BUSINESS AFFAIRS SUB-COUNCIL

July 29, 2014

MINUTES

The meeting began at 9:00 a.m. in the TBR Board Room. Present were Ms. Kathy Archie (STCC); Ms. Cynthia Brooks (TSU); Mr. Steve Campbell (NeSCC); Mr. Horace Chase (JSCC); Dr. David Collins (ETSU); Ms. Beth Cooksey (VSCC); Mr. John Cothern (MTSU); Ms. Mary Cross (NaSCC); Mr. Danny Gibbs (RSCC); Mr. Mike Gower (MTSU); Mr. Lowell Hoffman (DSCC); Mr. Ken Horner (CoSCC); Mr. Bob Hughes (TSU); Mr. Tim Hurst (APSU); Dr. Rosemary Jackson (WSCC); Mr. Ron Kesterson (PSCC); Ms. Renee Moore (PSCC); Mr. Mitch Robinson (APSU); Ms. Jeannie Smith (UOM); Dr. Claire Stinson (TTU); Ms. Tammy Swenson (ChSCC); Mr. Alan Thomas (MTSU); Ms. Hilda Tunstill (MSCC); Mr. Greg Wilgocki (ETSU); Dr. Tommy Wright (ClSCC); Mr. Jeff Young (TTU); Chancellor John Morgan, Mr. Blayne Clements, Mr. Tom Danford, Ms. Angela Flynn, Ms. Alicia Gillespie, Mr. David Gregory, Ms. Deanna Hall, Ms. Lisa Hall, Ms. Pat Massey, Ms. April Preston, Mr. Wayne Pugh, Ms. Brooke Shelton, Mr. Dale Sims, and Mr. Bob Wallace (TBR).

1. **Chancellor's Remarks**

   Chancellor Morgan informed the group that the Board is becoming more skeptical about the need for fee increases each year. He expressed that we need to do a better job of relaying our fee needs to the Board. He also discussed the upcoming institutional briefings in which system office staff hope to gain better knowledge of institution practices to aid in conveying to the Board how we have generated savings and efficiencies. He reiterated that we need to be strategic in the use of resources to generate outcomes, as well as how our strategic initiatives and plans are linked to the budget.

   Chancellor Morgan shared that our Board, as well as the UT Trustees, have expressed their sentiment that we need to better advocate to the legislature what our needs are, as well as convince the legislature that higher education needs to become a funding priority. The current funding model is not sustainable.

   The Chancellor also shared that our new Budget Principles Policy and Institutional Financial Performance Policy are important steps toward helping us explain to the Board what we need to generate outcomes. A good policy framework gives us a better position to keep in good financial standing.

2. **Election of BASC Chair**

   The committee elected Ms. Hilda Tunstill as the BASC chair.

3. **Report of the Committees**

   A. Finance Committee

Dr. Collins highlighted the following issues from the July 8, 2014 Finance Committee meeting:

- Guideline B-026 Lease Procedures and Guidelines

  The committee discussed Guideline B-026 Lease Procedures and Guidelines. The State Building Commission (SBC) has changed their policy regarding leases and the dollar amount for SBC approval. TBR Facilities is in the process of revising the guideline. After discussion, the committee decided to defer the review of this guideline until the October Finance meeting.

  TBR Facilities is also working on revisions to other policies and guidelines. It was recommended to send TBR Facilities a list of policies and guidelines that are being reviewed by the Finance Committee over the next two years. Any revisions that Facilities recommends will be incorporated into the review by the Finance Committee.

- Policy 4-01-02-30 Facilities Planning and Design

  The committee discussed Policy 4-01-02-30 Facilities Planning and Design. A question was submitted about what the comprehensive program statement should include when it is being developed prior to proceeding with the pre-planning or design of any project for which an architect or engineer is engaged. TBR Facilities has been working with SBC to determine what to include in the program statement. After discussion, the committee decided to defer the review of this policy until the October Finance meeting.

- Maintenance Projects

  The committee discussed categorizing maintenance projects and reporting dollars spent locally on each category. The committee discussed whether we need separate categories for routine maintenance/repair and capital maintenance/repair. The committee noted that some of these costs could be determined by going through the unexpended plant fund schedule. The committee also discussed how the unexpended plant fund schedule can be revised to better reflect maintenance versus other projects.

- Foundation Policy Update

  The committee was updated on the status of the Foundation Policy revisions. The first draft of the policy was circulated and comments were received from seven or eight schools. A meeting was held in June with the schools who provided comments. TBR Legal Counsel is working on a new draft policy. The goal was to bring the policy to the September Board meeting, but it is unlikely that it will be ready. There is a plan to get the new draft together to circulate to the business and finance officers for review before the September Board meeting.

- Budget Principles Policy

  The committee reviewed the Budget Principles Policy. The policy has been revised based on the comments received form the first review. The committee recommended language that ensures that contingency funds are consistent with relevant TBR policies and guidelines. The policy will be presented to the Board for approval at the September Board meeting. (Attachment A)

- Institutional Financial Performance Policy

  The committee reviewed the Institutional Financial Performance Policy. The policy has been revised based on the comments received since last quarter's Finance and BASC meetings. The following additional revisions were made during today's BASC meeting (Attachment B):

  - In the Viability Ratio section, the comparison was changed to include "current and non-current" liabilities.
  - The Viability Ratio Watch Level was revised to a ratio of 0.41 or less.

- New Retirement Hybrid Plan

  The committee discussed the new retirement hybrid plan and any needed changes to the Banner chart of accounts. The hybrid plan is still a part of TCRS but is a combination of a defined benefit plan and defined contribution plan.

  The committee decided to add a new level 2 account code and use an unused range for the subtotal. (Attachment C)

- Review of Policies and Guidelines

  The committee reviewed the following policies and guidelines. The recommended changes are listed below:

  <u>Policy 4:02:20:00 Disposal of Surplus Personal Property</u> (Attachment D)

  Section I.E.

  - A comment was submitted regarding a weapons vendor that allowed handguns as trade-ins, then turned around and sold them back to the campus police officers, which circumvented the policy.

    The committee discussed this and no changes were recommended to the policy.

Section II.A.

- A comment was submitted about the proper steps to dispose of computers and other electronic computing devices which may contain institutional or sensitive data, or PII.

  The committee discussed this and no changes were recommended to this policy. Campuses do need to remind their staff of these steps.

<u>Policy 4:03:02:00 Motor Vehicles</u> (Attachment E)

Section IV.C.3.

- The following new language was added:

  "The spouse and children of employees generally are not considered a guest of the institution unless their attendance is required at the event and they are listed on approved travel authorizations."

Attachment A to the Policy

Section I.A.

- "For licensed vehicles" was added for clarification.
- A comment was submitted questioning whether the marketing plan includes non-licensed vehicles. It was determined that state statute does not address marketing plans except for law enforcement vehicles.

<u>Guideline B-110 Fixed Assets and Sensitive Minor Equipment</u> (Attachment F)

Section VI

- A comment was submitted regarding expensing buildings costing less than $100,000 but capitalizing additions and improvements of $50,000 or greater. The comment questioned whether the capitalization values should be consistent at $100,000. The committee discussed this and determined that no changes should be made.

Section VIII.C.7.

- Delete "periodicals".

Section XI

- A comment was submitted to consider reformatting the software section to three major sections, >$100,000, <$100,000 and amortization. The committee discussed this and decided that no changes were needed.

Section XI.B.

- A comment was submitted to ask if the policy should allow for optional amortization periods if not expected to last 10 years. The following language will be revised:

  "Software costs are normally amortized over a useful life of 10 years."

Section XII

A comment was submitted about sensitive minor equipment and whether there is a requirement that computing and communication devices are inventoried. There was a concern that these devices could contain sensitive data and should be controlled. After much discussion, it was determined to send out a survey to the institutions asking if they have assessed the risk of these items and whether they are inventoried centrally or at the department level.

- Guideline B-062 Educational Assistance (State Employees and Dependents of State Employees and Teachers)

  The committee discussed updates to Guideline B-061 to incorporate Public Chapter 959 which defines the free class that state employees receive as no more than 4 credit hours or 120 clock hours. This language was added to the guideline. (Attachment G)

  During the BASC meeting, there was some discussion as to exactly who qualifies for this benefit. Ms. Preston verified that if being a student is a pre-requisite for employment, the individual would not qualify. However, if the individual happens to be a student, but the position does not require it, that person would qualify. Eligibility is determined by the status as of the first day of class.

  Mr. Chase was tasked with collecting any issues submitted by the institutions and presenting it in a dear colleague letter. Once all of the topics are collected, Ms. Preston will present it to the General Counsel's Office for clarification.

The Finance Committee minutes, with the policy and guideline changes, were approved.

B. Council of Buyers

Ms. Flynn highlighted the following issues from the June 26, 2014 Council of Buyers meeting:

- SciQuest TSM Update

  Ms. Flynn informed the committee that Ellucian has begun the first step of the integration process which involves an initial assessment of the requested work. Ellucian has indicated that it will be a 1-2 week process to conduct the assessment to determine the full scope of work necessary in order for TSM to integrate with Banner. Ellucian has committed that once the assessment is complete, they will provide a more definitive timeline so that the focus group can continue its efforts and a firm timeline for training/implementation can be defined for the System.

- Community College/TCAT Grant Equipment Purchases

  The committee was informed that consolidating the grant purchases has been very successful and a substantial amount of money has been saved through this process. The savings realized will allow for some additional equipment requests to be funded.

- Collection Contracts

  General Revenue Corporation and Coast Professional were the two successful proposers for student collections. Ms. Flynn informed the committee that it has come to TBR's attention that one of the previous vendors, Williams and Fudge, has been communicating with various institutions in an attempt to persuade them to continue using Williams and Fudge for collection services. Ms. Flynn explained that institutions are required to use the two current TBR contracted vendors for their collections services. TBR has authorized Williams and Fudge to retain accounts in active repayment status, litigated accounts, or those in the process of loan consolidation. All other accounts must be returned to the institutions immediately.

