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APPLICATION  
**COVERDELL EDUCATION  
SAVINGS ACCOUNT  
ESA**



# **COVERDELL EDUCATION SAVINGS ACCOUNT (ESA) APPLICATION INSTRUCTIONS:**

## **Step 1: Complete your ESA Application**

To complete the Application, you are required to provide the following:

- Personal Information
- Beneficiary Information
- Responsible Individual Information
- ESA Information
- Investment Information
- Dealer or Advisor Information, if any

**NOTE:** *This document is not designed to be used by a nonspouse beneficiary who has inherited IRA assets from a deceased IRA holder and wishes to establish an IRA for those assets. Please contact the Investment Company for forms to be used for that purpose.*

**NOTE: Important Information About Procedures For Opening a New Account** – *To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial organizations to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, you are required to provide your name, residential address, date of birth, and identification number. We may require other information that will allow us to identify you.*

## **Step 2: Sign and date your ESA Application**

## **Step 3: Complete the Transfer Request Form (if applicable)\***

If you are requesting a transfer of assets from an existing ESA, please complete the Transfer Request Form along with Your ESA Application.

## **Step 4: Send your ESA Application to the Investment Company**

Detach and send the original ESA Application and the Transfer Request Form (if applicable), along with your contribution check(s) made payable to the Investment Company:

Crossmark Steward Funds  
P.O. BOX 183004  
Columbus, Ohio 43218-3004  
1-800-695-3208  
IRA Fee: \$12 per account

## **Step 5: Retain documents for your records**

Keep a copy of the Application with the 5305-EA Plan Agreement, Disclosure Statement, and fund's prospectus (provided separately) for your records.

### **\*Special Information Regarding Transfers:**

When you move assets in your ESA from one financial organization to another **without** taking control of those assets, the movement is called a **TRANSFER**. There is no federal income tax withheld from transfer assets—and there is no limit on the number of transfers you can do each year.

To facilitate a transfer, simply complete the Application along with the Transfer Request Form and send to the Investment Company at the address above.

The Custodian or its agents will deliver the Transfer Request Form to your current financial organization, which will in turn send your transfer assets to fund this ESA. The Transfer Request Form may require a signature guarantee.

**ESA APPLICATION (PLEASE PRINT)**

**Investment Company Information:**

Name \_\_\_\_\_  
Address \_\_\_\_\_ P.O. Box 183004  
City\State\ZIP \_\_\_\_\_ Columbus, OH 43218-3004

**Personal Information (The information contained in this section is required to establish your ESA):**

Name \_\_\_\_\_

Street Address \_\_\_\_\_

Mailing Address (if different from above) \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

Please give us a daytime telephone number where we can reach you \_\_\_\_\_ Date of Birth \_\_\_\_\_

Are you a citizen of the United States? \_\_\_\_\_

If yes, what is your State of residence? \_\_\_\_\_

If no, what is your country of residence? \_\_\_\_\_

**Identification Number (please check and complete one):**

Social Security Number \_\_\_\_\_

Taxpayer Identification Number \_\_\_\_\_

**Designated Beneficiary Information:**

Name \_\_\_\_\_ Social Security Number \_\_\_\_\_

Address \_\_\_\_\_ Date of Birth \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

Telephone \_\_\_\_\_

**Responsible Individual Information:**

Name \_\_\_\_\_ Social Security Number \_\_\_\_\_

Address \_\_\_\_\_ Date of Birth \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

Telephone \_\_\_\_\_

Answer "Yes" or "No" to each of the following questions by checking the appropriate box. If a box is not checked for a question, the answer will be deemed to be "No".

Yes  No The Responsible Individual may change the beneficiary designated under this agreement to another member of the Designated Beneficiary's family described in Section 529(e)(2) in accordance with the Custodian's procedures.

Yes  No The Responsible Individual shall continue to serve as the Responsible Individual for the custodial account after the Designated Beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the custodial account and the custodial account terminates. If the Responsible Individual become incapacitated or dies after the Designated Beneficiary reaches the age of majority under state law, the Responsible Individual shall be the Designated Beneficiary.

**Successor Responsible Individual Information:**

Name \_\_\_\_\_ Social Security Number \_\_\_\_\_

Address \_\_\_\_\_ Date of Birth \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

Telephone \_\_\_\_\_

**ESA Information:**

The enclosed contribution(s) is (are):

Annual contribution for tax year \_\_\_\_\_ \$ \_\_\_\_\_

Transfer from an ESA \_\_\_\_\_

Rollover from an ESA \_\_\_\_\_

Total enclosed \$ \_\_\_\_\_

**Investment Information:**

I would like to have the enclosed contribution(s) invested as follows:

\*Please mark the box for the appropriate share class, if none is indicated Class A will be used.

**Crossmark Steward Funds**

**Share Class**

	Class A	Institutional	Amount
<input type="checkbox"/> Crossmark Steward Large Cap Enhanced Index Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward Small-Mid Cap Enhanced Index Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward Global Equity Income Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward International Enhanced Index Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward Select Bond Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward Covered Call Income Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____

Total \$ \_\_\_\_\_

**TELEPHONE EXCHANGE PRIVILEGE:**

I understand that I will have telephone exchange privileges, subject to the terms and conditions provided to me, unless I decline this privilege by checking the box below. I understand that the Fund, Custodian and their agents are not responsible for losses resulting from unauthorized transactions when procedures reasonably designed to verify caller identify are followed. I agree to hold the Fund, Custodian and their agents harmless for any loss, claim or liability for the execution of telephonic instructions. Telephone calls may be recorded for quality assurance purposes and accuracy.

I do NOT want the telephonic exchange privilege to be available for this ESA.

**Dealer or Advisor Designation (If you do not have a Dealer or Advisor assisting you with this transaction, please leave this section blank):**

By this designation, I hereby authorize the Fund, Custodian and their agents to accept instructions from and transmit information to the Dealer or Advisor listed below:

Firm Name \_\_\_\_\_ Firm Number \_\_\_\_\_  
 Representative Name \_\_\_\_\_ Telephone \_\_\_\_\_ Rep. Number \_\_\_\_\_  
 Branch Address \_\_\_\_\_ Branch Number \_\_\_\_\_

**Death Beneficiary Designation:**

The following individual(s) or entity(ies) shall be my primary and/or contingent beneficiary(ies). If more than one primary death beneficiary is designated and no distribution percentage is indicated, the death beneficiaries will be deemed to own equal percentages of this ESA. Multiple contingent death beneficiaries with no distributions percentage indicated will also be deemed to share equally. If any primary or contingent death beneficiary dies before the designated beneficiary, his or her interest and the interest of his or her heirs shall terminate completely, and the percentage share of any remaining death beneficiary(ies) shall be increased on a pro rata basis.

