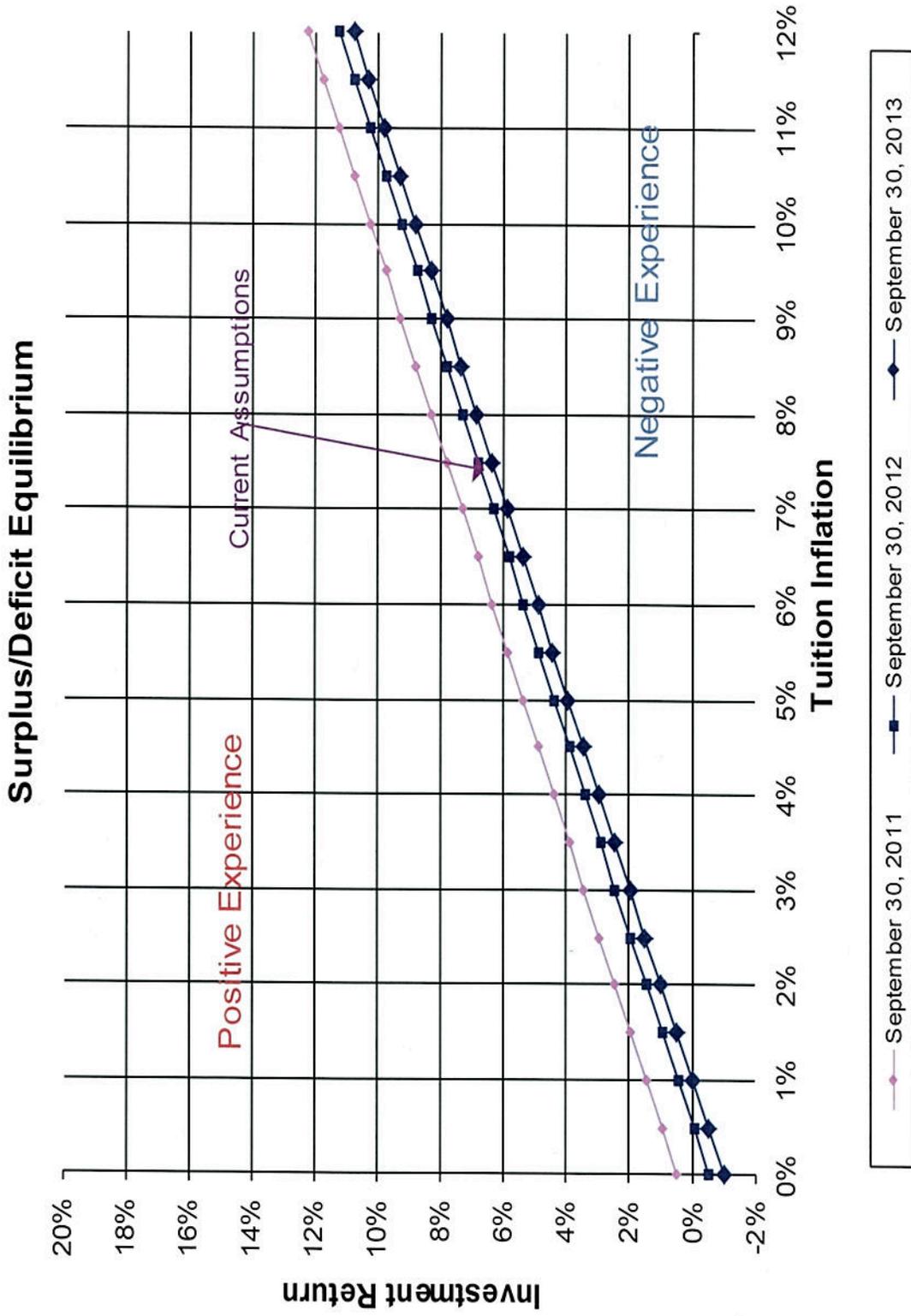
Plan Closure - Effective November 22, 2010, the program ceased accepting payments for the purchase of new units.

Surplus/Deficit Equilibrium

The graph on the following page may be helpful for planning purposes and for identifying potential risk for the BEST program.

The graph indicates that, for each rate of expected future tuition inflation, there exists a future investment return rate that, if realized, would result in liabilities for existing commitments exactly equaling existing assets. Under each set of these assumptions, the BEST program would be in equilibrium or balanced condition such that neither a surplus nor a deficit would be expected with respect to existing contracts. The surplus/deficit equilibrium line was determined on a present value basis using the September 30, 2013 valuation assumptions.

The equilibrium status of the program would be altered if the actual investment return rate were to exceed the equilibrium rate with the result that an asset surplus would exist after satisfaction of existing commitments. Similarly, a deficiency would occur if actual investment returns were less than the equilibrium return rate. For example, an 8.00% annual tuition rate could be satisfied by an investment return of approximately 6.83%. Higher returns would produce a surplus while lower returns would result in a deficiency. The 6.25% investment return rate assumed in producing this report in combination with an expected tuition inflation rate of 7.5% would maintain the current deficit.



ASSETS**Balance Sheet**

A summary balance sheet of the funds held on behalf of the BEST program is shown below.

	<u>September 30, 2012</u>	<u>September 30, 2013</u>
<u>Assets</u>		
Cash/Short Term Investments	\$ 2,247,194	\$ 1,882,826
Fixed Income	57,689,054	49,733,112
Equities	32,461,388	35,133,272
Investment Purchases Payable	<u>0</u>	<u>0</u>
Total	\$ 92,397,636	\$ 86,749,210
Reserve for Beneficiaries	\$ 92,397,636	\$ 86,749,210

Summary of Operation

A summary of operation of the funds held on behalf of the BEST program during the preceding two plan years is presented below.

	<u>October 1, 2011- September 30, 2012</u>	<u>October 1, 2012- September 30, 2013</u>
Balance as of Beginning of Plan Year	\$ 92,476,472	\$ 92,397,636
<u>Receipts</u>		
Contributions	0	0
Administrative Fees	0	0
Transfer from General Fund	0	0
Transfer from Savings Plan	<u>0</u>	<u>0</u>
Total Receipts	0	0
Investment Earnings	10,243,754	4,894,717
<u>Disbursements</u>		
Tuition Payments	(8,779,309)	(9,179,602)
Refunds	<u>(1,083,392)</u>	<u>(1,124,169)</u>
Total Disbursements	(9,862,701)	(10,303,771)
<u>Expenses</u>		
Administrative Cost	<u>(459,890)</u>	<u>(239,372)</u>
Total Expenses	(459,890)	(239,372)
Balance as of Valuation Date	\$ 92,397,635	\$ 86,749,210
Adjustment for cash and receivables as of Valuation Date	N/A	N/A
Balance as of Valuation Date	\$ 92,397,636	\$ 86,749,210
Investment Return	11.40%	6.02%

Comparative Rates of Investment Returns

The following plan and comparative market value rates of return for twelve-month periods ending on September 30 using standard industry indices may be of interest in evaluating past BEST program investment returns and future expectations.