- Insurance Updates

  Ms. Flynn updated the committee on the status of the various insurance policies.

  - Student Liability Insurance – She is waiting on five more certificates. The master list with everyone's policy numbers should be arriving shortly.
  - Student Health Insurance – The domestic students' website is now up and running. The international students' provider is ISP. Their website is also up and running.
  - Student Accident Insurance – The accident only policies issued to TCAT students has still not been finalized. Ms. Flynn and Mr. Sims have a call with AON later this week to discuss.
  - Truck Driving Insurance – This will be the next policy to be renewed in January.
  - Student Athletic Insurance – There will also be some changes made to this policy in the future. The current contract expires in July 2015.

The Council of Buyers minutes were approved.

C. Human Resources

Ms. Preston highlighted the following issues from the June 25, 2014 Human Resource Officers meeting:

- Guideline P-045 Deferred Compensation

  The proposed revisions to the guideline are to be consistent with provisions of the Internal Revenue Code and regulations with respect to 403(b), 401(k) Traditional and Roth, and 457. The proposed revisions are to include all employees as eligible to participate in a deferred compensation plan. In addition, this guideline was reorganized to include similar benefits and information together under a general section, rather than listing each program individually and repeating information. (Attachment H)

- TBR Policy 5:01:01:07 Sick Leave

  The proposed revisions are needed to clarify that an employee is eligible to receive up to two additional days of sick leave (after bereavement leave) for the death of a family member who resides in the home of the employee, if approved by the supervisor. Currently, other members of the family who reside within the home are listed under both definitions of immediate family and other relatives. This change will be consistent with the definition and benefit offered in the bereavement policy.

  In addition, it is proposed to clarify that employees who work an 8 hour shift, rather than the typical 7.5 hours, accrue 8 hours (1 day) of sick leave. It is still capped at 12 days, but for a 40 hour/week employee, that is 96 hours rather than 90 hours. This brings policy in line with practice. (Attachment I)

- Guideline P-130 Educational Assistance for TBR System Employees

  The proposed revisions are recommended in response to the official notification of the legislative changes related to the use of tuition waivers.

  - Part-time regular and part-time temporary employees, excluding adjuncts, of community colleges and Tennessee Colleges of Applied Technology (TCATs) are eligible to enroll in one credit course per term at the college in which they work, with fees waived for the employee.
  - The waiver for all employees is limited to one class per term, not to exceed 4 credits or 120 clock hours.

  An additional revision was suggested to provide clarity to Section III.F.2. on Eligibility. The proposed revision to Section F.2. duplicates the language in Section III.B. (Attachment J)

The Human Resource Officers minutes, with the policy and guideline changes, were approved.

D. Internal Audit

Mr. Clements highlighted the following issue from the June 25, 2014 Internal Auditors meeting.

- Automated Working Papers

  During their audit last summer, it was suggested that TBR Internal Audit begin using automated working papers. This would allow for more consistency among TBR institutions. Therefore, TBR Internal Audit released an RFQ for automated working paper software. However, after receiving the results of the RFQ they realized that there were some vast differences in the software offered. Due to the responses received, they have decided that they need to issue an RFP to get the best possible product.

The Internal Audit minutes were approved.

E. IT Sub-Council

Mr. Young highlighted the following issues from the July 15, 2014 IT Sub-Council meeting.

- A security group is being developed to address the challenges reported in audit findings.
- The Barry Dunn ERP Options Study is underway. A focus group has been developed to compare our current system with cloud based systems, PeopleSoft, etc. A survey is being conducted to determine the current users levels of satisfaction. TBR has provided $55,000 of the $119,000 fee.
- Ellucian is beginning to roll out the Banner XE Module components. This is included as part of our current maintenance package. However, there may be a need for additional hardware to support this.

3. <u>IT System Control Findings</u>

Two institutions were asked to discuss recent audit findings related to their IT system controls. One institution received a finding for failing to update its disaster recovery plan. Since there seems to be a common theme among these audit findings, a question was asked if there was going to be a template sent out by TBR in order to provide consistency among the institutions and avoid future findings. The committee also discussed that hosting changes the focus from a disaster recovery plan to a business continuity plan. The committee discussed the possibility of a consultant to give us guidance.

The second institution received a finding for data security-password issues. The level of security that their policy requires was deemed to be below best practices and industry standards. They have now updated their policy align with State Audit's recommendations.

4. Rental Car Insurance

TBR's policy is that we do not pay for rental car insurance because historically we have had the ability to file a claim with the Tennessee Claims Commission and the claim is paid from the Risk Management Fund. However, there have been some personnel changes in the Risk Management area, and the initial reaction was that a rental car claim would not be covered. Mr. Sims has had some discussions with them and they are committed to reviewing the statute and honoring their current practice in the interim.

5. Learning Support

The committee had several questions regarding how the new learning support structure would operate. One question was how the institutions would account for the change in fee structure. Mr. Sims stated that until academics decides on their parameters, we cannot really decide on a fee structure. Mr. Sims will check with Dr. Denley to see where they are in the process. Dr. Denley will also be at the October BASC meeting to provide an update.

6. Degree Compass

The Governor has appropriated $250,000 seed money to offset the cost of Degree Compass to encourage wider adoption. Degree Compass will be licensed through D2L. It will likely be the second quarter of next calendar year before it becomes available commercially. THEC has asked that we begin working on a grant program for this software.

7. Emergency Preparedness

The Emergency Preparedness Committee met for the first time last month. It appears that we need to revise our current guideline to more closely integrate with FEMA practices. Some of the committee members also requested to streamline the process to work with local EMA agencies.

8. Funding Formula Review

Mr. Sims informed everyone that there will be a meeting before the funding formula review committee on August 19th from 1:00-2:30 p.m. We are aware of some major issues that need to be covered, such as the treatment of Remedial and Developmental learning support, as well as if and how reverse articulation will be recognized for formula purposes. Mr. Sims asked the committee to forward him any additional items that they would like to see on the agenda.

There being no further business, the meeting was adjourned at 11:00 a.m.

Policy 4:XX:XX:XX   Budget Principles

Purpose

As a public entity, the System is responsible for the prudent management of resources entrusted to its care by Tennesseans. Ensuring that budgets developed by institutions and considered by the Board are prepared in accordance with sound budget principles is fundamental to good stewardship of System financial resources. The budget principles included in this policy are intended to respond to the expectations of various stakeholders relating to the generation and expenditure of funds. All System and institutional officials responsible for budgeting processes are directed to adhere not only to the specific requirements of this policy, but to also act within the spirit of this policy and in a manner that evidences forthrightness and engenders public trust.

Guiding Principles

Working within the institution's shared governance process, each Chief Executive Officer has the responsibility and full authority to propose a budget to the Chancellor and Board. The Chief Executive Officer will ensure that the process for budget development is open, provides for accountability, includes appropriate constituencies in budget planning, and incorporates clear guidelines and adequate training for those involved.

In the development and submission of budgets, each Chief Executive Officer shall adhere to the following principles.

1) Budgetary needs should be prioritized relative to the institution's core mission and consistent with its strategic plan, with resources aligned accordingly. In situations where resources are constrained or limited, resources should be redistributed as needed to ensure that limited resources meet the highest priority needs of the institution.
2) Budgets must respect generational neutrality. In general, this to say that the cost of educating the current generation of students should be borne by the current generation and not be deferred to future generations.
3) The Budget must be balanced:
    a) In total, such that all planned expenditures do not exceed expected revenues and use of reserves or other non-recurring funds; and
    b) On a recurring basis, such that planned ongoing expenditures do not exceed expected recurring revenues. Use of non-recurring funds to meet recurring expenditures is discouraged; however, it is acknowledged that circumstances may arise when it is in the best interest of the institution to do so. In the event non-recurring revenues are budgeted to meet recurring expenses, this must be specifically disclosed to the Board as

part of the budget consideration process, including justification and the institution's plan for achieving recurring balance.

4) A degree of fiscal conservatism must be incorporated in the budget to reduce the risk of year-end deficits by:

   a) Ensuring all costs are fully recognized. Use of anticipated savings as a funding source (e.g., lapsed salaries) for recurring expenses is discouraged. If anticipated savings are used to fund recurring expenses, this must be specifically disclosed to the Board as part of the budget consideration process;
   b) Using financially conservative, yet reasonable, revenue estimates in light of existing conditions. Estimates of revenues derived from students must be based on analysis of historic enrollment patterns, modified for any recent observable patterns. The basis for student derived revenue estimates must be communicated to the Board as part of the budget consideration process; and
   c) Maintaining appropriate contingency funds for revenue shortfalls and emergencies for both Education & General and Auxiliary operations., consistent with relevant TBR policies and guidelines.

5) Related to the principle on generational neutrality and to ensure the long term viability of the institution, sufficient provision must be made in both Education & General and Auxiliary budgets to annually fund:

   a) Maintenance and facilities renewals to the physical plant and grounds; and
   b) Acquisition, repair and replacement of teaching equipment, computers, and other equipment.

6) Opportunities for cost savings arising from shared services and resources between departments and organizations within an institution and among other institutions should be aggressively pursued.

Operational Provisions

Accountability for the effective management of the budget rests with the institution's Chief Executive Officer, who ensures that proper controls and budget management policies are established.

Guidelines may be developed that further direct and clarify application of the above principles in the budget development and administration process. The Chancellor is authorized to issue directives on these matters consistent with the provisions of this policy.