In the event of the designated beneficiary's death, pay the balance of this ESA to the following PRIMARY death beneficiary(ies):

Beneficiary	Address / City, State, Zip	SSN or TIN	Date of Birth	Relationship	Share %
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
				Total	<u>100%</u>

If all of my primary beneficiaries die before the designated beneficiary, pay the balance of this ESA to the following CONTINGENT death beneficiary(ies):

_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
				Total	<u>100%</u>

**Signature (please read before signing):**

**The signature of the Responsible Individual should be obtained if someone other than the Depositor will be the Responsible Individual.**

I understand the eligibility requirements for the type of ESA deposit I am making and I state that I do qualify to make the deposit. I have received a copy of this Application, 5305-EA Plan Agreement, and Disclosure Statement. I understand that the terms and conditions which apply to this Coverdell Education Savings Account are contained in this Application and the 5305-EA Plan Agreement. I agree to be bound by those terms and conditions.

I assume complete responsibility for:

1. Certifying that I am qualified to assume the responsibilities of the Responsible Individual as set forth in this agreement, if I am designated on this Application as the Responsible Individual.
2. Managing and administering the account and authorizing transactions involving contributions and distributions, if I am designated on this Application as the Responsible Individual.

I certify that I have received and read the current Prospectus for the investments indicated above and I understand that shares of mutual funds are not obligations of or guaranteed by any bank and are not insured by the FDIC. I understand that the value of shares of mutual funds will fluctuate and may lose value. I understand that I will be charged an annual fee for this ESA.

I further certify under penalty of perjury that the social security number indicated in this application is correct and that I am of legal age in my state of residence. I understand that any tax year designation and rollover elections made by me in this application are irrevocable.

I assume complete responsibility for determining that I am eligible for a ESA each year that I make a contribution, ensuring that all contributions I make are within limits set forth by the tax laws, and the tax consequences of any contribution (including rollover contributions) and distributions.

ESA Holder \_\_\_\_\_ Date \_\_\_\_\_  
 ESA Responsible Individual \_\_\_\_\_ Date \_\_\_\_\_  
 Authorized Signature of Custodian \_\_\_\_\_ Date \_\_\_\_\_  
 Custodian Name \_\_\_\_\_  
 Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

# TRANSFER REQUEST FORM (PLEASE PRINT)

## Designated Beneficiary Information (transferring ESA):

Name \_\_\_\_\_ Social Security Number \_\_\_\_\_

Address \_\_\_\_\_ Date of Birth \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

Please give us a daytime telephone number where we can reach you \_\_\_\_\_

## Transfer Information:

Current Custodian or Trustee \_\_\_\_\_ Account Number \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

*This form should only be used when ESA assets are being moved directly from financial institution to financial institution. Thus, as noted below, the check will be made payable directly to the receiving ESA Trustee or Custodian. Transfer of ESA assets is a reportable transaction to the IRS.*

**NOTE:** *IRS 1099-Q instructions require that in a transfer between ESAs, the distributing ESA Trustee or Custodian must provide the receiving ESA Trustee or Custodian with a statement reporting the earnings portion of the distribution within 30 days of the distribution or January 10, whichever is earlier.*

## Asset Liquidation Instructions:

Account Number	Amount in ESA	Amount to be Moved
_____	_____	_____
_____	_____	_____
_____	_____	_____

Please make a check payable as follows: " \_\_\_\_\_ (Custodian name), as Custodian,

FBO \_\_\_\_\_ (ESA Designated Beneficiary name), \_\_\_\_\_ (Investment Company name) ESA".

Mail the check to: Crossmark Steward Funds, P.O. Box 183004, Columbus, OH 43218-3004

## Investment Information:

I would like to have the enclosed contribution(s) invested as follows:

\*Please mark the box for the appropriate share class, if none is indicated Class A will be used.

Crossmark Steward Funds	Share Class		Amount
	Class A	Institutional	
<input type="checkbox"/> Crossmark Steward Large Cap Enhanced Index Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward Small-Mid Cap Enhanced Index Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward Global Equity Income Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward International Enhanced Index Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward Select Bond Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
<input type="checkbox"/> Crossmark Steward Covered Call Income Fund	<input type="checkbox"/>	<input type="checkbox"/>	\$ _____
			Total \$ _____

**RESPONSIBLE INDIVIDUAL SIGNATURE, ELECTION AND CERTIFICATION:**

I authorize the movement of the assets in the manner described above and certify that all of the information provided by me is correct and may be relied upon by the Custodian or Trustee. I understand that I am responsible for determining my eligibility to transfer within the limits set forth by tax laws, related regulations and plan agreements. I assume responsibility for any tax consequences or penalties that may apply to the transfer.

Signed \_\_\_\_\_ Date \_\_\_\_\_

Signature Guarantee, if applicable \_\_\_\_\_ Date \_\_\_\_\_

**Note:** *Please check with your current Custodian or Trustee to determine if signature guarantee is required to complete this transaction.*

**Accepting ESA Custodian:**

The ESA designated by the above named individual is a valid ESA. The Custodian, as identified in the ESA Application hereby agrees to serve as the Custodian for the account of the above-named individual, and in that capacity, agrees to accept the transfer of the assets listed above.

Authorized Signature of Custodian \_\_\_\_\_ Date \_\_\_\_\_

# **COVERDELL ESA CUSTODIAL ACCOUNT AGREEMENT**

This Custodial Agreement ("Agreement") applies to Coverdell Education Savings Accounts ("ESAs").

## **Part One: Provisions applicable only to Coverdell Education Savings Accounts**

*Section references are to the Internal Revenue Code unless otherwise noted.*

The following provisions of Articles I to IX are in the form promulgated by the Internal Revenue Service ("IRS") in Form 5305-EA (Rev. March 2002) for use in establishing a Coverdell Education Savings Account that meets the requirements of Section 530 of the Internal Revenue Code of 1986, as amended ("Code").

By executing the Coverdell Education Savings Account Application (the "Application") with UMB Bank as custodian ("Custodian"), the Depositor whose name appears on the Application is establishing a Coverdell Education Savings Custodial Account ("ESA") under section 530, for the benefit of the individual named as the designated beneficiary in the Application, exclusively to pay for the qualified elementary, secondary and higher education expenses, within the meaning of Section 530(b)(2), of such designated beneficiary. The Depositor assigned to the ESA the amount set forth in the Application.