	Total Rates of Return for		
	2011	2012	2013
BEST Program			
State Street S & P Index Fund	1.16%	30.20%	19.23%
State Street International Index Fund	(9.31)	13.70	21.60
Domestic Fixed Income	5.24	5.10	(1.79)
Cash Equivalents	0.02	0.01	0.00
Total Return	3.07	11.40	6.02
Market Indices			
Standard & Poor's 500 Stocks	1.14%	30.20%	19.34%
Dow Jones Industrial Average	3.83	26.52	15.59
MSCI EAFE Index	(9.36)	13.75	23.77
Barclays Capital Aggregate Bond Index	5.26	5.16	(1.68)
90-Day U.S. Treasury Bills	0.11	0.05	0.07

Summary of Provisions of the Program

Statutory Basis- The BEST Prepaid Plan is a qualified tuition program under Section 529 of the Internal Revenue Code, and the plan is established pursuant to T.C.A. § 49-7-801 et seq. The requirements for participation and administration of the program are contained in Chapter 1700-5-1 of the Official Compilation of the Rules and Regulations of the State of Tennessee.

Purpose - BEST was created by the Tennessee General Assembly in order to assist students and their families in financing a portion of the cost of attending colleges and universities. In that regard, BEST allows parents and other interested persons to purchase tuition units on behalf of an eligible beneficiary. Those units entitle the beneficiary to pay for qualified post-secondary education expenses.

Tuition Units - Tuition costs are purchased in increments known as tuition units. One tuition unit represents one percent of the average cost, including tuition and mandatory fees, of attending a four-year undergraduate Tennessee public university. Thus, tuition and fee expenses for one academic year would be covered by roughly 100 tuition units.

Weighted Average Tuition - Each year, the board determines the weighted average tuition ("WAT"). The WAT is based on the actual tuition and actual fees at each of Tennessee's four-year public universities for the academic year beginning on or after August 1. It is weighted based on enrollment at those schools at the beginning of the prior academic year.

Purchase Price of Tuition Units - The purchase price of a tuition unit is equal to the WAT plus a charge to cover administration and an additional charge to ensure the actuarial soundness of the program. Tuition units may be purchased (i) by automatic cash withdrawal from a checking or savings account, (ii) by automatic payroll deduction, (iii) by check, or (iv) by cash. It is the current policy of the BEST program that the purchase price remains constant during an enrollment period from August 1 to December 31. After December 31, the purchase price is increased.

Payout Value of Tuition Units - The payout value of a tuition unit is based on the WAT in effect when the beneficiary uses the unit for tuition.

Usage of Tuition Units - Tuition units may be applied toward the cost of tuition, mandatory fees and room and board at any accredited two or four-year school or any accredited graduate or professional school. Units may be used at both public and private schools. Units may be used at out-of-state schools as well as at schools located in the State of Tennessee.

Two-year Limitation on Usage of Tuition Units - Tuition units may not be used until two full years have passed following their purchase.

Limit on Number of Tuition Units Purchased - The total dollar value of tuition units which may be purchased by all persons on behalf of a single beneficiary under all contracts in the BEST Prepaid Plan may not exceed \$235,000.

Rollover - A BEST purchaser may transfer funds from a BEST Prepaid account to another 529 Plan once every 12 months without incurring federal income tax.

Time Period for Use - There is no absolute time period in which the tuition units in a beneficiary's account must be used. However, BEST may terminate an account ten years after the beneficiary attains age 18 if there has been no contact or activity during that ten-year period.

Transfer of Tuition Units - Tuition units may be transferred to a new beneficiary provided that the new beneficiary is a member of the family of the original beneficiary as defined under Internal Revenue Section 529.

Termination of Contract - A tuition contract can be terminated upon one of the following events: (i) the beneficiary dies or becomes permanently disabled, (ii) the beneficiary is age 18 or older and decides not to attend college, (iii) the beneficiary obtains a higher education degree that is less than a bachelor's degree and decides not to pursue education further, (iv) the beneficiary obtains a bachelor's degree, and (v) the beneficiary's account contains 5 tuition units or less and no tuition units have been purchased for the beneficiary's account for a period of at least 3 consecutive years.

Refund Upon Termination - To request a refund, the refund recipient must send BEST written notice that the tuition units will not be used for college. A refund of tuition units for reasons other than death, disability, or scholarship will be subject to certain tax consequences. If the Refund Recipient is the child (Beneficiary) the refund will not be issued until the child reaches age 20.

Tax Treatment-Withdrawals for qualified higher educational expenses are exempt from municipal, state and federal taxation. Qualified withdrawals are withdrawals for tuition, books, supplies required for enrollment or attendance at a qualified higher educational institution, and some room and board expenses. Withdrawals for qualified scholarships or due to the beneficiary's attendance at a military academy are subject to federal income tax on the earnings only. Withdrawals for a scholarship refund or due to the beneficiary's attendance at a military academy are not subject to the 10% additional tax. The earnings on tuition units for non-qualified withdrawals are subject to federal income tax and a 10% additional tax.

Financial Aid Treatment- Funds saved in prepaid 529 plans may affect the amount of financial aid that the beneficiary will qualify for. For BEST accounts owned by parents, the refund value of the prepaid BEST account must be reported. This amount is added to any other investments, which include, but are not limited to, real estate (not the family home), trust funds, UGMA or UTMA accounts, money market funds, certificates of deposits, stocks, stock options, bonds, other securities, Coverdell Education Savings Accounts, and 529 Savings accounts. Only a percentage of the value of all investments is considered in the calculation of the expected family contribution for aid qualification.

Plan Closure- Effective November 22, 2010, the program ceased accepting payments for the purchase of new units.

Summary of Actuarial Assumptions

Investment Return

The valuation was conducted using a 6.25% investment rate of return.

Tuition Increases

Tuition and fees were assumed to increase at 7.50% per year.

Expenses

Operational expenses of the BEST program are assumed to be funded by (i) the per unit adjustment to the unit purchase price for expenses, (ii) the \$50 initiation fee charged for all new contracts purchased prior to March 29, 2000, and (iii) that portion of the market value of assets which is reserved for future expenses. Therefore, the impact of future expenses is not reflected in this valuation report. The actuarial funded status of the plan will be impacted if operational expenses are paid from trust assets. No attempt has been made by BEST management to estimate future operational costs given the closed status of the plan.

Age at Enrollment

Age at enrollment is assumed to be (i) age 18, or (ii) for beneficiaries who are age 17 or older as of the beginning of the academic term with units purchased in the preceding year, two full years after the beginning of that academic term.

Rate of Usage

Tuition units are used during the two-year period following the assumed enrollment age. Participants with more than one year's worth of units are assumed to use those units over more than one academic year.

Mortality Rates

None

Summary of Experience Study

Pursuant to T.C.A. §49-7-820(b), we have conducted a review of the actuarial assumptions used in the valuation of the BEST program. It is important to realize that actuarial assumptions do not determine the ultimate cost of the program. The actual cost is determined by the number of units redeemed and the WAT price at the time of redemption. The assumptions simply provide a way to estimate the funded status of the plan on an ongoing basis at a particular point in time.

The following summarizes our study of each actuarial assumptions used in the valuation of the BEST program.