Attachment B

Policy 4:XX:XX:XX - - Institutional Financial Performance

Policy/Guideline Area

Business & Finance Policies

Applicable Divisions

TCAT's, Community Colleges, Universities, System Office

Purpose

It is the policy of the Board that institutions have a sound financial base and demonstrate financial stability sufficient to support the mission of the institution over the long term. Although missions may vary among institutions, a sound financial base and a pattern of financial stability provide the foundation for accomplishing an institution's mission, regardless of changing economic conditions. Financial and physical resources should be managed in a manner that permits the institution to fulfill its mission long term.

Policy/Guideline

Responsibility: The chief executive officer of each institution is responsible for administering and managing the institution's financial affairs in such a manner as to ensure the institution's current and future financial health. This policy establishes the tools used to assess the financial health of an institution, the reporting process, and actions to be taken if an institution shows signs of financial weakness.

Background: The analytical framework contained within this policy is derived from *Strategic Financial Analysis for Higher Education; Identifying, Measuring & Reporting Financial Risks*; Seventh Edition, published by KPMG; Prager, Sealy & Co., LLC; and ATTAIN. This framework and its primary metric, referred to as the Composite Financial Index ("CFI"), are widely used in the higher education community to understand the financial health of institutions. The methodology, ratios, and related benchmarks contained in this policy are taken from this publication.

To determine an institution's financial performance, four questions are asked:

- Are resources sufficient and flexible enough to support its mission;
- Does financial asset performance support the institution's strategic direction;
- Do operating results ~~indication~~ indicate the institution is living within its available resources; and
- Is debt managed strategically to advance its mission.

To address these four questions, data from an institution's unaudited financial report are used to determine four "core" financial ratios that are then combined into a single composite metric of financial condition – the Composite Financial Index.

Calculation of Core Ratios and CFI: All calculations include the financial results of the institution's component unit (i.e. related foundation(s), noted as "CU") to present a comprehensive picture of the institution's overall financial condition. The data source for calculation of each ratio is the institution's unaudited annual financial report, with all calculations reflecting the results from a single year (i.e. no use of moving averages). The four core financial ratios, including general descriptions, the calculation method, data sources, an expected performance standard, and a performance watch level and a similar description of the calculation and interpretation of the Composite Financial Index value, are as follows.

- **Return on Net Assets**

  Description: The return on net assets ratio measures total economic return during the fiscal year. This measure is similar to the return on equity ratio used in examining for profit concerns and answers the questions, "Are they better off financially than they were a year ago" and "Does financial asset performance support the strategic direction of the institution?" While investments in plant, a capital campaign, or a poor stock market can all create year to year volatility in this measure, the trend over time should be positive.

  Calculation:

  $$\frac{\text{Change in Net Assets + CU Change in Net Assets}}{\text{Total Net Assets (beginning of year) + CU Total Net Assets (beginning of year)}}$$

  Expected Performance Standard: The return on net assets ratio should be at least 3 percent above the rate of inflation. For example, if the Consumer Price Index (CPI) is at 3 percent, a return on the net assets ratio of 6 percent is desirable.

  Watch Level: Consistently below the rate of inflation. Anything below the rate of inflation indicates a reduction of the institution's asset base in real dollars, thereby eroding the purchasing power of institutional resources for future generations.

- **Net Operating Revenues Ratio**

  Description: The net operating revenues ratio indicates an operating surplus or deficit in the given fiscal year. A positive ratio indicates that the institution experienced an operating surplus for the year. This ratio is similar to a profit margin and answers the questions, "Did they balance operating expenses with available revenue" and "Do the operating results indicate that the institution is living within available resources?" Depreciation expense is included to reflect the use of physical assets in measuring operating performance.

  Calculation:

  Operating Income (Loss) + Non-operating Revenues (Expenses) +

$$\frac{\text{CU Change in Unrestricted Net Assets}}{\text{Operating Revenues + Non-operating Revenues + CU Total Unrestricted Revenue}}$$

Expected Performance Standard: A ratio of 4.0%. This is considered adequate to keep pace with the growth in operating expenses and maintain reserves at acceptable levels.

Watch Level: Consistently below zero. A deficit in a single year does not necessarily indicate a problem, but deficits over several years are a cause for concern and suggest that the institution's mission cannot be sustained and institutional finances should be restructured.

- **Primary Reserve Ratio.**

Description: The primary reserve ratio measures financial strength and flexibility by comparing expendable net assets to total expenses. This measure answers the question, "How long can the institution survive without additional net assets generated by operating revenue?"

Calculation:

$$\frac{\text{Expendable Net Assets + CU Expendable Net Assets}}{\text{Total Expenses + CU Total Expenses}}$$

Expected Performance Standard: A ratio of 0.40 (representing about 5 months of expenses) or higher. At this level an institution has the flexibility to manage minor financial disruptions and other unforeseen events with less need to immediately disrupt ongoing activities. At this level, an institution can be expected to carry on a reasonable level of facilities maintenance activities.

Watch Level: A ratio of 0.133 (represents less than 1.5 months of expenses in ready assets) or less. Institutions at these levels have less operating flexibility to meet unexpected events, generally lack sufficient resources to pursue strategic initiatives, and may struggle to invest in plant maintenance.

- **Viability Ratio**

Description: The viability ratio measures the financial health of the institution by comparing total expendable net assets to total current and non-current liabilities. This ratio is similar to a coverage ratio used in the private sector to indicate the ability of an organization to cover its long term debt from readily available resources and answers the questions, "How much of their debt can the institution pay off with existing resources" and "Is debt managed strategically to advance the institution's mission". For institutions with no debt, this ratio is ignored in the calculation of the CFI score. A ratio of 1.0 indicates an institution has expendable resources sufficient to satisfy all outstanding plant related debt.

Calculation:

$$\frac{\text{Expendable Net Assets + CU Expendable Net Assets}}{\text{Plant Related Debt + CU Plant Related Debt}}$$

Expected Performance Standard: A ratio of 1.25 or higher (the higher the ratio, the stronger the creditworthiness of the institution). At these levels, an institution has increased flexibility to address unexpended events.

Watch Level: A ratio of 0.41 or less. Similar to the primary reserve ratio Watch level, institutions at this level have decreased flexibility to respond to unforeseen events, essentially a reduced "margin of error" in the financial management of the institution. Dropping below a ratio of 0.41 may identify the institution as a credit risk.

Composite Financial Index (CFI): After their calculation, these four ratios are combined to deliver a single measure of the overall financial health of the institution. By blending these four core financial ratios into one metric, a more balanced view of the institution's finances is provided since weakness in one measure can be offset by strength in another. Additionally, measuring the index over time provides a glimpse as to the progress institutions are making toward achieving financial goals. CFI scores range from a low of -4.0 to a high of 10.0. The CFI is computed using a four-step methodology:

1. Computing the values of the core ratios as outlined above;
2. Calculating strength factors by dividing the core ratios by threshold values;
3. Multiplying the factors by specific weights; and
4. Totaling the resulting scores to obtain the composite financial index.

Universities (Institutions with Outstanding Debt)

Core Ratio Value		Threshold Value		Strength Value		Weight		Score
Return on Net Assets	/	0.020	=	0.00	X	20%	=	0.00
Net Operating Revenues	/	0.013	=	0.00	X	10%	=	0.00
Primary Reserve	/	0.133	=	0.00	X	35%	=	0.00
Viability	/	0.417	=	0.00	X	35%	=	0.00
				Composite Financial Index Score			=	0.00

Community Colleges (Institutions with No Outstanding Debt)

Core Ratio Value		Threshold Value		Strength Value		Weight		Score
Return on Net Assets	/	0.020	=	0.00	X	30%	=	0.00
Net Operating Revenues	/	0.013	=	0.00	X	15%	=	0.00
Primary Reserve	/	0.133	=	0.00	X	55%	=	0.00
Viability	/	0.417	=	0.00	X	0%	=	0.00
				Composite Financial Index Score			=	0.00

Expected Performance Standard: A score of at least 3.0. *Strategic Financial Analysis for Higher Education* indicates that at this level an institution is relatively financially healthy in that sufficient liquid resources exist to meeting unforeseen circumstances, net operating revenues are adequate, expendable net assets exceed the level of debt, and the return on net assets is reasonable.

Watch Level: A score of 1.0 or less. Again, *Strategic Financial Analysis for Higher Education* suggest that scores of 1.0 or below call into question the institution's ability to carry out existing programs and survive.

Review Periods: While important, the Board acknowledges that annual results should be placed in context by reviewing longer terms trends. By focusing on 3 to 5 year trends, the Board believes the long term financial health of an institution may be better ascertained.

Process for Reporting: Within thirty days of submission to the System Office of published financial statements, each institution's chief business officer shall be responsible for calculation of the institution's core ratios and CFI score and submitting this information to the System Office. As part of this submission, the chief business officer shall provide a narrative that explains the factors underlying changes in ratio values and CFI scores from the prior year, and whether these factors were planned or unexpected. If Watch Level performance is evidenced on any indicator, the submission shall also address what action the institution plans to take to improve the ratio or score in subsequent years.

The System Office shall review institutional submissions. For any measure that evidences Watch Level performance, the System Office will review with the chief business officer the adequacy of the institution's plan to address the issue. Concerns regarding the adequacy of such plans, if any, shall be communicated to the Chancellor and the institution's chief executive officer. If a Watch Level performance issue persists, it will be brought to the attention of the Chancellor and the Board in an exception report.

On an annual basis, the Board shall be advised on the aggregate overall financial performance of the System and its institutions, in summary by sector. The System Office staff shall report to the Board any institution whose performance meets the Composite Financial Index Watch Level criteria specified in this policy.

Sources

Strategic Financial Analysis for Higher Education; Identifying, Measuring & Reporting Financial Risks; Seventh Edition, published by KPMG; Prager, Sealy & Co., LLC; and ATTAIN.