The Depositor and the Custodian make the following agreement:

### **Article I.**

The Custodian may accept additional cash contributions provided the designated beneficiary has not attained the age of 18 as of the date such contributions are made. Contributions by an individual contributor may be made for the tax year of the designated beneficiary by the due date of the beneficiary's tax return for that year (excluding extensions). Total contributions that are not rollover contributions described in section 530(d)(5) are limited to \$2,000 for the tax year. In the case of an individual contributor, the \$2,000 limitation for any year is phased out between modified adjusted gross income (AGI) of \$95,000 and \$110,000. For married individuals filing jointly, the phase-out occurs between modified AGI of \$190,000 and \$220,000. Modified AGI is defined in section 530(c)(2).

### **Article II.**

No part of the custodial account funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or a common investment fund (within the meaning of section 530(b)(1)(D)).

### **Article III.**

1. Any balance to the credit of the designated beneficiary on the date on which he or she attains age 30 shall be distributed to him or her within 30 days of such date.
2. Any balance to the credit of the designated beneficiary shall be distributed within 30 days of his or her death unless the designated death beneficiary is a family member of the designated beneficiary and is under the age of 30 on the date of death. In such case, that family member shall become the designated beneficiary as of the date of death.

### **Article IV.**

The Depositor shall have the power to direct the Custodian regarding the investment of the above-listed amount assigned to the custodial account (including earnings thereon) in the investment choices offered by the Custodian. The Responsible Individual, however, shall have the power to redirect the Custodian regarding the investment of such amounts, as well as the power to direct the Custodian regarding the investment of all additional contributions (including earnings thereon) to the custodial account. In the event that the Responsible Individual does not direct the Custodian regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the Depositor also will govern all additional contributions made to the custodial account until such time as the Responsible Individual otherwise directs the Custodian. Unless otherwise provided in this Agreement, the Responsible Individual also shall have the power to direct the Custodian regarding the administration, management, and distribution of the account.

### **Article V.**

The "Responsible Individual" named by the Depositor in the Application shall be a parent or guardian of the designated beneficiary. The custodial account shall have only one Responsible Individual at any time. If the Responsible Individual becomes incapacitated or dies while the designated beneficiary is a minor under state law, the successor Responsible Individual shall be the person named to succeed in that capacity by the preceding Responsible Individual in a witnessed writing or, if no successor is so named, the successor Responsible Individual shall be the designated beneficiary's other parent or successor guardian. Unless otherwise indicated in the Application, at the time that the designated beneficiary attains the age of majority under state law, the designated beneficiary becomes the Responsible Individual. If a family member under the age of majority under state law becomes the designated beneficiary by reason of being a named death beneficiary, the Responsible Individual shall be such designated beneficiary's parent or guardian.

If elected in the Application, the Responsible Individual shall continue to serve as the Responsible Individual for the custodial account after the designated beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the custodial account and the custodial account terminates. If the Responsible Individual becomes incapacitated or dies after the designated beneficiary reaches the age of majority under state law, the Responsible Individual shall be the designated beneficiary.

### **Article VI.**

If elected in the Application, the Responsible Individual may change the beneficiary designated under this Agreement to another member of the designated beneficiary's family described in section 529(e)(2) in accordance with the Custodian's procedures.

# COVERDELL ESA CUSTODIAL ACCOUNT AGREEMENT

## Article VII.

1. The Depositor agrees to provide the Custodian with all information necessary to prepare any reports required by section 530(h).
2. The Custodian agrees to submit to the IRS and Responsible Individual the reports prescribed by the IRS.

## Article VIII.

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III will be controlling. Any additional articles inconsistent with section 530 and the related regulations will be invalid.

## Article IX.

This Agreement will be amended as necessary to comply with the provisions of the Code and the related regulations. Other amendments may be made with the consent of the Depositor and the Custodian.

## GENERAL INSTRUCTIONS

### Purpose of Form

This agreement is modeled after IRS Form 5305-BA, which meets the requirements of section 530(b)(1) and has been pre-approved by the IRS. An ESA is established after the Agreement is fully executed by both the Depositor and the Custodian. This account must be created in the United States for the exclusive purpose of paying the qualified elementary, secondary, and higher education expenses of the designated beneficiary.

**Do not** file this agreement with the IRS. Instead, keep it with your records.

### Definitions

**Custodian.** The Custodian must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as custodian. Any person who may serve as a custodian of a Traditional IRA may serve as the custodian of a Coverdell ESA.

**Depositor.** The Depositor is the person who establishes the custodial account.

**Designated beneficiary.** The designated beneficiary is the individual on whose behalf the custodial account has been established.

**Family member.** Family members of the designated beneficiary include his or her spouse, child, grandchild, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law, and the spouse of any such individual. A first cousin, but not his or her spouse, is a "family member."

**Responsible individual.** The Responsible Individual, generally, is a parent or guardian of the designated beneficiary. However, under certain circumstances, the Responsible Individual may be the designated beneficiary.

### Identification Numbers

The Depositor's and designated beneficiary's social security numbers will serve as their identification numbers. If the Depositor is a nonresident alien and does not have an identification number, write "Foreign" in the block where the number is requested. The designated beneficiary's social security number is the identification number of his or her ESA. If the designated beneficiary is a nonresident alien, the designated beneficiary's individual taxpayer identification number is the identification number of his or her ESA.

An employer identification number (EIN) is required only for an ESA for which a return is filed to report unrelated business income. An EIN is required for a common fund created for ESAs.

**Note:** *The age limitation restricting contributions, distributions, rollover contributions, and change of beneficiary are waived for a designated beneficiary with special needs.*

## **Part Two: Provisions applicable to Traditional IRAs, Roth IRAs and Coverdell Education Savings Accounts**

### Article I.

#### 1. Investment of Contributions.

(a) All contributions to the custodial account shall be invested in accordance with proper instructions received from time to time from the Depositor or, if the account is an ESA, the Responsible Individual and shall be applied to purchase full and fractional shares ("Shares") of the Fund and made available as an investment, as shown on the Application. Fund shares held in the custodial account shall be registered in the name of the Custodian or its nominee. The Depositor or, if the account is an ESA, the Designated Beneficiary shall be the beneficial owner of all the assets held in the custodial account.