Investment Return

The Board has approved an investment strategy using low cost index funds with minimal tracking error. This is appropriate given the relatively small size of the BEST portfolio (approximately \$86 million). While a significant portion of the portfolio is invested in equities (both domestic and international), which are expected to produce higher investment returns over time, the Board has adopted an investment earnings assumption of 6.25%. While this assumption is conservative, it is appropriate for the following reasons:

- The relatively short investment horizon. Since the plan is closed, units are assumed to be redeemed on average in six years.
- The plan is closed to new unit purchases. Program expenses are now paid from plan assets rather than being subsidized by new units being bought. A portion of excess asset returns may need to be allocated toward administrative expenses in future years

Tuition Inflation

The valuation assumes a future tuition inflation rate of 7.5%. In 2007, the State prepared a study which estimates that future increases in higher education revenues provided by students will fall in a range of 4.3% to 7.8% per annum. Recent experience shows that actual increases have fallen in the higher end, or even exceeded this range. Based on the historical experience of the plan and the future expectation of tuition increases, an assumption of 7.5% is reasonable. However, while this assumption is intended to be long-term in nature, it should be reviewed periodically to account for the volatile nature of higher education costs.

Expenses

Since the program is closed to new entrants, there is no longer a surcharge on new units to account for expenses payable from the program. An administrative reserve has been established. This reserve and the earnings attributable to it are considered sufficient for the ongoing expenses of the program.

Age at Enrollment

The program currently assumes that units are initially redeemed when the enrollee reaches age 18. A study of the average age of those enrollees redeeming units as well as the average age that students begin post-secondary education indicate that the current assumptions continues to be a reasonable assumption.

Mortality Rates

The program is not affected by the deaths of enrollees since refunds would be paid. As a result, no mortality is assumed in the valuation of the program.

2013 – 2014 Weighted Average Tuition

The purchase price and payout value of tuition units are based primarily on the weighted average tuition (“WAT”). The WAT for a given enrollment year is based on actual tuition and actual fees at Tennessee’s public four-year universities for the academic year. The sum of the tuition and fee amounts for each school is then weighted by the school’s enrollment at the beginning of the prior academic year.

The purchase price of one unit is equal to one percent of the WAT plus an amount to cover administrative expenses and the actuarial soundness of the program.

	Fall 2012 Enrollment	2013-2014 Tuition & Fees *	Total Tuition
Austin Peay (APSU)	8,508	\$7,158	\$60,900,264
East Tennessee (ETSU)	12,784	7,543	96,429,712
Middle Tennessee (MTSU)	20,824	7,840	163,260,160
Tennessee State (TSU)	6,901	6,774	46,747,374
Tennessee Tech (TTU)	9,636	7,383	71,142,588
Univ of Memphis (UoM)	17,462	8,666	151,325,692
UT - Chattanooga (UTC)	9,951	7,555	75,179,805
UT - Knoxville (UTK)	23,610	9,684	228,639,240
UT - Martin (UTM)	6,770	7,514	50,869,780
	<u>116,446</u>		<u>\$944,494,615</u>
Weighted Average Tuition (total tuition divided by total enrollment)			\$8,111
Tuition Unit Payout Value (1% of WAT)			\$81.11
Adjustment for expenses			N/A
Adjustment for actuarial soundness			N/A
Tuition Unit Purchase Price			<u><u>\$81.11</u></u>

* Tuition and fees are based on the actual amounts for the 2013-2014 academic year.

The Board of Regents approved a tuition schedule for the five four-year institutions under their jurisdiction that removed the twelve semester hour cap. Previously, students were not charged for any hours beyond the first twelve. Effective with the 2009-2010 academic year, a reduced hourly rate is charged for any hours taken after twelve. In accordance with the rules governing the Tennessee Baccalaureate Education System Trust, the 2009-2010 weighted average tuition is calculated using 15 semester hours for each semester for the five Board of Regents institutions. The University of Tennessee system did not remove the twelve semester hour cap.

History of Payout Value

The following table provides a historical account of the unit payout value and unit purchase price since the 1997-1998 plan year.

Enrollment Year	Unit Payout Value	Adjustment for Expenses	Adjustment for Actuarial Soundness	Unit Purchase Price	Adjustment for Purchases after December 31	Adjusted Unit Purchase Price
1997-1998	21.64	2.11	0.00	23.75	0	23.75
1998-1999	25.00	1.75	0.00	26.75	1.25	28.00
1999-2000	27.08	1.92	0.00	29.00	1.25	30.25
2000-2001	29.58	1.92	0.00	31.50	1.50	33.00
2001-2002	33.51	0.99	0.00	34.50	2.35	36.85
2002-2003	35.98	1.02	0.00	37.00	1.40	38.40
2003-2004	40.70	1.30	0.00	42.00	1.60	43.60
2004-2005	43.15	2.10	3.71	48.96	1.84	50.80
2005-2006	47.71	2.28	4.07	54.06	2.03	56.09
2006-2007	49.72	2.98	4.24	56.94	2.14	59.08
2007-2008	53.79	3.13	4.56	61.48	2.15	63.63
2008-2009	56.93	3.87	4.86	65.66	2.05	67.71
2009-2010	61.20	3.90	5.22	70.32	2.20	72.52
2010-2011*	65.57	5.68	5.59	76.84	2.40	79.24
2011-2012	72.15	N/A	N/A	72.15	N/A	72.15
2012-2013	76.88	N/A	N/A	76.88	N/A	76.88
2013-2014	81.11	N/A	N/A	81.11	N/A	81.11

*Plan was closed to new unit purchases in November 2010.

Projection of Payout Value

The following table shows a projection of the tuition unit purchase price and payout value. The projected payout value is equal to the projected weighted average tuition using a tuition inflation rate of 7.5%. The actual values for the enrollment year beginning August 1, 2013 are shown.

Enrollment Year Beginning	Projected Unit Payout Value
August 1, 2013	81.11
August 1, 2014	87.19
August 1, 2015	93.73
August 1, 2016	100.76
August 1, 2017	108.32
August 1, 2018	116.44
August 1, 2019	125.17
August 1, 2020	134.56
August 1, 2021	144.65
August 1, 2022	155.50
August 1, 2023	167.16
August 1, 2024	179.70
August 1, 2025	193.18
August 1, 2026	207.67
August 1, 2027	223.25
August 1, 2028	239.99
August 1, 2029	257.99
August 1, 2030	277.34
August 1, 2031	298.14
August 1, 2032	320.50

History of Increases – Tuition and Fees

The table below and the tables on the succeeding pages show the history of increases in (i) tuition and fees combined, (ii) tuition only and (iii) fees only, respectively. These tables may be helpful in analyzing trends in tuition and fee inflation.