Disposal of Surplus Personal Property: 4:02:20:00

A) Policy/Guideline Area

Business and Finance Policies

B) Applicable Divisions

TCATs, Community Colleges, Universities, System Office

C) Purpose

The following policies and procedures concerning the disposal of surplus personal property shall be followed by all institutions governed by the Tennessee Board of Regents.

D) Definitions

- Surplus personal property - means that personal property which has been determined to be obsolete, outmoded, unusable or no longer usable by the institution, or property for which future needs do not justify the cost of maintenance and/or storage. Such property must be declared "surplus personal property" by the president, director, or designee of the transferring institution; provided however, property need not be declared surplus when disposition is through the trade-in method.

E) Policy/Guideline

I. General Rules

A. Surplus personal property is either usable property, which shall be transferred or sold, or unusable property, which may be destroyed, as hereinafter provided:

1. Surplus personal property which is perishable food may be destroyed without delay or notification.

2. Surplus mattresses may be destroyed or may be otherwise disposed of only upon compliance with T.C.A. § 12-2-403.

3. Surplus personal property which is determined to be not usable by the institution and of little or no salvage or other economic value may be destroyed by an appropriate method.

4. The institution shall follow the procedures described in Section II.C of this policy, prior to disposal of all other surplus personal property.

B. Surplus personal property in which the Federal Government or other entity has a legal interest should be transferred to such entity when no longer needed.

C. It is unlawful for any state official or employee, including System employees, to purchase from the state except by bid at public auction any surplus property during the tenure of his office or employment, or for six (6) months thereafter. A purchaser who violates this provision is guilty of a misdemeanor under T.C.A. § 12-2-412.

D. For all sales to individuals except at public auctions including internet auction, the transferring institution conducting the sale shall obtain from the purchaser a signed disclaimer certifying the purchaser is not a state or System employee and that the purchaser is not buying the property for or on behalf of any state or System employee.

E. All employees of the Tennessee Board of Regents System and their immediate families shall be ineligible to bid for or purchase surplus personal property except by bid at public auction.

Comment [TGB1]: A campus had an issue where a weapons vendor allowed handguns as trade-ins, then turned around and sold them back to the officers who used them, circumventing the policy. A clause was added to the gun vendor's contract that the vendor will not do a trade-in, sell-back with employees. (IA)

F. Possession of surplus personal property sold to the general public under any method prescribed under Section II.C of this policy shall not pass until payment is made by cash, or if payment is made by cashier's check or certified check, possession shall not pass until the check is honored by the drawee bank.

G. Possession shall pass to System institutions, political subdivisions of the state, and other governmental entities upon receipt, by the institution, of purchase vouchers of such institutions, political subdivisions, or other governmental entities. Title to motor vehicles sold as surplus property to political subdivisions and other governmental entities shall be closed as to transferee when title is passed.

II. <u>General Disposal Procedures</u>

A. The president or director of each institution or their designee shall declare personal property to be surplus personal property prior to disposition as such; provided however, property need not be declared surplus when disposition is through use of the trade-in method.

Comment [TGB2]: Campuses should take proper steps before disposing of computers and other electronic computing devices which may have institutional or sensitive data or PII. Campuses should remove campus decals or logos before disposing of motor vehicles. (IA)

B. The president or director or their designee shall designate the department or individual at the institution responsible (hereinafter referred to as "responsible authority") for the disposal of surplus personal property, and the communications and procedures concerning the disposal of surplus personal property.

C. No article of personal property may be disposed of as surplus except by one of the following methods:

1. Trade-in, when such is permitted due to the nature of the property or equipment and subject to the provisions of T.C.A. § 12-2-403 and the rules of this policy;

2. Transfer to other institutions within the Tennessee Board of Regents system;

3. Transfer to other state agencies;

4. Sale to eligible political subdivisions of the state and other governmental entities;

5. Public auction, publicly advertised and held;

6. Sale under sealed bids, publicly advertised, opened and recorded;

7. Negotiated contract for sale, at arm's length; but only in those instances in which the availability of the property is recurring or repetitive in character, such as marketable waste products;

8. Disposition through the Department of General Services as provided in the Department Rules and Regulations;

9. Donations to a public school or public school system;

10. Sale by Internet auction.

D. If the president, director or designee declares the property to be surplus personal property, the method of disposal shall be determined by the responsible authority from the alternatives set forth in Section II.C of this policy. Written documentation for the selection of method of disposal shall be maintained.

E. The trade-in method, when property is of the nature appropriate for trade-in, and transfer to other institutions in the Tennessee Board of Regents System shall be the first and second priority methods, respectively, for disposal of surplus personal property, except for waste products which shall be disposed of as further provided in this policy.

F. In the selection of other methods of disposal, the following criteria shall be considered:

1. The character, utility and functionality of the property;

2. The economics of disposal in light of all relevant circumstances attendant the proposed disposal, including the condition and climate of the potential market and present estimated market value of the property, transportation costs, and other cost factors associated with disposal; and

3. Sound fiscal and budgetary policy and practices.

G. The method of disposal selected in the preceding section shall be implemented pursuant to the specific procedures set forth in this policy for such disposition.

H. The responsible authority at the institution shall be responsible for the maintenance of accountability documentation on all items of surplus personal property, and shall ensure that adequate audit and inventory trails on all items of surplus personal property are maintained.

I. Such authority shall make the final determination of the fair market value of surplus personal property for purposes of calculating reimbursements to the transferring institution and to determine whether property may be destroyed pursuant to Section I.A.3.

J. Nothing shall prohibit an institution from simultaneously providing notice of an intended disposition of surplus personal property to all System institutions and all state agencies as specified in Section IV.A and V.A below.

K. In such event, if no System institution has requested the property within seven (7) days of the initial notice, the first state agency which had requested the property within such time shall be entitled to receive the property upon reimbursement as provided in Section V. below.

III. Trade-In on Replacement

A. Items that must be replaced may, subject to the requirements of this section, be traded in on replacement property.

B. The responsible authority of the institution shall perform the following functions in connection with the trade-in method of disposal:

1. Issue invitations to bid asking for bids with trade-in and without trade-in and receive and review bids;

2. Make an evaluation of the condition and fair market value of the property to be disposed of; through comparisons of bids and the evaluation prepared, make a determination whether it is in the best interests of the institution to dispose of the property by trade-in or by one of the other methods of disposal.

IV. Transfer to System Institutions

A. Except when the trade-in method is utilized or when the property is to be disposed of as a waste product, the responsible authority at the institution shall provide to the president, director, or their designee, or appropriate departments and/or individuals at all other institutions in the System and to the offices of the Tennessee Board of Regents, a notice of intended disposition which shall include;

1. The name of the individual to contact for additional information;

2. The location of the property for inspection;

3. A description of the property;

4. The condition of the property; and

5. The original cost and fair market value of the property as determined by the responsible authority.

B. The initial notice of available surplus personal property may be made at periodic intervals for the purpose of consolidating notices on numerous items of such property for convenience.

C. The first institution which makes a written request for the available surplus personal property shall be entitled to receive such property.

D. In the event that no institution requests transfer of available surplus personal property within seven (7) days of the date of the initial notice, the property may be disposed by means of another appropriate method of disposal.

V. Transfer to Other State Agencies

A. When transfer to other state agencies is the method of disposal selected; the responsible authority of the institution shall provide notice of the intended disposition to the commissioner or chief executive officer of all state agencies which shall include all information specified in the notice required by Section IV.A.

B. The first state agency which makes a written request for the available surplus personal property shall be entitled to receive such property.

C. In the event that no state agency requests transfer of available surplus personal property within seven (7) days of the date of the initial notice, the property may be disposed by means of another appropriate method of disposal.

VI. Sale of Surplus Property to Governmental Entities

A. Political subdivisions of the state and other eligible governmental entities may purchase surplus personal property by submission of sealed bids for such property to the responsible authority of the institution no later than two (2) days prior to a public auction held for disposal of such property.

1. Such bids shall be opened two (2) days prior to such public auction and the highest bid shall be selected unless the responsible authority decides that the highest bid does not represent the fair market value.

2. The responsible authority may reject such bids and may negotiate with the political subdivisions of the state and other entities which have submitted bids in order to obtain a fair market value. In the event negotiation does not result in a fair market value, such property shall be disposed of by public auction.

B. Political subdivisions of the state and other governmental entities shall retain possession of surplus property purchased from System institutions for at least one (1) year unless disposal is approved by the Board of Standards. Any profit realized from the resale of such property shall revert to the state or the System as their interests may appear.

C. Any sale of automobiles by a System institution to a county, municipality or other political subdivision or governmental entity shall become null and void and such property shall revert to the state, or the System as their interests may appear, in the event that such political subdivision or governmental entity does not transfer the registration of title to such automobile to its name within seven (7) days after the sale.

VII. Public Auctions and Sales Under Sealed Bids

A. Public auctions and sales under sealed bids, as provided in this policy, shall be publicly advertised and publicly held.

1. Notice of intended disposal by public auction or sale under sealed bid shall be entered by the responsible authority of the institution in at least one (1) newspaper of general circulation in the county or counties in which the disposal is to be made

reasonably describing the property and specifying the date, time, place, manner, and conditions of the disposal.

2. The advertisement shall be entered in the public notice or equivalent section of the newspaper and shall run not less than three (3) days in the case of a daily paper and not less than twice in the case of a weekly.

3. The disposal shall not be held sooner than seven (7) days after the last day of publication nor later than fifteen (15) days after the last day of publication of the required notice, excluding Saturdays, Sundays and holidays.

4. Prominent notice shall also be conspicuously posted for ten (10) days prior to the date of disposal, excluding Saturdays, Sundays and holidays, in at least two (2) public places in the county or counties where the disposal is to be made.