(b) Except in the case of a rollover contribution or employer contributions to a simplified employee pension plan as described in Article I of Part One for Traditional IRAs or Part Two for Roth IRAs above, as applicable, the Depositor shall not for any taxable year of the Depositor contribute to the Traditional IRA or Roth IRA custodial account an amount in excess of the lesser of 100% of the compensation includable in his or her gross income or the applicable dollar limits in effect under sections 219(g), 408 and 408A of the Code to a Traditional or Roth IRA. Except in the case of a rollover

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contribution as described in Article I of Part Three for ESAs, contributions to the account shall not exceed \$2,000 for any tax year. The Depositor or, if the account is an ESA, the Designated Beneficiary shall be fully and solely responsible for all taxes, interest and penalties which might accrue or be assessed by reason of any excess deposit and interest if any, earned thereon. Contributions must be made no later than the due date for filing the Depositor's or, if the account is an ESA, the contributor's tax return for the tax year (excluding extensions) or by such other date as from time to time provided by law. If a contribution is intended to be a rollover contribution referred to in Article I of Parts One and Two, the Depositor hereby certifies that the source of the contribution qualifies the contribution as such, that the contribution is being made to the custodial account no later than 60 days after receipt by the Depositor of the distribution giving rise to the rollover contribution, and that no previous rollover contribution has been made by the Depositor within one year of the date of the rollover contribution to or from such IRA or individual retirement annuity and that the rollover is in all respects permitted by law. It shall be the sole responsibility of the Depositor or, if the account is an ESA, the Responsible Individual or the Designated Beneficiary to determine the amount of the contributions eligible to be made hereunder. The Depositor, the Designated Beneficiary and/or the Responsible Individual shall execute such forms as the Custodian may require in connection with any contribution hereunder.

## **2. Reinvestment of Earnings.**

All dividends, capital gains, and any other distributions received on Fund Shares held in the account shall be reinvested in Shares of the Fund paying such dividends and distributions, and credited to such account. If any distributions of the Fund may be received at the election of the Depositor or, if the account is an ESA, the Responsible Individual in additional Shares or in cash or other property, the Custodian shall elect to receive additional Shares. If for any reason it is not possible to acquire Shares of the Fund paying the dividends or other distributions, the cash dividends and/or distributions from the Fund attributable to the account shall be invested in accordance with the standing investment instructions or sent in cash to the Depositor's or, if the account is an ESA, the Designated Beneficiary's address of record if the Depositor or the Responsible Individual, as applicable, has not supplied standing investment instructions.

## **3. Proxies and Other Information.**

The Custodian shall forward to the Depositor or, if the account is an ESA, the Responsible Individual all notices, prospectuses, financial statements, proxies and proxy soliciting material that the Custodian receives relating to such Shares. The Custodian shall vote such Shares in accordance with the written instructions of the Depositor or, if the account is an ESA, the Responsible Individual. Absent such instructions, the Custodian is hereby directed to and shall vote such Shares for or against any proposition in the same proportion as all Shares of the relevant Fund for which instructions have been received.

## **Article II (Distributions)**

The Custodian shall, from time to time, make distributions out of the custodial account to the Depositor or, if the account is an ESA, the Designated Beneficiary, in such manner and amounts as may be specified in written instructions of the Depositor or, if the account is an ESA, the Responsible Individual. All such instructions shall be deemed to constitute a certification by the Depositor that the distribution so directed is one that the Depositor is permitted to receive or if the account is an ESA, a certification by the Responsible Individual that the distribution so directed is one that the distributee is permitted to receive. The Custodian shall have no liability with respect to any contribution to the custodial account, any investment of assets in the custodial account or any distribution therefrom pursuant to instructions received from the Depositor or, if the account is an ESA, the Responsible Individual, or for any consequences to the Depositor or, if the account is an ESA, the Designated Beneficiary, arising from such contributions, investments or distributions including, but not limited to, excise and other taxes and penalties which might accrue or be assessed by reason thereof, nor shall the Custodian be under any duty to make any inquiry or investigation with respect thereto.

## **Article III (Beneficiaries)**

If the account is a Traditional or Roth IRA, the Depositor may designate and redesignate his/her beneficiary or beneficiaries in the Application or other beneficiary designation form. To be effective, such designation must be received by the Custodian prior to the death of the Depositor. Such beneficiary or beneficiaries shall be entitled to the balance in the custodial account as provided in Article IV of Part One for Traditional IRAs, Article V of Part Two for Roth IRAs. Unless otherwise provided in the Application or other beneficiary designation form, amounts payable by reason of the Depositor's death will be paid only to the primary beneficiary or beneficiaries who survive the Depositor in equal shares, or, if no primary beneficiary or beneficiaries survive the Depositor to the contingent beneficiary or beneficiaries who survive the Depositor in equal shares. If some but not all primary or contingent beneficiaries, as applicable, do not survive the Depositor, any amounts that such nonsurviving beneficiaries shall have been entitled to receive hereunder shall be divided among the surviving primary or contingent beneficiaries, as applicable, in proportion to the relative interests of the surviving primary or contingent beneficiaries. If no designation of beneficiary is in effect at the time of the Depositor's death or if no designated beneficiary survives the Depositor, the beneficiary shall be deemed to be the surviving spouse, or if there is no surviving spouse, the estate of the Depositor.

A designated beneficiary who becomes entitled to receive benefits hereunder may designate a successor beneficiary, which designation shall be governed by and made in accordance with this Article III. If a designated beneficiary becomes entitled to receive benefits hereunder but dies before all amounts in the IRA account to which the beneficiary is entitled have been distributed to him or her, the successor beneficiary will be entitled to receive any such remaining amounts in the account. Unless otherwise provided in the Application or other beneficiary designation form, the beneficiary may choose the method of distribution from among those permitted by Article IV of Part One for Traditional IRAs and Article V of Part Two for Roth IRAs.

If the account is an ESA, the Responsible Individual may change the Designated Beneficiary to a member of the same family as the prior Designated Beneficiary. If the Responsible Individual does not name a new Designated Beneficiary within 30 days following the death of the Designated Beneficiary, the custodial account will be deemed distributed to the designated death beneficiary of the account on the 30th day following the death of the Designated Beneficiary. The Responsible Individual may designate or change the designation of the death beneficiary of the account from time to time.