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-2013	2013-2014
APSU	4,837	5,238	5,526	5,868	6,228	6,690	6,918	7,158
Increase	4.36%	8.29%	5.50%	6.19%	6.13%	7.42%	3.41%	3.47%
ETSU	4,637	4,887	5,201	5,593	6,004	6,529	6,997	7,543
Increase	3.34%	5.39%	6.43%	7.54%	7.35%	8.74%	7.17%	7.80%
MTSU	4,766	5,278	5,700	6,048	6,478	7,018	7,492	7,840
Increase	4.15%	10.74%	8.00%	6.11%	7.11%	8.34%	6.75%	4.64%
TSU	4,534	4,856	5,102	5,444	5,854	6,346	6,702	6,774
Increase	3.42%	7.10%	5.07%	6.70%	7.53%	8.40%	5.61%	1.07%
TTU	4,562	4,980	5,244	5,586	6,036	6,698	6,996	7,383
Increase	3.78%	9.16%	5.30%	6.52%	8.06%	10.97%	4.45%	5.53%
UoM	5,256	5,802	6,128	6,524	6,990	7,696	8,234	8,666
Increase	3.38%	10.39%	5.62%	6.46%	7.14%	10.10%	6.99%	5.25%
UTC	4,688	5,062	5,310	5,656	6,062	6,718	7,212	7,555
Increase	4.18%	7.98%	4.90%	6.52%	7.18%	10.82%	7.35%	4.76%
UTK	5,576	5,932	6,250	6,850	7,382	8,396	9,092	9,684
Increase	5.41%	6.38%	5.36%	9.60%	7.77%	13.74%	8.29%	6.51%
UTM	4,665	5,005	5,255	5,769	6,190	6,718	7,056	7,514
Increase	3.83%	7.29%	5.00%	9.78%	7.30%	8.53%	5.03%	6.49%
Averages								
Weighted Avg¹	4,972	5,379	5,693	6,120	6,557	7,215	7,688	8,111
Increase	4.21%	8.19%	5.84%	7.50%	7.14%	10.04%	6.56%	5.50%
Weighted Average²	4,972	5,379	5,693	6,120	6,557	7,215	7,688	8,111
Increase	4.21%	8.19%	5.84%	7.50%	7.14%	10.04%	6.56%	5.50%

¹ Weighted Averages shown are derived using Fall enrollment figures from the preceding year.

² The Weighted Average Tuition is the amount determined annually by the BEST board of trustees pursuant to T.C.A. 49-7-806.

History of Increases – Tuition only

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-2013	2013-2014
APSU	3,828	4,058	4,302	4,644	5,004	5,466	5,694	5,874
Increase	4.08%	6.01%	6.01%	7.95%	7.75%	9.23%	4.17%	3.16%
ETSU	3,828	4,058	4,302	4,644	5,004	5,466	5,922	6,198
Increase	4.08%	6.01%	6.01%	7.95%	7.75%	9.23%	8.34%	4.66%
MTSU	3,828	4,058	4,302	4,644	5,004	5,520	5,898	6,222
Increase	4.08%	6.01%	6.01%	7.95%	7.75%	10.31%	6.85%	5.49%
TSU	3,828	4,058	4,302	4,644	5,004	5,466	5,772	5,844
Increase	4.08%	6.01%	6.01%	7.95%	7.75%	9.23%	5.60%	1.25%
TTU	3,828	4,058	4,302	4,644	5,004	5,520	5,748	6,096
Increase	4.08%	6.01%	6.01%	7.95%	7.75%	10.31%	4.13%	6.05%
UoM	4,388	4,652	4,978	5,370	5,778	6,450	6,978	7,410
Increase	4.08%	6.02%	7.01%	7.87%	7.60%	11.63%	8.19%	6.19%
UTC	3,748	3,972	4,210	4,506	4,912	5,398	5,722	6,065
Increase	4.11%	5.98%	5.99%	7.03%	9.01%	9.89%	6.00%	5.99%
UTK	4,830	5,120	5,428	5,918	6,450	7,224	7,802	8,270
Increase	4.59%	6.00%	6.02%	9.03%	8.99%	12.00%	8.00%	6.00%
UTM	3,916	4,150	4,400	4,708	5,132	5,640	5,978	6,336
Increase	4.59%	5.98%	6.02%	7.00%	9.01%	9.90%	5.99%	5.99%
<u>Averages</u>								
Weighted Average	4,137	4,383	4,653	5,031	5,428	5,989	6,395	6,748
Increase	4.26%	5.95%	6.16%	8.12%	7.89%	10.34%	6.78%	5.52%

* The Weighted Averages shown are derived using Fall enrollment figures from the preceding year.

History of Increases – Fees only

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-2013	2013-2014
APSU	1,009	1,180	1,224	1,224	1,224	1,224	1,224	1,284
Increase	5.43%	16.95%	3.73%	0.00%	0.00%	0.00%	0.00%	4.90%
ETSU	809	829	899	949	1,000	1,063	1,075	1,345
Increase	0.00%	2.47%	8.44%	5.56%	5.37%	6.30%	1.13%	25.12%
MTSU	938	1,220	1,398	1,404	1,474	1,498	1,594	1,618
Increase	4.45%	30.06%	14.59%	0.43%	4.99%	1.63%	6.41%	1.51%
TSU	706	798	800	800	850	880	930	930
Increase	0.00%	13.03%	0.25%	0.00%	6.25%	3.53%	5.68%	0.00%
TTU	734	922	942	942	1,032	1,178	1,248	1,287
Increase	2.23%	25.61%	2.17%	0.00%	9.55%	14.15%	5.94%	3.13%
UoM	868	1,150	1,150	1,154	1,212	1,246	1,256	1,256
Increase	0.00%	32.49%	0.00%	0.35%	5.03%	2.81%	0.80%	0.00%
UTC	940	1,090	1,100	1,150	1,150	1,320	1,490	1,490
Increase	4.44%	15.96%	0.92%	4.55%	0.00%	14.78%	12.88%	0.00%
UTK	746	812	822	932	932	1,172	1,290	1,414
Increase	11.01%	8.85%	1.23%	13.38%	0.00%	25.75%	10.07%	9.61%
UTM	749	855	855	1,061	1,058	1,078	1,078	1,178
Increase	0.00%	14.15%	0.00%	24.09%	-0.28%	1.89%	0.00%	9.28%
<u>Averages</u>								
Weighted Average	835	995	1,040	1,090	1,129	1,226	1,293	1,363
Increase	3.99%	19.16%	4.52%	4.81%	3.58%	8.59%	5.46%	5.41%

* Weighted Averages shown are derived using Fall enrollment figures from the preceding year.

Cash Flow Analysis

The following exhibit was generated from a cash flow model which considers only those tuition units outstanding as of September 30, 2013.

The model utilizes the valuation assumptions in determining future tuition payments. Based on the valuation assumptions, all tuition units outstanding as of September 30, 2013 are assumed to be paid out on or before September 30, 2032.

Plan Year Ending	Market Value BOY	Tuition Payments	Investment Income	Market Value EOY
2014	86,749,210	30,027,976	3,545,077	60,266,311
2015	60,266,311	13,171,183	2,943,446	50,038,574
2016	50,038,574	9,341,507	2,543,567	43,240,634
2017	43,240,634	8,946,178	2,143,404	36,437,860
2018	36,437,860	8,573,636	1,741,514	29,605,738
2019	29,605,738	7,012,366	1,412,086	24,005,458
2020	24,005,458	5,825,412	1,136,253	19,316,299
2021	19,316,299	4,670,443	915,366	15,561,222
2022	15,561,222	4,188,919	710,769	12,083,072
2023	12,083,072	3,517,566	535,344	9,100,850
2024	9,100,850	2,108,556	437,018	7,429,312
2025	7,429,312	2,441,584	311,733	5,299,461
2026	5,299,461	1,876,937	213,908	3,636,432
2027	3,636,432	1,760,834	117,225	1,992,823
2028	1,992,823	1,531,049	28,861	490,635
2029	490,635	395,264	5,961	101,332
2030	101,332	251,024	(9,356)	(159,048)
2031	(159,048)	13,867	(10,807)	(183,722)
2032	(183,722)	0	(11,483)	(195,205)

Unit Purchases by Year

The following exhibit summarizes unit purchase activity by enrollment year. The cumulative units at the end of the enrollment year equal cumulative units at the beginning of the year plus purchases and transfers less withdrawals.