5. Furthermore, notice shall be sent to the county court clerks of the county in which the sale is to be made, and all contiguous counties in Tennessee, except when the fair market value of all the property to be sold is determined in writing by the president or director or his or her designee to be less than $500.00.

B. A mailing list shall be developed for mailing to eligible governmental entities and potential buyers of surplus items.

C. No person, firm or corporation shall be notified of any public auction or sale except as provided by this policy.

D. Each institution should attempt to include as many items in each sale as is practical and feasible.

E. All notices of sales of such property shall provide that the property is to be sold "as is" with transportation costs assumed by the purchaser. The notice shall state that the only warranty provided, expressed or implied, is the seller's right, title and interest in the property sold.

F. All sales by bid or auction shall be with reserve, and when bids received are unreasonably below the fair market value as determined by the responsible authority of the institution or school, all bids shall be rejected and the property shall be thereafter disposed of pursuant to other acceptable methods of disposal.

VIII. Disposal of Waste Products

A. Marketable waste products such as paper and paper products, used lumber, bottles and glass, rags, and similar materials of nominal value classified as scrap may be sold directly to dealers at the going market rate without soliciting bids. Each institution shall keep a record of the volume and unit price of such materials sold on the scrap market.

B. Waste products which are subject to storage and are normally accumulated until such quantities are available to make a sale economically feasible shall be sold under sealed bids as follows:

1. Invitations to bid shall be mailed to known buyers of the particular item;

2. Three firm bids shall be secured when possible;

3. Sealed bids shall be publicly opened and recorded ten (10) days, excluding Saturdays, Sundays, and holidays, after the invitations to bid are mailed;

4. The highest bidder shall be awarded the contract and shall be notified of the date for removal of the property and the method of payment which will be acceptable;

5. A file shall be maintained for each disposal for the purpose documenting the sale and should include all documents and information pertinent to the disposal.

C. Anything to the contrary notwithstanding, surplus personal property which is determined to be unusable and of little or no salvage or other economic value may be destroyed by an institution or school as provided in Section I.A.3.

IX. Disposal of Livestock

A. The Head of the Agriculture Program is responsible for the administration of sales or other disposition of all livestock. The Head of the Agriculture Program shall also ensure that adequate inventory records are maintained. Exceptions must be approved by the President of the Institution.

B. As applicable for the method of sale, documentation that supports the method of sale, advertisements, invitations to bid, bids received, authorization, minimum prices, and price received should be maintained by the Head of the Agriculture Program.

C. Consistent with the best interest of the institution, as recommended by the Head of the Agriculture Program, livestock may be sold by the following methods:

1. Disposition by Public Auction or Sealed Bid - Unless it is in the best interest of the institution to proceed otherwise, livestock shall be sold by invitation of sealed bids or by public auction (i.e., local livestock auctions).

2. Special Auction/Private Treaty Sales - These methods are used for superior breeding animals, show animals, pedigreed and/or high quality specialty animals.

    1. Prior to advertisement, a responsible faculty member or farm manager shall submit a list of superior animals to be sold at auction or private treaty and obtain written approval from the Head of the Agriculture Program.

    2. The animal(s) available for sale will be advertised through the departmental website, relevant industry publications, or newspaper at least two (2) weeks in advance. A responsible point of contact, who is able to provide information on animal offerings and participate in the selling/bidding process, should be included in the advertisement.

    3. The Agriculture Program will establish minimum sale prices. The farm manager or faculty member in charge of the respective species' research/teaching program shall determine sale prices for each animal. Value shall be based on the

genetic, phenotypic, and performance merit of the animal compared to the average of the population.

4. Sale of the animal will be to the highest bidder at or above the minimum established sale price. In cases of tie bids, a random draw will determine the successful bidder.

3. Where the price for "commercial" (non-pedigree/non-specialty) livestock can easily be established, the institution may sell directly to "order-buyers" based on current prices when viewed as being in the best interest and most profitable to the institution.

4. Disposition by Slaughter - Prices for livestock being sold for slaughter shall be based on the National Yellow Sheet prices. The "Yellow Sheet" publication updates prices daily based on a national average. An acceptable alternative for obtaining slaughter animal prices are current USDA Livestock Market Reports.

X. Sale by Internet

A. Notice of intended disposal by Internet auction shall be posted on the Internet. Such notice shall specify and reasonably describe the property to be disposed of, the date, time, manner and conditions of disposal, all as previously determined by the responsible authority.

XI. Exceptions

A. Surplus personal property may be disposed of by a method other than those listed in Section 3(c) of the policy only upon request by the president or director of the transferring institution or designee and approval by the Chancellor or his or her designee.

F) Sources

TBR Meetings, June 29, 1979; September 30, 1983; March 7, 1997; September 26, 2003; June 29, 2007; June 24, 2011: March 29, 2012; Dec 13. 2012

Attachment E

Motor Vehicles: 4:03:02:00

G) Policy/Guideline Area

Business and Finance Policies

H) Applicable Divisions

TCATs, Community Colleges, Universities, System Office

I) Purpose

The purpose of this policy is to establish the minimum regulations and procedures concerning the maintenance and operation of motor vehicles by institutions and employees of the institutions within the Tennessee Board of Regents System.

J) Definitions

- State vehicle or motor vehicle - any motor vehicle owned by the Board or an institution or college of applied technology in the System, or purchased or leased from state funds.

- Institution - any university, or community college, or college of applied technology within the Tennessee Board of Regents System, and the offices of the Board of Regents.

- Employee - any person employed full or part-time by an institution or any person serving as an 'official volunteer' at an institution. An 'official volunteer' is defined as a person whom the institution has properly registered with the Tennessee Board of Claims pursuant to Tenn. Code Ann. § 8-42-101(3)(B).

K) Policy/Guideline

I. General Provisions

A. Motor vehicles are maintained at institutions in the System to facilitate the official business of the System. It is the responsibility of all employees who use state vehicles to ensure the efficient and economical utilization of such vehicles.

B. All state vehicles shall be used in accordance with the provisions of this policy.

C. All state vehicles shall be marked in accordance with the current TBR Marking Plan as contained in Attachment A.

II. Presidents, Chancellor, Vice Chancellors, Legal Counsel, and TCAT Directors

A. The presidents of the institutions, the Chancellor, Vice Chancellors, Legal Counsel, and TCAT Directors may be assigned motor vehicles for their use. The terms of such use shall be set forth in their respective employment agreements or letters.

III. Motor Pools

A. Each institution is authorized to maintain a central motor pool from which vehicles may be dispatched by employees for official business.

B. When motor pool vehicles are maintained, an employee who needs to use a motor vehicle on state business shall use a pool dispatched vehicle if one is available, unless the employee elects and obtains authorization to use a personally-owned vehicle as provided in the Board's General Travel Policies and Procedures (No. 4:03:03:00).

C. Motor pool vehicles shall be available for either trip assignments or special assignments.

1. Motor pool vehicles available for trip assignments will be centrally controlled by the institution and made available for specific trips and returned to the motor pool upon completion of trips and shall be used only for official business and not for personal use.

2. Special assignment of motor pool vehicles may be made to a division or a person when necessary for use on a regular basis.

3. Motor pool vehicles, including those used for trip assignments and special assignments may not be used for commuting purposes unless the employee:

a. Is departing upon or returning from an official trip away from his or her headquarters or the employee needs the vehicle to conduct institution business after regular working hours or before his or her usual working hours on the next day; or

b. Has been recommended by the president or director and approved by the Chancellor to be authorized to use the vehicle for commuting purposes.

IV. Authorized Operators and Passengers

A. Only employees of an institution with proper departmental authorization may be authorized to operate a state vehicle for official business. Authorization to use a state vehicle shall be limited to official use within the scope of employment of the employee.

B. All employees must have a valid driver's license prior to being authorized to operate a state vehicle.

C. Passengers in state vehicles shall be limited to the following:

1. Employees of the institution when within the scope of employment;

2. Students of the institution engaged in institutional or school sponsored activities; and

3. Other persons when it is necessary for them to accompany an employee on official business or as guests of the institution. The spouse and children of employees generally are not considered a guest of the institution unless their attendance is required at the event and they are listed on approved travel authorizations.

Comment [BS3]: ETSU

V. Penalties for Misuse of Vehicles

A. Employees who misuse vehicles will be subject to disciplinary sanctions, depending upon the magnitude of the misuse and the frequency with which it has occurred. Misuse includes any of the following:

1. Utilization of radar detection devices in state vehicles;

2. Violations of traffic laws; this includes exceeding posted speed limits, reckless driving, and illegal parking;

3. Careless operation that results in damage to the vehicle or injury to persons or property;

4. Use of a vehicle for personal business or unauthorized commuting purposes; or

5. Use of a vehicle contrary to the provisions of this policy.

B. The president or director of the institution, or the Chancellor should determine the penalty appropriate for each violation; and in addition may require the employee to pay for damages to the vehicle caused by misuse.

VI. Notice of Liability and Penalties for Misuse

A. A notice of liability and penalties for misuse of motor vehicles (Exhibit 1) shall be posted at the site where vehicles are normally checked out, and be contained in each vehicle for the benefit of drivers.

VII. Exceptions

A. Any exception to this policy must be approved in writing by the Chancellor.

Attachment A

I. Marking Plan for State Vehicles

A. The provisions of the marking plan for licensed vehicles are as follows:

Comment [BS4]: Campuses have electric vehicles, which are licensed. However, some have softside doors which are often removed in summer months. Should the policy language allow for other marking plans for such vehicles? (IA) Language added for clarification

1. All institutions will develop and/or affix their own individual decal containing a minimum surface area of sixty square inches to all licensed vehicles.

2. The identifying emblem will be displayed on the passenger and driver's door unless otherwise stated. Some vans will be marked on the side at mid-panel height, and some institutions will further identify the vehicle as security, maintenance, etc.