To be effective, any such designation made for an ESA pursuant to the preceding paragraph must be received by the Custodian prior to the death of the Designated Beneficiary. Such death beneficiary or beneficiaries, as applicable, shall be entitled to the balance in the custodial account as provided in Article III of Part Three for ESAs. Unless otherwise provided in the Application or other beneficiary designation form, amounts payable by reason of the Designated Beneficiary's death will be paid only to the primary beneficiary or beneficiaries who survive the Designated Beneficiary in equal shares, or, if no primary beneficiary or beneficiaries survive the Designated Beneficiary, to the contingent beneficiary or beneficiaries who survive the Designated Beneficiary in equal shares. If some but not all primary or contingent beneficiaries, as applicable, do not survive the Designated Beneficiary, any amounts that such nonsurviving beneficiaries shall have been entitled to receive hereunder shall be divided among the surviving primary or contingent beneficiaries, as

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applicable, in proportion to the relative interests of the surviving primary or contingent beneficiaries. If no designation of beneficiary is in effect at the time of the Designated Beneficiary's death or if no designated death beneficiary survives the Designated Beneficiary, the death beneficiary shall be deemed to be the surviving spouse, or if there is no surviving spouse, the estate of the Designated Beneficiary. A designated death beneficiary who becomes entitled to receive benefits hereunder may designate a successor death beneficiary, which designation shall be governed by and made in accordance with this Article III. If a designated death beneficiary becomes entitled to receive benefits hereunder but dies before all amounts in the account to which the death beneficiary is entitled have been distributed to him or her, the successor death beneficiary will be entitled to receive any such remaining amounts in the account.

## **Article IV (Responsibility of Depositor)**

Depositor acknowledges he or she has read the information distributed to him or her by the Custodian. The Depositor or, if the account is an ESA, the Responsible Individual, as applicable, agrees to assume full responsibility for all decisions as to deposits and withdrawals, and the Depositor or, if the account is an ESA, the Responsible Individual, as applicable, indemnifies the Custodian and saves it free and harmless from any and all claims arising out of any adverse consequences experienced by the Depositor or, if the account is an ESA, the Responsible Individual or the Designated Beneficiary, as applicable, as a result of his or her own decision, action or inaction, including but not limited to excise taxes and penalties. Any taxes which may be imposed upon the custodial account or the income thereof, but not excise taxes imposed upon the Depositor or, if the account is an ESA, the Designated Beneficiary, may, in the discretion of the Custodian or Depositor or, if the account is an ESA, the Responsible Individual, be deducted from and charged against the custodial account.

## **Article V (Acceptance of Reports)**

If, within 60 days after the mailing by the Custodian to the Depositor or, if the account is an ESA, the Responsible Individual of a report pursuant to paragraph 2 of Article V for Traditional IRAs, paragraph 2 of Article VI for Roth IRAs, or paragraph 2 of Article VII for ESAs, the Depositor or Responsible Individual, as applicable, has not given the Custodian written notice of any exception or objection thereto, such report shall be deemed to have been approved in its entirety and in such case, or upon written approval of the Depositor or Responsible Individual, as applicable, the Custodian shall be released, relieved, and discharged with respect to all matters and statements set forth therein as though the report had been settled by judgment or decree of a court of competent jurisdiction.

## **Article VI (Responsibility of Custodian)**

The Custodian shall have no duties whatsoever except such duties as it specifically agrees to in writing, and no implied covenants or obligations shall be read into this Agreement against the Custodian. The Custodian shall not be liable under this Agreement, except for its own bad faith, gross negligence or willful misconduct. In performing its duties under this Agreement, the Custodian may hire agents, experts and attorneys. The Custodian may also delegate any of its powers and duties hereunder to an agent.

## **Article VII (Prohibition Against Assignment)**

No interest right or claim in or to any part of the custodial account or any payment therefrom shall be assignable, transferable, or subject to sale, mortgage, pledge, hypothecation commutation, anticipation, garnishment, attachment, execution, or levy of any kind and the Custodian shall not recognize any attempt to assign, transfer, sell, mortgage, pledge, hypothecate, commute, or anticipate the same, except as required by law. Notwithstanding the foregoing, in the event of a property settlement between the Depositor or, if the account is an ESA, the Designated Beneficiary and his or her former spouse pursuant to which the transfer of Depositor's or, if the account is an ESA, Designated Beneficiary's interest hereunder, or a portion thereof, is incorporated in a divorce decree or in a written instrument incident to such divorce or legal separation, then the interest so decreed by a court to be the property of such former spouse shall be transferred to a separate account for the benefit of such former spouse, in accordance with the requirements of the Code.

## **Article VIII (Amendment)**

The Depositor hereby delegates to the Custodian the power to amend this Agreement from time to time as it deems appropriate, provided, however, that all such amendments are in compliance with the provisions of the Code and the regulations there under. All such amendments shall be effective as of the date set forth in a written notice of amendment, which will be sent to the Depositor or, if the account is an ESA, the Responsible Individual.

## **Article IX (Termination)**

The Depositor or, if the account is an ESA, the Responsible Individual may terminate this account and this Agreement at any time by delivering to the Custodian a written notice of termination. In addition, in the event that either (a) all of the funds available for investment hereunder are liquidated or otherwise terminated or (b) Shay Fund as Sponsor of this account ceases to act as such without a successor assuming the duties of the Sponsor, the account and this Agreement shall be terminated and the assets thereof shall be delivered to the Depositor or, if the account is an ESA, the Designated Beneficiary, within a reasonable period, unless prior to such payment the Depositor or, if the account is an ESA, the Responsible Individual provides written instructions to the Custodian to transfer such proceeds to the trustee or custodian of another IRA or ESA, as applicable.

## **Article X (Resignation or Removal of Custodian)**

1. The Custodian may resign without liability, cost or expense of any kind, upon written notice to that effect delivered to the Depositor or, if the account is an ESA, the Responsible Individual and the Fund, such resignation to be effective the 30th day following the mailing to the Depositor or the Responsible Individual, as applicable, of such notice. The Depositor or, if the account is an ESA, the Responsible Individual may remove the Custodian upon 30 days' written notice to that effect to the Custodian. Upon such resignation or removal, the Depositor or Responsible Individual, as applicable, shall forthwith appoint a successor custodian that satisfies the requirements of section 408(h) of the Code or, if the account is an ESA, section 530(b) (1)(B) of the Code. Upon receipt by the Custodian of written acceptances by the successor custodian of such appointment, the Custodian shall deliver the assets of the custodial account to the successor custodian. In the event the Depositor or Responsible Individual, as applicable, fails to appoint a successor custodian which has accepted its appointment within 30 days of the mailing of the notice of resignation, or removal, the Custodian shall terminate the account and pay the proceeds to the Depositor or, if the account is an ESA, the Designated Beneficiary.

# **COVERDELL ESA CUSTODIAL ACCOUNT AGREEMENT**

2. The Depositor of this Agreement may at any time remove the Custodian and appoint a successor custodian. The effective date of the removal and appointment shall be as specified by the Depositor and agreed to by the Custodian and the successor custodian. On or after such date the Custodian shall deliver the assets of the custodial account to the successor custodian.

3. The Depositor will appoint another custodian upon notification from the Commissioner of the Internal Revenue Service that such substitution is required because the Custodian has failed to comply with the requirements of section 1.408-2(e) of the Regulations or if the account is an ESA, section 530(b)(1)(D) of the Code, or is not keeping such records, or making such returns or rendering such statements as are required by forms, Regulations or the Code, as applicable.