Enrollment Year*	Cumulative Units at Beginning of Enrollment year	Purchases	Withdrawals	Cumulative Units at End of Enrollment year
1996-1997	0	36,494	0	36,494
1997-1998	36,494	344,850	102	381,242
1998-1999	381,242	266,774	368	647,648
1999-2000	647,648	196,726	7,376	836,998
2000-2001	836,998	221,167	13,893	1,044,272
2001-2002	1,044,272	240,045	31,356	1,252,961
2002-2003	1,252,961	245,004	38,092	1,459,873
2003-2004	1,459,873	184,210	63,301	1,580,782
2004-2005	1,580,782	160,632	94,773	1,646,641
2005-2006	1,646,641	94,491	82,115	1,659,017
2006-2007	1,659,017	97,791	114,499	1,642,309
2007-2008	1,642,309	82,005	123,631	1,600,683
2008-2009	1,600,683	64,083	121,806	1,542,960
2009-2010	1,542,960	49,857	125,576	1,467,241
2010-2011	1,467,241	4,273	177,850	1,293,664
2011-2012	1,293,664	0	120,402	1,173,262
2012-2013	1,173,262	0	137,408	1,035,854

*Enrollment year is defined as August 1 through July 31.

New Contracts by Year

The following exhibit summarizes contract purchase activity by enrollment year.

Enrollment Year*	Cumulative Contracts at Beginning of Enrollment year	Net Change in Number of Contracts	Cumulative Contracts at End of Enrollment year
1996-1997	0	675	675
1997-1998	675	2,685	3,360
1998-1999	3,360	1,581	4,941
1999-2000	4,941	1,119	6,060
2000-2001	6,060	849	6,909
2001-2002	6,909	808	7,717
2002-2003	7,717	566	8,283
2003-2004	8,283	398	8,681
2004-2005	8,681	298	8,979
2005-2006	8,979	199	9,178
2006-2007	9,178	224	9,402
2007-2008	9,402	265	9,667
2008-2009	9,667	212	9,879
2009-2010	9,879	99	9,978
2010-2011	9,978	(2,130)	7,484
2011-2012	7,484	(721)	6,763
2012-2013	6,763	(389)	6,374

*Enrollment year is defined as August 1 through July 31.

Units Outstanding by Age Group

The following exhibit summarizes units outstanding as of the valuation date grouped by age range.

Age Range	Units Outstanding	Percent of Total
0	0	0.00%
1	0	0.00%
2	50	0.00%
3	973	0.09%
4	1,646	0.16%
5	6,858	0.66%
6	8,479	0.82%
7	9,716	0.94%
8	13,587	1.31%
9	12,614	1.22%
10	22,621	2.18%
11	28,959	2.80%
12	34,709	3.35%
13	46,540	4.49%
14	60,223	5.81%
15	79,151	7.64%
16	88,787	8.57%
17	99,664	9.62%
18	101,876	9.84%
19	98,373	9.50%
20	78,845	7.61%
21	57,846	5.58%
22	40,490	3.91%
23	29,635	2.86%
24	32,838	3.17%
25	16,643	1.61%
26	18,457	1.78%
27	12,002	1.16%
28	9,662	0.93%
29	4,556	0.44%
over 30	20,053	1.94%

BENEFICIARY DATA

Unit Purchases by Age

The following exhibit may be helpful in analyzing the demographic composition of BEST beneficiaries. A breakdown of unit purchases for last four enrollment years is shown, along with a breakdown of units outstanding as of September 30, 2013. Note that the 2009-2010 plan year was the last complete plan year in which new units were sold.

Age Last Birthday at End of Enrollment Year	2006-07		2007-08		2008-09		2009-10*		Total at 9/30/2013	
	Units Purchases	Percent of Total	Units Outstanding	Percent of Total						
0	702	0.72%	287	0.35%	301	0.47%	1,027	2.06%	0	0.00%
1	4,519	4.62%	1,693	2.06%	2,180	3.40%	2,520	5.05%	0	0.00%
2	2,671	2.73%	2,254	2.75%	1,705	2.66%	2,698	5.41%	50	0.00%
3	1,734	1.77%	2,106	2.57%	1,801	2.81%	755	1.51%	973	0.09%
4	2,250	2.30%	2,936	3.58%	2,292	3.58%	1,685	3.38%	1,646	0.16%
5	3,201	3.27%	2,012	2.45%	1,738	2.71%	866	1.74%	6,858	0.66%
6	3,184	3.26%	2,077	2.53%	2,591	4.04%	989	1.98%	8,479	0.82%
7	4,477	4.58%	3,545	4.32%	2,352	3.67%	2,135	4.28%	9,716	0.94%
8	5,967	6.10%	5,612	6.84%	1,971	3.08%	1,423	2.85%	13,587	1.31%
9	4,461	4.56%	4,949	6.04%	3,415	5.33%	2,258	4.53%	12,614	1.22%
10	5,846	5.98%	4,953	6.04%	2,242	3.50%	3,021	6.06%	22,621	2.18%
11	6,818	6.97%	5,007	6.11%	4,989	7.78%	2,679	5.37%	28,959	2.80%
12	4,600	4.70%	7,215	8.80%	4,933	7.70%	4,130	8.28%	34,709	3.35%
13	6,536	6.68%	4,299	5.24%	4,257	6.64%	3,367	6.75%	46,540	4.49%
14	5,305	5.43%	4,302	5.25%	3,916	6.11%	3,197	6.41%	60,223	5.81%
15	5,280	5.40%	5,584	6.81%	4,019	6.27%	2,974	5.97%	79,151	7.64%
16	5,950	6.08%	6,275	7.65%	4,886	7.62%	4,590	9.21%	88,787	8.57%
17	6,290	6.43%	4,020	4.90%	3,191	4.98%	2,838	5.69%	99,664	9.62%
18	4,735	4.84%	4,433	5.41%	4,154	6.48%	2,168	4.35%	101,876	9.84%
19	4,544	4.65%	3,043	3.71%	3,037	4.74%	1,733	3.48%	98,373	9.50%
over 20	8,718	8.92%	5,404	6.59%	4,112	6.42%	2,805	5.63%	321,027	30.99%
Total	97,791	100.00%	82,005	100.00%	64,083	100.00%	49,857	100.00%	1,035,854	100.00%

* The 2009-2010 plan year was the last complete year that the plan was open to the purchase of additional units.