3. Vehicles assigned to the chancellor, vice chancellors, legal counsel, presidents, and directors will carry regular series license plates and no decal identification.

B. These provisions will remain in full effect until revoked or altered in writing by the Chancellor of the Tennessee Board of Regents.

Source: Memorandum dated February 28, 1986, from Chancellor Thomas J. Garland to the State Commissioners of Finance and Administration and General Services

L) Exhibits

- Exhibit 1 - Notice of Liability and Penalties for Misuse (pdf /11.06 KB)

M) Sources

TBR Meetings, June 29, 1979; June 27, 1980; September 30, 1983; June 29, 1984; June 27, l986; June 24, 1988; September 21, 1990; March 18, 2005; June29, 2007.

Attachment F

Fixed Assets and Sensitive Minor Equipment: B-110

N) Policy/Guideline Area

Business and Finance Guidelines

O) Applicable Divisions

TCATs, Community Colleges, Universities

P) Purpose

The purpose of the following guideline is to outline significant provisions for consistent capitalization procedures for fixed assets at the institutions governed by the Tennessee Board of Regents.

Q) Policy/Guideline

I. Introduction

A. These guidelines largely represent a consolidation of the existing practices and are intended to serve as a reference document for institutional staff responsible for fixed asset administration.

1. The guideline includes provisions for capitalizing land, land improvements, leasehold improvements, buildings, additions and improvements to buildings, infrastructure, nonexpendable personal property, software, and livestock.

a. Additionally, the guideline also includes provisions for the inventory of sensitive items.

B. Property records should be maintained for all land and capitalized assets.

1. Procedures should ensure the proper recordkeeping of capitalized assets, including the initial recording, movement and eventual disposal of assets and should ensure that these assets are periodically inventoried.

2. Property records for assets acquired with federal funds should conform to OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations.

II. Land

A. Land is generally considered to have an unlimited life and is therefore a non-depreciable asset. Land acquired by the institution should be recorded at its original cost which includes a variety of expenditures related to its acquisition and its preparation for use as intended by the institution.

B. The following are examples of expenditures that should be capitalized as a part of the cost of land:

1. The original acquisition price.

2. Commissions related to the acquisition.

3. Legal fees related to the acquisition.

4. Cost of surveys.

5. Cost of an option to buy the acquired land.

6. Cost of removing unwanted buildings from the land, less any proceeds from salvage.

7. Unpaid taxes (to the date of acquisition) assumed by the institution.

8. Cost of permanent improvements (e.g. landscaping) and improvements that will later be maintained and replaced by other governments (e.g. street lights, sewers).

9. Cost of getting the land in condition for its intended use, such as excavation, grading, filing, draining, and clearing.

C. Land acquired through forfeiture should be capitalized at the total amount of all taxes, liens, and other claims surrendered, plus all other costs incidental to acquiring ownership and perfecting title.

1. Assumption of liens, mortgages, or encumbrances on the property increases the purchase price and should be included in the original cost.

2. A liability should be recognized for the amount of the lien, mortgage, or encumbrance assumed by the institution.

D. Land acquired by donation, or the intent to donate, e.g., for one dollar, should be recorded on the basis of an appraisal of the market value at the date of acquisition.

1. The cost of the appraisal itself, however, is expensed at the time incurred.

2. When costs are incurred but the land is not acquired, the costs should be expensed.

E. Land held for investment purposes should be classified as investments rather than as property.

III. Land Improvements

A. Expenditures for land improvements that have limited lives and exceed $50,000 should be capitalized in a separate account from the Land and depreciated over their estimated useful lives.

1. Examples of land improvements include, but are not limited to, site improvements such as landscaping that has a limited life (e.g. shrubbery, flowers, trees); retaining walls, parking lots, fencing, sidewalks, sculptures, and art work.

2. Land improvements are normally depreciated over a useful life of 20 years.

B. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use.

1. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

IV. Leasehold Improvements

A. Leasehold improvements include improvements to existing or new leased spaces. These improvements should be capitalized if the cost exceeds $50,000 and the cost is borne by the institution.

B. Leasehold improvements are generally depreciated over the lesser of the original term of the lease or the useful life of the improvements.

C. If the lease contains an option to renew for additional years but renewal is uncertain or the likelihood of renewal is uncertain, the improvements should be depreciated over the original term of the lease or the useful life of the improvement.

V. Buildings

A. The cost of a building includes all necessary expenditures to acquire or construct and prepare the building for its intended use.

1. Buildings consist of relatively permanent structures, including all permanently attached fixtures, machinery and other appurtenance that cannot be removed without damaging the building or the item itself.

B. Buildings are erected for the purpose of sheltering persons or property. Examples include, but are not limited to such items as academic buildings, dormitories, apartments, barns, etc.

1. All buildings costing $100,000 and above should be capitalized.

2. Buildings costing less than $100,000 should be expensed.

3. Buildings are normally depreciated over a useful life of 40 years.

C. Buildings acquired by purchase should be capitalized at their original cost. The following major expenditures are capitalized as part of the cost of buildings:

1. The original bargained purchase price of the building.

2. Cost of renovation necessary to prepare the building for its intended use.

3. Cost of building permits related to renovation.

4. Unpaid taxes (to date of acquisition) assumed by the institution.

5. Legal and closing fees.

D. Buildings acquired by construction should be capitalized at their original cost. The following major expenditures are capitalized as part of the cost of buildings:

1. Cost of constructing new buildings, including material, labor, and overhead.

2. Cost of excavating land in preparation for construction.

3. Cost of plans, blueprints, specifications, and estimates related to construction.

4. Cost of building permits.

5. Architectural and engineering fees.

6. Landscaping and other improvements related to the building construction that cannot be separately identified from the building project (e.g. wiring within the building, shrubbery and sidewalks around the building).

E. Buildings acquired by donation, or the intent to donate, e.g. for one dollar, should be recorded on the basis of an appraisal of the market value at the date of acquisition.

1. The cost of the appraisal itself, however, should not be capitalized.

2. Removable fixtures, including but not limited to furnishing for the new building, should be distinguished from the cost of the building and capitalized or expensed in the appropriate accounts even if they are acquired as a part of the purchase or the construction project.

F. The cost of a building that is acquired but immediately removed to prepare the land for construction of a new building is treated as part of the cost of the land rather than as part of the cost of the new building.

G. The cost of removing an old building that you have occupied in the past but that is now deteriorated and must be removed prior to constructing a new building, should be capitalized as a part of the cost of the new building.

1. The precedent supporting this treatment is the requirement to capitalize all normal costs of readying an asset for use, i.e., capitalizing demolition costs of unwanted building(s) with the purchase of land, capitalizing renovation costs when a building is purchased, capitalizing excavating costs in preparation for construction of a new building and, when a building is constructed with plans to expand later any demolition costs are capitalized with the cost of the addition.

H. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

VI. Additions and Improvements to Buildings

Comment [TGB5]: Buildings costing less than $100,000 are expensed but additions and improvements of $50,000 or greater are capitalized. The possibility exists for additions or improvements to a building to be capitalized even when the building is not. Should the capitalization values be consistent ($100,000)? This change would not correct for all such matters given as an example, but may provide more consistency. (IA)

A. Additions

1. Additions represent major expenditures that are capital in nature because they increase the service potential of the related building.

2. Additions costing $50,000 or above should be capitalized.

3. Additions costing less than $50,000 should be treated as repairs and maintenance even though they have the characteristics of capitalized expenditures. Example:

a. A new wing is added to an existing building at a cost of $700,000. The cost would be capitalized.

b. A new wing is added to an existing building at a cost of $49,999. The cost would be expensed since it does not meet the dollar level established for capitalization.

4. Two major issues are involved with accounting for additions and generally require some professional judgment:

a. Useful life: If the estimated useful life of the addition is independent of the building to which it relates, the addition is treated as a separate asset and depreciated over its estimated useful life, regardless of the life of the original asset. If the addition is not independent of the original asset, the useful life must be determined in relation to the original building. In this case, the cost of the addition is depreciated over the shorter of the estimated life of the addition or the remaining life of the original building.

b. Capitalized costs: If the original building was constructed with a plan to expand, cost related to the original building incurred when the addition takes places should be capitalized. However, costs that could have been avoided with appropriate planning at an earlier date should be expensed rather than capitalized.

B. Improvements

1. Improvements represent the substitution of a new part of an asset for an existing part.

a. For example, the roof of a building may be replaced or a new HVAC may replace an old HVAC system.

b. If the new part of the asset is similar in nature to the part being eliminated, the substitution is a called a replacement.

c. If the new part represents an improvement in quality over the part being eliminated, the substitution is called betterment.

2. Both replacements and betterments are subject to capitalization if the cost is $50,000 or more.

a. The appropriate accounting treatment is determined by whether the original part of the existing asset is separately identifiable.

b. If separate identification is possible, the new expenditure should be substituted for the portion of the book value being replaced or improved.

(1) Example: Roof replacement at cost of $50,000 (original cost separately identified is $30,000).

(a)	Building (new roof)	$50,000
(b)	Accumulated Depreciated	27,000
(c)	Loss on replacement of roof	3,000
(d)	Building (old roof)	$30,000
(e)	Cash	50,000

c. The separately identified asset is depreciated over the shorter of the expected life of the separate asset or the remaining life of the building.

d. If separate identification is not possible, the cost of replacements and betterments is treated as an increase in the book value of the Building, thereby increasing the basis for depreciation over the remaining life of the Building.

e. If the replacement or betterment is designed primarily to enhance the quality of the service potential of the building, the cost is charged to the Building asset account.

f. An appropriate increase in depreciation expense is recognized in future years but the useful life is not increased. Example:

(1) Building $70,000

(2) Cash $70,000

g. If the replacement is designed primarily to extend the length of the service life of the asset, the book value is increased by debiting Accumulated Depreciation. The revised book value is then depreciated over the revised useful life. Example:

(1) Accumulated Depreciation – Building $70,000

(2) Cash $70,000

(3) Note:

(a) Alterations that modernize rather than improve the quality of a building should be expensed unless the alteration is so extensive as to increase the estimated life of the building.