4. Notwithstanding the foregoing, the Custodian may reserve such assets of the custodial account as it may deem necessary for the payment of all its fees, compensation, costs and expenses and for the payment of all other liabilities which are a charge on or against the assets of the custodial account or on or against the Custodian, and where necessary for this purpose may liquidate reserved Fund Shares. Any balance of such reserve remaining after the payment of all such items shall be paid over to the successor custodian. If the Depositor or, if the account is an ESA, the Responsible Individual has failed to appoint a successor custodian as provided in paragraph 1 above, such balance shall be paid to the Depositor or, if the account is an ESA, the Designated Beneficiary.

5. The provisions of this Agreement shall apply to any successor custodian from the effective date of its appointment as such with the same force and effect as if such successor were the initial Custodian hereunder.

## **Article XI (Notices)**

1. Any notice herein required or permitted to be given to the Custodian shall not be effective or deemed delivered until actually received by the Custodian at the address specified in the Universal Custodial Account Disclosure Statement ("Disclosure Statement"), or such other address as the Custodian shall provide the Depositor or, if the account is an ESA, the Responsible Individual from time to time in writing, stating that such other address shall be used for purposes of this Agreement.

2. Any notice herein required or permitted to be given to the Depositor or, if the account is an ESA, to the Responsible Individual shall be mailed to the Depositor or Responsible Individual, as applicable, at the Depositor's or Responsible Individual's, as applicable, residence address on record with the Custodian or at such other address as he or she shall provide the Custodian from time to time in writing stating that such other address shall be used for purposes of this Agreement, and any such notice shall be deemed accepted by the Depositor or Responsible Individual, as applicable, at the time it is mailed. The Depositor, the Depositor's beneficiary, or the Responsible individual, as applicable, will be bound by the last address furnished to the Custodian by the Depositor, the Depositor's beneficiary, or the Responsible Individual, as applicable.

## **Article XII (Minimum Withdrawals)**

If the account is a Traditional IRA or Roth IRA, the Depositor shall be fully and solely responsible for all taxes and penalties that might accrue or be assessed for having failed to make any annual minimum withdrawal required by applicable law.

The Depositor's beneficiary or beneficiaries shall be fully and solely responsible for any taxes or penalties which might accrue or be assessed for having failed to make any minimum withdrawal required following the death of the Depositor.

## **Article XIII (Taxes and Charges to Account)**

Any income taxes or other taxes of any kind whatsoever that may be levied or assessed upon or in respect of the custodial account or the assets thereof, or the income therefrom, any transfer taxes incurred in connection with the investment and reinvestment of the assets of the custodial account, all other reasonable administrative expenses incurred by the Custodian in the performance of its duties hereunder, including fees for legal services rendered to the Custodian, and such reasonable compensation to the Custodian for its services under this Agreement as the Custodian may charge from time to time, may, in the discretion of the Custodian, be charged against and paid from the assets of the custodial account. Sufficient Fund Shares may be liquidated from the custodial account to pay any such taxes, expenses, and compensation.

## **Article XIV (Governing Law)**

This Agreement and the custodial account created hereby shall be subject to the applicable laws, rules and regulations, as the same may from time to time be amended, of the Federal government and the State of Delaware and the agencies and instrumentalities of each having jurisdiction thereof, and shall be governed by and construed, administered and enforced according to the law of the State of Delaware, except to the extent superseded by federal law. All contributions to the custodial account shall be deemed to take place in the State of Delaware.

## **Article XV (Fees and Expenses)**

The Custodian shall be entitled to receive and may charge against the custodial account such reasonable compensation for its services in accordance with its fee schedule as from time to time in effect, and shall also be entitled to reimbursement of its expenses as Custodian under this Agreement. The Custodian will provide advance written notice to the Depositor of any change in its fee schedule.

## **Article XVI (Spousal Consent)**

If the account is a Traditional IRA or Roth IRA and if you are married and designate a beneficiary other than your spouse, you are required to and acknowledge that you have provided your spouse with full and reasonable disclosure regarding your property and financial obligations; that your spouse has been advised by you to see a tax professional or legal advisor regarding any possible consequences with giving up his or her community or marital property interests in the IRA; and that your spouse assumes full responsibility for any adverse consequence that may result. Neither the Custodian nor the Sponsor is liable for any consequences resulting from a failure of the Depositor to obtain spousal consent.

# **COVERDELL ESA CUSTODIAL ACCOUNT AGREEMENT**

## **Article XVII (Certifications)**

If you elect a Traditional IRA rollover of a distribution from another Traditional IRA, you certify and acknowledge that you have not made another rollover within the one-year period immediately preceding this rollover from such IRA; that no portion of the amount rolled over is a required minimum distribution under the required distribution rules or a hardship distribution from an employer's tax-qualified plan 403(b) arrangement or eligible 457 plan; and if the distribution was made to you, that such distribution was received within 60 days of making the rollover to this account.

If you elect a conversion, transfer or a rollover of an existing Traditional IRA to a Roth IRA, you acknowledge that the amount converted will be treated as taxable income (except for any prior nondeductible contributions) for federal income tax purposes, and certify that no portion of the amount converted, transferred or rolled over is a required minimum distribution under applicable rules. If you elect to convert an existing Traditional IRA with the Custodian to a Roth IRA with the Custodian and have elected no withholding, you understand that you may be required to pay estimated tax and that insufficient payments of estimated tax may result in penalties. If you elect a rollover from another Roth IRA, you certify that the information given is correct and acknowledge that adverse tax consequences or penalties could result from giving incorrect information. You certify and acknowledge that any rollover contribution to the Roth IRA was completed within 60 days after your receipt of the distribution from the other Roth IRA. If you elect an ESA rollover, you certify and acknowledge that no other rollover has been made within the one-year period immediately preceding this rollover from the ESA from which the rollover amount was distributed and that, if the distribution was made to you, such distribution was received within 60 days of making the rollover to this account.

You acknowledge that, if a contribution is made to the account between January 1 and your tax return due date and the contributor does not specify in writing whether the contribution is made for the current year or the prior year, the Custodian will treat it as a contribution for the current year.

You acknowledge that it is your sole responsibility to report all contributions to or withdrawals from the account correctly on your tax returns, and to keep necessary records of all of your IRAs and ESAs (including any that may be held by another custodian or trustee) for tax purposes. All forms must be acceptable to the Custodian and dated and signed by you.