Document #2

BEST**FY 2012-13 Expenditures**

as of June 30, 2013 (including Period 992)

Account Codes	Description	FY 2012-13 Budgeted Expenditures	Actual Expenditures	Remaining Balance
70100001	Reg Hours Worked	44,576.00	84,046.67	(39,470.67)
70100003	Comp Leave Used Holiday			-
70100005	Compensatory Leave			-
70101001	Part-Time Salaries & Wages		21,213.81	(21,213.81)
70102001	Longevity	1,200.00	1,300.00	(100.00)
70102002	Bonus Salaries & Wages			-
70103001	Suggestion Awards			-
70103004	Incentive Pay			-
70103008	Grants & Contracts			-
70104001	Regular Overtime			-
70104002	Premium Overtime			-
70105001	Annual Leave			-
70106001	Sick Leave			-
70107001	Holiday Special with Pay			-
70108002	Adm Beveravement Leave with Pay			-
70108003	Admin Leave with Pay			-
70108012	Civil Leave			-
70199000	Intradepartment Salary Distribution		(35,656.67)	35,656.67
	Payroll	45,776.00	70,903.81	\$ (25,127.81)
70200000	Retirement		12,827.63	(12,827.63)
70201000	FICA		6,265.99	(6,265.99)
70202001	Group Life Insurance		135.84	(135.84)
70202002	Health Insurance		18,240.04	(18,240.04)
70203000	Unemployment Compensation			
70204000	Medical FICA		1,465.43	(1,465.43)
70205000	Sick Bank Donations			
70206000	401K Match		800.00	(800.00)
70299000	Intradepartment Benefit Distribution	17,386.00	(14,690.97)	32,076.97
	Benefits	17,386.00	25,043.96	\$ (7,657.96)
	Total Payroll and Benefits	63,162.00	95,947.77	\$ (32,785.77)
70300000	In-State Mileage		128.78	(128.78)
70301000	In-State Airfare		(368.20)	
70302000	In-State Meals		279.00	(279.00)
70303000	In-State Lodging		434.00	(434.00)
70304000	Daily Per Diem Costs			-
70308000	Moving Charges			-
70309000	In-State Other	2,000.00	154.92	1,845.08
70310000	Out-of-State Airplane		368.20	(368.20)
70311000	Out-of-State Other	2,000.00	13.70	1,986.30
70312000	Out of State Meals		-	-
70313000	Out-of-State Mileage		-	-
70314000	Out of State Lodging		-	-
	Travel	4,000.00	1,010.40	\$ 2,621.40
70401000	Printing by Vendors	2,000.00		2,000.00
70403000	Photo & Film Processing			-
70499000	Other			-
	Printing, Duplicating & Film Processing	2,000.00	-	\$ 2,000.00

70600000	Telecommunications			-
70601000	Postal Charges	3,900.00	3,678.68	221.32
70602000	Freight & Express Charges		233.34	(233.34)
70603000	Pagers			-
70606000	Internet access fees		9.95	(9.95)
	Communications and Shipping Costs	3,900.00	3,921.97	\$ (21.97)
70701000	Maintenance of Equip-Non-State			-
70711000	Laundry and Linen Services			-
70712000	Security Services			-
70799000	Other	400.00		400.00
	Maint, Repairs and Services Performed by Others	400.00	-	\$ 400.00
		FY 2012-13		
Account Codes	Description	Budgeted Expenditures	Actual Expenditures	Remaining Balance
70802000	Document Destruction Serv			-
70803000	Gen Business Consulting Serv	34,500.00	(1,779.16)	36,279.16
70804000	Medical Services			-
70805000	Attorney Fees			-
70806000	Advertising Services			-
70807000	Membership Dues	500.00	2,100.00	(1,600.00)
70808000	Publications Subscriptions	500.00		500.00
70811000	Interpreting Services			-
70814000	Travel by Third Party Vendors			-
70816000	Other Legal Services		11.65	(11.65)
70899000	Other			-
70899007	Other Prof Serv-Photographer, Lab			-
	Third Party Professional & Administrative Services	35,500.00	332.49	\$ 35,167.51
70900000	Office Supplies	500.00	538.40	(38.40)
70901000	Training Supplies			-
70903000	Food & Beverages			-
70904000	Janitorial & Maintenance Supplies			-
70905000	Operational Supplies		812.90	(812.90)
70915000	Law Enforcement Supplies			-
70916000	Books			-
70999000	Sensitive Minor Equipment			-
	Supplies and Office Furniture	500.00	1,351.30	\$ (851.30)
71001000	Rent or Lease Bldg Property St.			-
71004000	Rent or Lease of Equipment		128.33	(128.33)
71008000	Rent/Lease Reproduction Equip		269.04	(269.04)
	Rental and Insurance	-	397.37	(397.37)
71201000	Awards to Employees			-
71202000	Miscellaneous Awards			-
	Awards and Indemnities	-	-	-
71300000	Grants & Subsidies to Other State Ag			-
71304000	Grants & Subsidies 501 (c)3 org			-
	Grants & Subsidies	-	-	\$ -
71400000	Unclassified			-
	Unclassified	-	-	\$ -
71600000	Computer Equipment			-
71604000	Pho/Duplicating/Print Equipment			-

71620000	Computer Software			-
	Equipment	-	-	\$ -
72101000	In-Service Training			-
72102000	Out-Service Training	700.00		700.00
	Training of State Employees	700.00	-	\$ 700.00
72200000	Maint of Data Processing Equip			-
72201000	Data Processing Supplies		870.39	(870.39)
72203000	Data Processing by Non-State		137.26	(137.26)
72299000	Sensitive Minor Computers		1,244.44	(1,244.44)
	Computer Related Items	-	2,252.09	\$ (2,252.09)
72500000	Data Processing Services		1.80	(1.80)
72502000	Statewide Accounting Billing			
72503000	Telephone Billing	2,200.00	17,857.61	(15,657.61)
72504000	Payroll Billing	100.00		100.00
72507000	Records Management Billing			-
72509000	General Services Purchasing Billing			-
72510000	SEIS & Merit Billing			-
72512000	Attorney General Billings			-
72513000	SOS Admin Judges Billing			-
72516000	Agency Internal Admin Costs	3,000.00		3,000.00
72517000	Agency Internal Systems Costs			-
72520000	Printing by State Agencies		410.66	(410.66)
72521000	Maint & Svc of Building by State Agencies			
72523000	Rent or Lease of Building	5,500.00	5,643.86	(143.86)
72525000	MV Maint & Operational Supply			-
72526000	Insurance Premiums to Other State Agencies			-
72527000	State-Owned Vehicle Mileage			-
72528000	Edison Billing	2,505.00		2,505.00
72529000	Wellness Billing		26.59	(26.59)
72599000	Other			-
77906000	Flex Medical Reimbursement			-
	Professional Services Provided by Other State Agencies	13,305.00	23,940.52	(10,635.52)
Total Other than Personal Services		60,305.00	33,206.14	\$ 26,730.66
Total Expenditures		123,467.00	129,153.91	\$ (6,055.11)