(b) Re-roofing costs that are not replacing a separately identified asset should not be capitalized unless they are part of a major renovation of a building.

h. Examples:

(1) An old gymnasium is converted to a block of individual rooms at a cost of $500,000. This is considered a major renovation and would be a building capitalization. This renovation enhances the service quality of the building but does not extend the life of the building.

(a) Debit: Building $500,000

(b) Credit: Cash $500,000

(2) A deteriorating roof on an existing building (the original roof costs are not separately identified) is replaced at a cost of $55,000. These costs should be expensed in the year(s) costs are incurred.

(a) Debit: Maintenance of buildings $55,000

(b) Credit: Cash $55,000

(3) A dormitory is completely renovated at a cost of $1,000,000 including a new roof. It is estimated that the renovation will add an additional 10 years to the life of the building. The entire project costs would be capitalized under buildings.

(a) Debit: Accumulated depreciation $1,000,000

(b) Credit: Cash $1,000,000

(c) Note: The life of the building should be changed to reflect the additional 10-years of service. The debit to accumulated depreciation is the accumulated depreciation on the original building.

(4) A parking lot is repaved at a cost of $20,000 in order to restore to its original condition. This would be considered maintenance and would not be capitalized.

(a) Debit: Paving expense $20,000

(b) Credit: Cash $20,000

3. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use.

a. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

VII. Infrastructure

A. Infrastructure is defined as improvements related to the skeletal structure and function of the campus.

1. Examples include, but are not limited to, roads, steam lines, chiller systems, storm sewers, tennis courts, sewer lines, severe weather systems, athletic scoreboards, turfs, lighting, radio and television towers, water lines, signage, all-weather track, telecommunications and computing wiring, and energy management systems.

B. Improvements valued at or above $50,000 should be capitalized.

C. Improvements valued at less than $50,000 should be expensed.

D. The same accounting rules that apply to improvements to buildings also apply to improvements to infrastructure. Infrastructure items are normally depreciated over a useful life of 20 years.

E. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use.

1. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

VIII. Nonexpendable Personal Property

A. Examples of nonexpendable personal property include machinery, implements, tools, furniture, vehicles and other apparatus with a unit cost of $5,000 or more and a minimum life expectancy in excess of one year.

B. The following list includes some of the costs that should be capitalized in the appropriate asset account:

1. The original bargained acquisition price.

2. Freight, insurance, handling, storage, and other costs related to acquiring the asset.

3. Cost of installation, including site preparation, assembling, and installing.

4. Cost of trial runs and other tests required before the asset can be put into full operation.

5. Cost of reconditioning equipment acquired in a used state.

C. Nonexpendable personal property acquired by donation, or the intent of donation, e.g. acquisition for one dollar, should be recorded on the basis of an appraisal of the market value at the date of acquisition.

1. Furniture – Movable furniture that is not a structural component of a building. Examples include, but are not limited to, desk, tables, filing cabinets, and safes. Office furniture purchased in components should be capitalized only if the individual components that cannot be separated cost at least $5,000. Furniture is normally depreciated over a useful life of 20 years.

2. Office and operational equipment – Office and operational equipment other than computers and peripherals. Examples include, but are not limited to, copiers, sorters, folders, filing system, printing press, shop equipment, athletic equipment, kitchen equipment, generators, and yard equipment. Office and operational equipment are normally depreciated over a useful life of 10 years.

3. Computers and peripheral – Computers and peripheral equipment are normally depreciated over a useful life of 5 years.

4. Educational and scientific equipment – Classroom or laboratory equipment used to conduct the normal program of education and research activity. Examples include, but are not limited to, audiovisual equipment, classroom demonstration models, electronic instruments, lab equipment, surveying equipment, radio equipment, pianos, and other musical instruments. Educational and scientific equipment are normally depreciated over a useful life of 10 years.

5. Motorized vehicles – Examples include, but are not limited to, cars, mini-vans, vans, boats, and light general-purpose trucks. Motorized vehicles are normally depreciated over a useful life of 5 years.

6. Heavy equipment – Examples include, but are not limited to, buses, heavy general-purpose trucks, forklifts, snowplows, and agricultural equipment. Heavy equipment items are normally depreciated over a useful life of 10 years.

7. Library holdings – Library holdings include library books, music, artistic, and reference materials included in the institution's library collection. Examples include, but are not limited to, books~~, periodicals~~, microfilm, microfiche, government documents, films, videocassettes, audiocassettes, phonograph records compact disc - audio, slide set, filmstrip, transparency, maps, multimedia kit, three-dimensional models, non-catalogued pamphlets, computer software manuscripts and archives, photographs, and compact disc. Library holdings are normally depreciated over a useful life of 10 years.

Comment [BS6]: Delete periodicals. (UOM)

D. The same accounting rules that apply to building improvements apply to improvements to nonexpendable personal property.

E. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use.

1. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

IX. Software

A. Software with a cost of $100,000 or greater should be capitalized and amortized.

1. Capitalized software costs will include external direct costs of materials and services consumed in developing or obtaining internal-use computer software.

2. Training costs are not internal-use software development costs and should be expensed as incurred.

3. Data conversion often occurs during the application development stage. Data conversion costs should be expensed as incurred.

4. Internal costs incurred for maintenance should be expensed as incurred.

B. Software costs ~~should be~~ are normally amortized over a useful life of 10 years.

C. For each module or component of a software project, amortization should begin when the computer software is ready for its intended use, regardless of whether the software will be placed in service in planned stages that may extend beyond a reporting period.

1. For purposes of this guideline, computer software is ready for its intended use after all substantial testing is completed.

2. Amortization shall begin the year in which the first module is placed in service. A full year of amortization will be charged the first year regardless of the actual implementation date.

D. Software with a cost less than $100,000 should be expensed unless the institution determines, and provides justification, for capitalizing.

1. For example, if an institution purchases a separate software package to support the Banner system (example Luminous Premier), it may be appropriate to capitalize the cost even if less than $100,000 since it is directly related to the Banner system.

Comment [TGB7]: Consider reformatting the section to three major sections, > $100,000, < $100,000 and Amortization. It is not clear if items B and C are applicable to software above and below the $100,000 threshold. (IA)

Comment [TGB8]: Should the policy allow for optional amortization periods if not expected to last 10 years, such as "or over the estimated useful life if less than 10 years." What is the basis for 10 years? Given the current technology environment, is 10 years realistic? (IA)

2. It should be noted that software licensing agreements that are not perpetual in nature will be expensed, regardless of cost.

E. As assets near the end of their estimated lives, the estimates should be reviewed for accuracy of the original estimate and adjusted to reflect the anticipated number of years of continued use.

1. Any adjustment of estimated lives is a change in accounting estimate and should be applied to current and future depreciation calculations.

X. Livestock

A. Livestock should be expensed.

XI. Works of Art, Historical Treasures and Other Similar Assets

A. Works of art, historical treasures, and other similar assets should be capitalized whether held as individual items or as a collection. These can include, but are not limited to, paintings, works of art on paper, photography, sculptures, maps, manuscripts, recordings, film, artifacts, textiles, and other memorabilia.

B. These items with a cost (or fair value at the date of donation) in excess of $5,000 will be capitalized at their historical cost or fair value at the date of donation.

C. Collections that meet all of the following criteria will not be capitalized:

1. Held for public exhibition, education, or research in furtherance of public service rather than financial gain.

2. Protected, kept unencumbered, cared for, and preserved.

3. Proceeds from the sales of collection items must be used to acquire other items for collections.

D. Notwithstanding paragraph XI.C. above, any collections already capitalized at June 30, 1999, will remain capitalized and any additions to such collections will be capitalized.

E. Capitalized collections or items which are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Inexhaustible collections or items are items where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Depreciation is not required for collections which are inexhaustible.

F. Capitalized collections deemed exhaustible should be depreciated over a useful life of 10 years.

XII. Sensitive Minor Equipment

A. Sensitive minor equipment items are of a movable nature which is particularly vulnerable to theft and have a cost or fair value (for donated items only) between $1,500.00 and $4,999.99, regardless of funding source.

1. The following items are examples of items that may be viewed as sensitive minor equipment: binoculars, boat motors, boat trailers, boats, cameras, camera lenses, canoes, computers, external computer storage devices, ham radios and receivers, marine band transmitters and receivers, microscopes, musical instruments, scientific equipment, oscilloscopes, PDAs, printers, projectors, radio scanners, external computer scanners, spectrum analyzers, televisions, two-way radio transmitters and receivers, vector scopes, video cameras, video recorders and players, and waveform monitors.

2. All weapons, regardless of cost, should be considered sensitive minor equipment.

Comment [TGB9]: Update list for obsolete items (e.g., PDAs). Consider adding a requirement that Tablets, Ipads and other electronic computing and communication devices should be considered sensitive minor equipment. (Similar to XXII.A.2. regarding weapons.) These items are vulnerable to theft even though less than $1,500. A more significant concern is that these devices could contain sensitive data or PII and should be controlled. An inventory of computing devices should also be available so that IT may upgrade software when needed. (IA)

B. Each institution will perform a risk assessment to determine which items should be designated as sensitive minor equipment for that institution.

1. The useful life of sensitive minor equipment is estimated at 3 years, after which the fair value will be considered to be nominal.