## **Article XVIII (Acceptance)**

If all required forms and information are properly submitted, Custodian will accept appointment as custodian of the account. However, this Agreement (and the Application) is not binding upon the Custodian until the Depositor or, if the account is an ESA, the Responsible Individual has received a statement confirming the initial transaction for the account. Receipt by the Depositor or, if the account is an ESA, the Responsible Individual of a confirmation of the purchase of the Fund Shares indicated in the Application will serve as notification of Custodian's acceptance of appointment as custodian of the account.

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Based on legal advice relating to current tax laws and IRS meetings, the Custodian believes that the use of the Disclosure Statement and the Agreement containing information and documents for a Traditional IRA, a Roth IRA, and an ESA will be acceptable to the IRS. However, if the IRS makes a ruling, or if Congress enacts legislation, regarding the use of different documentation, Custodian will forward to you new documentation for your Traditional IRA, Roth IRA or ESA (as appropriate) for you to read and, if necessary, an appropriate new Application to sign. By adopting a Traditional IRA, Roth IRA or ESA using these materials, you acknowledge this possibility and agree to this procedure if necessary. In all cases, to the extent permitted, the Custodian will treat your account as being opened on the date your account was opened using the Application provided along with the Disclosure Statement and Agreement.

## **DISCLOSURE STATEMENT**

This Custodial Account Disclosure Statement ("Disclosure Statement") applies to Coverdell Education Savings Accounts ("ESAs").

You are receiving this Disclosure Statement for the purpose of ensuring that you are informed and understand the nature of an ESA sponsored by Company Fund (the "Sponsor"), the investment advisor for the Company Fund (the "Fund"), a registered open-end management investment company. This Disclosure Statement explains the rules governing ESAs for years after 2006.

If you should have any questions, you may contact us at the following address and phone number:

Company Name  
Address  
City, State Zip  
Phone number

Eligible taxpayers may deposit up to \$2,000 per year into one or more ESAs for an eligible designated beneficiary. An eligible designated beneficiary is a child under age 18 or an individual who, because of a physical, mental, or emotional condition (including learning disability) requires additional time to complete his or her education (a "Special Needs Beneficiary"). Individuals whose earned incomes do not exceed the amounts described below, such as the parents, grandparents, other family members, or friends of the eligible designated beneficiary, and the designated beneficiary him/herself may contribute to the designated beneficiary's ESA. Entities, such as corporations and trusts, may also make contributions to an eligible designated beneficiary's ESA without regard to earned income. The total contributions for any combination of ESAs for an eligible designated beneficiary during a taxable year may not exceed the \$2,000 limit. Amounts deposited in the account grow tax-free until distributed, and the designated beneficiary of the ESA will not owe tax on any withdrawal from the account if the designated beneficiary's qualified education expenses for the year equal or exceed the amounts of the withdrawal. If the designated beneficiary of the ESA does not need the money for education, the account balance can be rolled over to the ESA of certain family members who can use it for their education. Amounts withdrawn from an ESA that exceed the designated beneficiary's qualified education expenses in a taxable year are generally subject to income tax and to an additional tax of 10%. Further, coordination rules are provided that will allow a student to take advantage of the ESA provisions as well as the Hope Scholarship Credit and Lifetime Learning Credit and qualified tuition programs in the same tax year.

### **What is a Coverdell Education Savings Account?**

An ESA is a trust or custodial account that is created or organized in the United States exclusively for the purpose of paying the qualified education expenses of the designated beneficiary of the account. The account must be designated as an ESA when it is created in order to be treated as an ESA for tax purposes.

### **For whom may an ESA be established?**

An ESA may be established for the benefit of any child under age 18 or for any Special Needs Beneficiary. Generally, contributions to the ESA will not be accepted after the designated beneficiary reaches his/her 18th birthday unless the designated beneficiary is a Special Needs Beneficiary.

### **How much may be contributed to a designated beneficiary's ESA?**

Up to \$2,000 per year in aggregate contributions may be made for the benefit of any eligible designated beneficiary. The contributions may be placed in a single ESA or in multiple ESAs. Rollover contributions to an ESA from another ESA of the designated beneficiary (or a family member of the designated beneficiary) are not subject to the \$2,000 limit.

### **What happens if more than \$2,000 is contributed to an ESA on behalf of a designated beneficiary in a calendar year?**

Aggregate contributions for the benefit of a particular designated beneficiary in excess of \$2,000 for a calendar year are treated as excess contributions. If the excess contributions (and any earnings attributable to them) are not withdrawn from the designated beneficiary's account (or accounts) before the first day of the sixth month following the year for which the contribution is made, the excess contributions are subject to a 6% excise tax for each year the excess amount remains in the account.

### **May contributions other than cash be made to a designated beneficiary's ESA?**

No. ESAs are only permitted to accept contributions made in cash.

### **May contributors take a deduction for contributions made to an ESA?**

No.

### **Are there any restrictions on who can contribute to an ESA?**

Any individual may contribute up to \$2,000 to any combination of ESAs of one or more eligible designated beneficiaries if the individual's modified adjusted gross income for the taxable year is no more than \$95,000 (\$190,000 for married taxpayers filing jointly). The \$2,000 maximum contribution per designated beneficiary is gradually reduced for individuals with modified adjusted gross income between \$95,000 and \$110,000 (between \$190,000 and \$220,000 for married taxpayers filing jointly). For example, an unmarried taxpayer with modified adjusted gross income of \$96,500 in a taxable year could make a maximum contribution per child of \$1,800 for that year. Taxpayers with modified adjusted gross income of \$110,000 or more (\$220,000 or more for married taxpayers filing jointly) cannot make contributions to anyone's ESA. Entities, such as corporations and trusts, are also subject to the \$2,000 annual contribution limit, but are not subject to any income limitations. The 6% excise tax described above will apply to any contribution in excess of an individual's contribution limit.

### **May a designated beneficiary contribute to his/her own ESA?**

Yes.

## **DISCLOSURE STATEMENT**

### **Does a taxpayer have to be related to the designated beneficiary in order to contribute to the designated beneficiary's ESA?**

No.

### **What is the deadline for making a contribution to an ESA for a year?**

A contribution to an ESA for a year must be made prior to the due date for filing the contributor's tax return for the year (not including extensions).

### **How many ESAs may a child have?**

There is no limit on the number of ESAs that may be established designating a particular individual as beneficiary. However, in any given taxable year the total aggregate contributions to all the accounts designating a particular individual as beneficiary may not exceed \$2,000.