BEST

**FY 2013-14 Expenditures
as of April 30, 2014**

Account Codes	Description	FY 2013-14 Budgeted Expenditures	Actual Expenditures	Remaining Balance
70100001	Reg Hours Worked	46,925.00	73,173.08	(26,248.08)
70100003	Comp Leave Used Holiday			-
70100005	Compensatory Leave			-
70101001	Part-Time Salaries & Wages		3,498.15	(3,498.15)
70102001	Longevity	1,400.00	1,500.00	(100.00)
70102002	Bonus Salaries & Wages			-
70103001	Suggestion Awards			-
70103004	Incentive Pay			-
70103008	Grants & Contracts			-
70104001	Regular Overtime		190.68	(190.68)
70104002	Premium Overtime		36.15	(36.15)
70105001	Annual Leave			-
70106001	Sick Leave			-
70107001	Holiday Special with Pay			-
70108002	Adm Beveravement Leave with Pay			-
70108003	Admin Leave with Pay			-
70108012	Civil Leave			-
70199000	Intradepartment Salary Distribution		(4,707.00)	4,707.00
	Payroll	48,325.00	73,691.06	\$ (25,366.06)
70200000	Retirement		11,194.78	(11,194.78)
70201000	FICA		4,523.14	(4,523.14)
70202001	Group Life Insurance		110.31	(110.31)
70202002	Health Insurance		19,770.44	(19,770.44)
70203000	Unemployment Compensation			-
70204000	Medical FICA		1,057.81	(1,057.81)
70205000	Sick Bank Donations			-
70206000	401K Match		500.00	(500.00)
70299000	Intradepartment Benefit Distribution	18,296.00	(2,676.06)	20,972.06
	Benefits	18,296.00	34,480.42	\$ (16,184.42)
Total Payroll and Benefits		66,621.00	108,171.48	\$ (41,550.48)
70300000	In-State Mileage		1,118.60	(1,118.60)
70301000	In-State Airfare			-
70302000	In-State Meals		484.00	(484.00)
70303000	In-State Lodging		842.49	(842.49)
70304000	Daily Per Diem Costs			-
70308000	Moving Charges			-
70309000	In-State Other	2,000.00	101.81	1,898.19
70310000	Out-of-State Airplane			-
70311000	Out-of-State Other	2,000.00		2,000.00
70312000	Out of State Meals			-
70313000	Out-of-State Mileage			-
70314000	Out of State Lodging			-
	Travel	4,000.00	2,546.90	\$ 1,453.10
70401000	Printing by Vendors	2,000.00		2,000.00

71201000	Awards to Employees			-
71202000	Miscellaneous Awards			-
	Awards and Indemnities	-	-	-
71300000	Grants & Subsidies to Other State Ag			-
71304000	Grants & Subsidies 501 (c)3 org			-
	Grants & Subsidies	-	-	\$ -
71400000	Unclassified			-
	Unclassified	-	-	\$ -
71600000	Computer Equipment			-
71604000	Pho/Duplicating/Print Equipment			-
71620000	Computer Software			-
	Equipment	-	-	\$ -
72101000	In-Service Training			-
72102000	Out-Service Training	700.00		700.00
	Training of State Employees	700.00	-	\$ 700.00
72200000	Maint of Data Processing Equip			-
72201000	Data Processing Supplies		367.88	(367.88)
72203000	Data Processing by Non-State			-
72299000	Sensitive Minor Computers			-
	Computer Related Items	-	367.88	\$ (367.88)
72500000	Data Processing Services		1.78	(1.78)
72502000	Statewide Accounting Billing			
72503000	Telephone Billing	2,200.00	6,011.37	(3,811.37)
72504000	Payroll Billing	100.00		100.00
72507000	Records Management Billing	-		-
72509000	General Services Purchasing Billing	-		-
72510000	SEIS & Merit Billing	-		-
72512000	Attorney General Billings	-		-
72513000	SOS Admin Judges Billing	-		-
72516000	Agency Internal Admin Costs	3,000.00		3,000.00
72517000	Agency Internal Systems Costs	-		-
72520000	Printing by State Agencies	-	11,320.68	(11,320.68)
72521000	Maint & Svc of Building by State Agencies	-		-
72523000	Rent or Lease of Building	4,413.00	9,030.00	(4,617.00)
72525000	MV Maint & Operational Supply			-
72526000	Insurance Premiums to Other State Agencies			-
72527000	State-Owned Vehicle Mileage			-
72528000	Edison Billing			-
72529000	Wellness Billing			-
72599000	Other			-
77906000	Flex Medical Reimbursement			-
	Professional Services Provided by Other State Agenc	9,713.00	26,363.83	(16,650.83)
Total Other than Personal Services		56,713.00	72,376.52	\$ (15,663.52)
Total Expenditures		123,334.00	180,548.00	\$ (57,214.00)

Document #3

TN STARS 529 College Savings Plan

	July Through				
	FY 12-13	June	FY 12-13	FY 12-13	FY 13-14
	BUDGET	ACTUALS	Actual & Projected Total	Budget less Actual & Projected	BUDGET

Revenues

Fees	125,100	-	-	(125,100)	125,100
Base Recurring	416,400	416,400	416,400	-	625,600
Cost Increase - non-recurring	1,735,800	1,735,800	1,735,800		1,000,000
Carry forward	944,500	944,500	944,500	-	993,711
Total Budget	\$ 3,221,800	\$ 3,096,700	\$ 3,096,700	\$ (125,100)	\$ 2,744,411

Projected Expenditures

Envision/Record Keeping	130,980	144,825	144,825	(13,845)	400,000
Investment Products	7,500	-	-	7,500	50,000
Insurance Policy	50,000	47,787	47,787	2,213	47,787
Great West/Trans. Agent	4,500	-	-	4,500	30,000
Incentives	750,000	203,300	203,300	546,700	750,000
Accounting Consultant	90,000	177,000	177,000	(87,000)	80,000
529 Consultant	24,666	21,750	21,750	2,916	30,000
Marketing	1,100,000	1,164,446	1,164,446	(64,446)	721,000
Total Projected Expenses	\$ 2,157,646	\$ 1,759,108	\$ 1,759,108	\$ 398,538	\$ 2,108,787

Direct Costs:

Salary and Benefits	118,000	87,670	87,670	30,330	130,000
Rent	18,000	28,339	28,339	(10,339)	30,000
Communication and Shipping	12,300	5,082	5,082	7,218	3,000
Supplies	1,950	1,814	1,814	136	3,000
Computer Related	800	1,690	1,690	(890)	3,000
Printing	5,600	5,442	5,442	158	8,000
Membership Dues	2,100	2,100	2,100	-	3,000
Telephone/Network Print	7,500	8,913	8,913	(1,413)	5,000
Travel	2,500	3,593	3,593	(1,093)	3,000
Training	700	2,248	2,248	(1,548)	3,000
Edison	2,550	-	-	2,550	3,000
Total Direct Costs	\$ 172,000	\$ 146,890	\$ 146,890	\$ 25,110	\$ 194,000

Indirect Costs:

Treasurer's Office	18,938	18,042	18,042	896	22,000
Management Services	25,312	25,604	25,604	(292)	30,000
Internal Audit	22,407	18,636	18,636	3,771	25,000
Legal and Compliance	34,572	39,511	39,511	(4,939)	40,000
Accounting	53,669	51,612	51,612	2,057	57,000
Information Systems	44,565	41,927	41,927	2,638	50,000
Disaster and Recovery	537	1,659	1,659	(1,122)	1,000
Total Indirect Costs	\$ 200,000	\$ 196,991	\$ 196,991	\$ 3,009	\$ 225,000

Total Expenditures \$ 2,529,646 \$ 2,102,989 \$ 2,102,989 \$ 426,657 \$ 2,527,787

Carry Forward \$ 692,154 \$ 993,711 \$ 993,711 \$ 216,624

TN STARS 529 College Savings Plan

April 2014	FY 2013-14 BUDGET	FY 2013-14 ACTUALS	FY 2013-14 Projected Remaining	FY 2013-14 Actual & Projected	FY 2014-15 BUDGET
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Revenues

Fees	125,100	11,674	4,500	16,174	27,000
Base Recurring	625,600	625,600	-	625,600	1,130,000
Cost Increase - non-recurring	1,000,000	1,000,000	-	1,000,000	500,000
Carry forward	993,711	993,711	-	993,711	750,000
Total Budget	\$ 2,744,411	\$ 2,630,985	\$ -	\$ 2,630,985	\$ 2,407,000

Non-Recurring Expenditures

Program Expenditures

Incentives	750,000	233,625	45,000	278,625	700,000
Marketing	721,000	599,111	121,889	721,000	700,000
	\$ 1,471,000	\$ 832,736	\$ 166,889	\$ 999,625	\$ 1,400,000

Recurring Expenditures

Program Expenditures

Record Keeping	400,000	73,725	59,038	132,763	175,000
Investment Products	50,000		7,000	7,000	10,000
Insurance Policy	47,787	44,464	-	44,464	50,000
Great West/Trans. Agent	30,000	2,074	2,926	5,000	15,000
Accounting Consultant	80,000	59,000		59,000	5,000
529 Consultant	30,000	8,863	3,137	12,000	30,000
Total Projected Expenditures	\$ 637,787	\$ 188,127	\$ 72,101	\$ 260,228	\$ 285,000

Administrative Expenditures

Salary and Benefits	100,000	188,978	45,000	233,978	250,000
Rent	28,000	9,030	2,000	11,030	12,000
Postage	5,000	11,276	1,000	12,276	12,000
Supplies	3,000	2,884	1,000	3,884	2,000
Computer Related	3,000	653	1,000	1,653	2,000
Printing	18,000	9,088	1,000	10,088	12,000
Membership Dues	3,000	4,300	-	4,300	5,000
Telephone/Network Print	9,000	1,659	1,000	2,659	3,000
Travel	5,000	4,838	2,000	6,838	5,000
Training	3,000	5,675	500	6,175	5,000
Third Party - Advertising		670	-	670	
Edison	2,000		-	-	-
Total Administrative Expenditures	\$ 179,000	\$ 239,051	\$ 54,500	\$ 293,551	\$ 308,000

Indirect Costs: \$ 298,000 \$ 284,570 \$ 80,000 \$ 364,570 \$ 350,000

Total Expenditures \$ 2,585,787 \$ 1,544,484 \$ 373,490 \$ 1,917,974 \$ 2,343,000

Carry Forward \$ 158,624 \$ 1,086,501 \$ (373,490) \$ 713,011 \$ 64,000

Document #4

Conflict of Interest Policy

Board of Trustees of the Baccalaureate Education System Trust Fund Program

1. Purpose: The purpose of the policy is to identify, evaluate and disclose any actual or potential conflicts of interest that a member of the Board of Trustees of the Baccalaureate Education System Trust Fund Program ("Board") may have in serving on the Board

2. Definitions:

2.1 "Board Member" means an individual appointed to the Board pursuant to Tenn. Code Ann. §49-7-804.

2.2 "Conflict of Interest" means a material interest that may affect or may appear likely to affect a Board Member's judgment or conduct while serving on the Board. A conflict of interest is material if an ordinary person would take it into account in making a decision.

3. Requirements:

3.1 Each Board Member shall avoid any action, whether or not specifically prohibited by statute or regulation, which might result in or create the appearance of:

- a. Using public office for private gain;
- b. Giving preferential treatment to any person;
- c. Impeding government efficiency or economy;
- d. Losing complete independence or impartiality;
- e. Making a government decision outside of official channels; or
- f. Affecting adversely the confidence of the public in the integrity of the government.

3.2 A Board Member shall not have a personal interest in the gains or profits of any investment made by the Board involving the Baccalaureate Education System Trust Fund ("Trust Fund"). See Tenn. Code Ann. §49-7-817.

3.3 A Board Member shall not directly or indirectly use the gains or profits of any investment made by the Board, except to make any current and necessary payments authorized by the Board. See Tenn. Code Ann. §49-7-817.

3.4 A Board Member shall not become an endorser or surety or in any manner an obligor for money loaned or borrowed from the Board. See Tenn. Code Ann. §49-7-817.

3.5 A Board Member or a member of his or her immediate family residing in the same household shall not receive salary payment, unreasonable expense reimbursements, loans, gifts, free services or any other fees from an entity that has, or is seeking to obtain contractual or other business or financial relationship with the Board.

3.6 A Board Member or a member of his or her immediate family residing in the same household shall not hold office with, serve on a Board with, participate in management of, or be employed by an entity with which the Board has invested Trust Funds.

3.7 A Board Member shall not participate directly or indirectly in any decision relative to Board business which has resulted in or can result in a personal, professional or financial benefit or gain for the Board Member or a member of his or her immediate family residing in the same household; however, should a Board Member, or a member of his or her immediate family residing in the same household, participate in a college savings account administered by the Board, that participation shall not result in a violation of this provision.

3.8 A Board Member or a member of his or her immediate family residing in the same household shall not receive remuneration for services with respect to individual transactions associated with an entity with which the Board has invested Trust Funds.

3.9 A Board Member or a member of his or her immediate family residing in the same household shall not use State personnel, equipment, supplies, facilities

or property for purposes not related to the Board member's service on the Board.

3.10 A Board Member or a member of his or her immediate family residing in the same household shall not appropriate, to his or her personal benefit, any business or other opportunities relating to an entity with which the Board has invested Trust Funds.

3.11 A Board Member or a member of his or her immediate family residing in the same household shall not use confidential information obtained through or in connection with the Board appointment for personal, professional or financial gain or to compete with the entity with which the Board has invested Trust Funds.

4. Procedures:

4.1 Each Board Member shall disclose all actual and potential conflicts of interest on an annual disclosure form and promptly thereafter whenever an actual or potential conflict of interest has been identified.

4.2 A Board Member shall not vote on a matter or participate in discussion on a matter should there be a conflict of interest as defined in Section 2.2 of this policy.

4.4 On an annual basis, each Board Member shall be provided with a copy of this policy and required to complete and sign an acknowledgement of the policy along with an annual disclosure form

4.5 In the event that a Board member has a question about this policy, he or she should contact the Department's Assistant Treasurer for Legal, Compliance and Audit. The Assistant Treasurer for Legal, Compliance and Audit for the Department shall be responsible for compliance oversight with respect to applicable laws and rules relative to a Board Member conflict of interest

To the extent that a Board member has a designee, this policy shall also apply to the designee.

Board Member

Date