### **May a designated beneficiary take a tax-free withdrawal from an ESA to pay qualified education expenses if the designated beneficiary is enrolled less than full-time at an eligible educational institution?**

Yes. Whether the designated beneficiary is enrolled full-time, half-time, or less than half-time, he/she may take a tax-free withdrawal to pay qualified education expenses. However, as further discussed below, higher education room and board expenses constitute qualified educational expenses only if the designated beneficiary of the ESA is enrolled at least half-time.

### **What happens when a designated beneficiary withdraws assets from an ESA to pay for college?**

Generally, except as provided below with respect to the Hope Scholarship Credit and the Lifetime Learning Credit, the withdrawal is tax-free to the designated beneficiary to the extent the amount of the withdrawal does not exceed the designated beneficiary's qualified education expenses for the year.

### **What are "qualified education expenses"?**

These are expenses required for the enrollment or attendance of the designated beneficiary at an eligible post-secondary educational institution. The following items are qualified post-secondary education expenses.

1. Tuition and fees.
2. The cost of books, supplies, and equipment.
3. Amounts contributed to a qualified state tuition program.
4. In some situations, the cost of room and board.

The cost of room and board is a qualified post-secondary education expense if the designated beneficiary is at least a half-time student at an eligible postsecondary educational institution. The expense for room and board is limited to one of the following two amounts:

1. The school's posted room and board charge for students living on campus.
2. \$2,500 each year for students living off campus and not at home.

You can also use withdrawals from an ESA for qualified elementary and secondary education expenses. Qualified elementary and secondary school expenses are expenses for (i) tuition, fees, academic tutoring, special need services (in the case of Special Needs Beneficiaries), books, supplies, and other equipment incurred in connection with the enrollment or attendance of the designated beneficiary at a public, private, or religious school providing elementary or secondary education (kindergarten through grade 12), (ii) room and board, uniforms, transportation, and supplementary items or services (including extended day programs) required or provided by such a school in connection with such enrollment or attendance of the designated beneficiary, and (iii) the purchase of any computer technology or equipment or Internet access and related services, if such technology, equipment or services are to be used by the designated beneficiary and the designated beneficiary's family during any of the years the designated beneficiary is in school. Computer software designed for sports, games, or hobbies is not considered a qualified elementary and secondary school expense unless the software is predominantly educational in nature.

### **What is an eligible post-secondary educational institution?**

An eligible post-secondary educational institution is any college, university, vocational school, or other post-secondary educational institution eligible to participate in a student aid program administered by the Department of Education. It includes virtually all accredited, public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions. The educational institution should be able to tell you if it is an eligible post-secondary educational institution.

### **What happens if a designated beneficiary withdraws an amount from an ESA but has qualified education expenses in the taxable year he/she takes the withdrawal that are less than the amount of the withdrawal?**

Generally, if a designated beneficiary withdraws an amount from an ESA in excess of the designated beneficiary's qualified education expenses during the taxable year, the portion of the excess amount that represents earnings that have accumulated tax-free in the ESA will be taxable to the designated beneficiary.

The taxable portion of the distribution is also subject to a 10% additional tax unless: (i) the distribution is made on or after the death of the designated beneficiary of the ESA, (ii) the distribution is made on account of the designated beneficiary's disability, (iii) the distribution is made on account of certain scholarships, educational assistance allowances or payments for educational expenses received by the designated beneficiary to the extent the amount of the distribution does not exceed the amount of the scholarship, allowance or payment, (iv) the distribution is made on account of the designated beneficiary's attendance at designated military academies to the extent that the distribution does not exceed the costs of advanced education attributable to such attendance, or (v) the distribution is taxable solely because of application of the HOPE and Lifetime Learning credits to the same educational expenses.

## **DISCLOSURE STATEMENT**

### **Is a distribution from an ESA taxable if the distribution is contributed to another ESA?**

Any amount distributed from an ESA and rolled over to another ESA for the benefit of the same designated beneficiary or certain members of the designated beneficiary's family is not taxable. An amount is rolled over if it is paid to another ESA on a date within 60 days after the date of the distribution. Members of the designated beneficiary's family include the designated beneficiary's children and their descendants, stepchildren and their descendants, siblings and their children, parents and grandparents, stepparents, spouses of all the foregoing, and the designated beneficiary's first cousins, as well as the designated beneficiary's spouse. The \$2,000 annual contribution limit to ESAs does not apply to these rollover contributions. For example, an older brother who has \$4,000 left in his ESA after he graduates from college can roll over the full \$4,000 balance to an ESA for his younger sister who is still in high school without paying any tax on the transfer. Only one distribution may be rolled over tax-free to another ESA during a 12-month period.

### **What happens to the assets remaining in an ESA after the designated beneficiary finishes his/her postsecondary education?**

There are two options. The amount remaining in the account may be withdrawn for the designated beneficiary. The designated beneficiary will be subject to both income tax and the additional 10% tax on the portion of the amount withdrawn that represents earnings to the extent that the designated beneficiary's qualified education expenses in the same taxable year he/she are less than the amount of the withdrawal. Alternatively, if the amount in the designated beneficiary's ESA is withdrawn and rolled over to another ESA for the benefit of a member of the designated beneficiary's family who has not attained age 30 (or who is a Special Needs Beneficiary), the amount rolled over will not be taxable.

### **Rather than rolling over money from one ESA to another, may the designated beneficiary of the account be changed from one designated beneficiary to another without triggering a tax?**

Yes, provided (1) the terms of the particular trust or custodial account permit a change in designated beneficiaries (each trustee or custodian will control whether options like this one are available in the accounts they offer), and (2) the new designated beneficiary is a member of the previous designated beneficiary's family and has not attained age 30 (or is a Special Needs Beneficiary).

### **May a student or the student's parents claim the Hope Scholarship Credit or Lifetime Learning Credit for the student's expenses in a taxable year in which the student receives money from an ESA on a tax-free basis?**

Yes, you can claim the Hope or Lifetime Learning Credit in the same year you take a tax-free distribution from an ESA, provided that the distribution from the ESA is not used for the same expenses for which the credit is claimed.

### **When must distributions be made from an ESA?**

Distribution from an ESA will be deemed to have been made 30 days after the death of the designated beneficiary or the date the designated beneficiary attains age 30 (unless the designated beneficiary is a Special Needs Beneficiary). This deemed distribution can be avoided by changing the designated beneficiary to a member of the designated beneficiary's family who has not attained age 30 (or who is a Special Needs Beneficiary) prior to the designated beneficiary's death or attainment of age 30.

### **May contributions be made to both a qualified state tuition program and an ESA on behalf of the same designated beneficiary in the same taxable year?**

Yes, you can make contributions to ESAs and qualified tuition programs in the same year for the same beneficiary.