Comment [TGB10]: For clarification, what is the intent of this statement since sensitive minor items are not capitalized and depreciated? Is it meant to imply that they do not need to be inventoried after 3 years? (IA)

C. Although sensitive minor equipment items are not capitalized, they must be identified and inventoried.

1. Physical inventory of sensitive minor equipment should be conducted annually.

2. Sampling is an acceptable method of conducting the physical inventory of sensitive minor equipment.

R) Sources

New Guideline approved at Presidents Meeting, August 17, 2010. Revised at Presidents Meeting, February 4, 2014

Educational Assistance (State Employees & Dependents of State Employees and Teachers : B-061

Policy/Guideline Area

Business and Finance Guidelines

Applicable Divisions

TCATs, Community Colleges, Universities

Purpose

The purpose of this guideline is to establish the process and procedures for educational assistance to state employees and their dependents and the dependents of public school teachers by institutions governed by the Tennessee Board of Regents.

Policy/Guideline

I. B-061 - Support for Educational Assistance

A. The Tennessee Board of Regents is committed to the need for the continued professional growth and development of employees. Support for educational assistance of personnel and their dependents is an important vehicle for addressing that need. The programs for TBR employees and dependents are available subject to funds being budgeted and available within the institution/college of applied technology/System Office.

B. The Office of Human Resources is responsible for the administration of the various programs with the exception of the program for dependents of veterans (B-062) and two programs offered to general state employees and the dependents of licensed teachers and State employees (B-061).

C. Exceptions to the provisions of the programs for TBR employees can be made upon recommendation of the president/director and approval by the Chancellor.

II. <u>Types of Support for Educational Assistance</u>

A. The guidelines for Educational Assistance (P-130, P-131, B-061, B-062) contain a total of eleven (11) programs.

1. The Programs in P-130 provide benefits to personnel at TBR institutions, Tennessee Colleges of Applied Technology and the Central Office to further their formal education.

2. The Program in P-131 provides benefits for dependents of TBR employees.

3. The programs in B-061 provide assistance to state employees and dependents of public school teachers.

4. The programs in B-062 provide assistance to dependents of veterans and to state employees 65 years of age and older.

B. The programs are:

1. P-130 – Educational Assistance for TBR Employees

    a. Faculty or Administrative/Professional Staff Grant-in-Aid Program

    b. Faculty or Administrative/Professional Staff Tuition or Maintenance Fee Reimbursement Program

    c. Employee Audit/Non-credit Program

d. Clerical and Support Staff Maintenance Fee

Payment Program e. Fee Waiver for TBR/UT System

Employees Program (PC 191)

2. P-131 – Educational Assistance for Spouse and Dependents of
   TBR Employees a. a. Fee Discount for Spouse and/or Dependent
   Children Program

3. B-061 – Educational Assistance for State Employees and
   Dependents of State a. Employees or Public School Teachers
   (1) Public Higher Education Fee Waiver for State Employees Program

   (2) Fee Discount for Dependent Children of Licensed Public School Teachers or
   State Employees Program

4. B-062 – Other Educational Assistance Programs
   a. Veterans' Dependents' Post-Secondary

   Education Program b. Age 65 or Above

   Program

C. Complete eligibility information is contained within each Guideline.

III. <u>Taxation of Educational Assistance Programs</u>

A. Undergraduate and graduate course tuition, up to $5250 per year, paid by the Tennessee Board of Regents institutions and the University of Tennessee System for their employees is eligible for exclusion from the employees' gross annual income, in accordance with Internal Revenue code (IRC) Section 127.

IV. Public Higher Education Fee Waiver for State Employees Program - This fee waiver program is for general state employees exclusive of TBR and UT system employees.

A. These rules implement the provisions of the T.C.A. § 8-50-1. The Code enables full-time employees of the State of Tennessee to be eligible for enrollment in one course consisting of no more that 4 credit hours or 120 clock hours per term at any State supported college or university or Tennessee College of Applied Technology without paying tuition charges, maintenance fees, debt service fees, student activity fees, technology access fees, RODP on-line course fee, or registration fees.

Comment [BS11]: Per Public Chapter 959 effective July 1, 2014.

1. Employees are responsible for special course fees, books and supplies, application fees, applied music fees, lab fees, off-campus facilities fees, parking fees and traffic fines.

B. Pursuant to T.C.A. § 10-5-101 et seq., employees of the State's regional library system became employees of the Department of State, effective July 1, 1999. As such, they became eligible to participate in the State's educational assistance programs.

1. In addition, effective September 8, 1999, the Tennessee Higher Education Commission determined that Human Resource Agency employees are not State employees as that term is defined in the Commission's rules governing these programs and thus are not eligible for fee waivers.

C. Course enrollment will be permitted on a "space available" first-come-first served basis.

1. State employees may register no earlier than four (4) weeks prior to the first day of classes.

2. No tuition paying student shall be denied enrollment in a course because of state employee enrollments pursuant to this section.

D. State employees must receive credit for the course in which they are enrolled.

1. In addition, changes may not be made from credit to audit during the course of the term.

2. Other guidelines and procedures for administration of this program are printed on the reverse side of the Request for Public Higher Education Fee Waiver for Employees of the State of Tennessee form. These forms are available from the Tennessee Higher Education Commission.

V. Fee Discount for Dependents of Licensed Public School Teachers, Retired Teachers, or State Employees Program

A. These rules implement the provisions of T.C.A. § 49-7-101 et seq. and § 8-50-101 et seq.

1. The Codes enable children under the age of twenty-four (24) to receive a twenty-five percent (25%) discount on tuition at any state operated institution of higher learning if their parent:

a. Is employed as a full-time licensed teacher in any public school in Tennessee or as a full-time employee of the state of Tennessee;

b. Retired teacher: A certified teacher as defined in THEC Rules 1540-01-05-.01 Definitions, who retires after a minimum of thirty (30) years of full-time creditable service in Tennessee public schools or who receives disability retirement after a minimum of twenty-five (25) years of full-time creditable service in Tennessee public schools.

c. Is a retired employee of the state of Tennessee who retired after a minimum of twenty-five (25) years of full-time creditable service;

d. Was killed in the line of duty while a full-time employee of the state of Tennessee; or e. Died while a full-time employee, though not "in the line of duty."

B. Tuition includes undergraduate maintenance fees and college of applied technology program fees; it does not include application for admission fees, student activity fees, debt service fees, lab fees, applied music fees, books and supplies, dormitory charges or meal plans.

C. Other guidelines and procedures for administration of this program are printed on the reverse side of the Request for Public Higher Education Fee Discount for Dependents of Certified Public School Teachers form. These forms are available from the Tennessee Higher Education Commission at www.state.tn.us/thec.

Sources

Presidents Meeting, February 7, 2006; Presidents Meeting, November 6, 2006; President Meeting, May 15, 2007; Presidents Meeting November 6, 2007; August 16, 2011 presidents meeting. Revised January 17, 2014 per THEC Rule 1540-01-05 promulgated due to the passage of Public Chapter 345 which became effective July 1, 2013.

Related Policies

- Other Educational Assistance Programs
- Educational Assistance for TBR System Employees
- Educational Assistance for Spouse & Dependents of TBR Employees

Attachment H

Deferred Compensation Plans: P-045

Policy/Guideline Area

Personnel Guidelines

Applicable Divisions

TCATs, Community Colleges, Universities, System Office

Purpose

The purpose of this guideline is to provide guidance to those institutions which enter into agreements to establish deferred compensation plans or programs for the benefit of their employees. Such plans or programs are permitted by Internal Revenue Code sections 403(b), 401(k), and 457. The following provisions apply:

Section 403(b): Pre-Tax

Section 401(k): Pre-Tax

Section 457: Pre-Tax

Roth 401(k): After-Tax

Policy/Guideline

I. General

A. Internal Revenue Service Requirements

1. It is intended that all provisions of this guideline be consistent with provisions of the Internal Revenue Code, regulations, and other authoritative issuances of the Internal

Revenue Service with respect to plans permitted by Internal Revenue Code Sections 403(b), 401(k)-Traditional and Roth, and 457 as amended from time to time.

a. Any provision of this Plan is invalid to the extent such provision is not consistent with Internal Revenue Service provisions.

2. Unless otherwise provided in this guideline, it is intended that Internal Revenue Service provisions be controlling on such matters as limitations on contributions, withdrawal of contributions, payment of benefits, rollovers, and similar matters.

3. Notwithstanding A.1 and A.2, the Chancellor shall be empowered to establish reasonable requirements for the administration of the guideline, so long as such requirements do not conflict with any Internal Revenue Service provisions.

4. It is the intention of the Tennessee Board of Regents that an "excess contribution" as defined by the Internal Revenue Service provisions be returned to the participant as soon as administratively possible.

a. Returned excess contributions would be reported as taxable income.

B. Third Party Administrators

1. The Tennessee Board of Regents, State of Tennessee, and/or University of Tennessee may enter into an agreement with an approved company, financial institution, or other party which offers a program qualifying as a Section 403(b), 401(k), 457, and/or Roth 401(k) plan, hereinafter referred to as Third Party Administrators (TPA's).

2. All participant contributions shall be paid to the approved TPA or TPA's as selected by the employee.

3. The Institution/System Office will not recommend or endorse a TPA or TPA's program and will make no guarantee or assurances regarding the vendor.

C. Investment Options

1. Investment Options providing participants a range of diversified funding options will be maintained by the TPA or TPA's.

2. All responsibility for investment performance shall be between the employee and TPA.

D. Plan Period

1. Where a "plan year" or other official period is needed, the plan year for the institution shall be the calendar year.

E. Participation Agreements

1. Each employee desiring to participate in a deferred compensation plan shall complete the appropriate Participation Agreement and applicable enrollment process.

2. All 401(k), 457 and Roth 401(k) deferral increases, decreases, or cancellations shall be performed by the participant directly with the TPA's website or customer service call center.

3. All 403(b) deferral increases, decreases, or cancellations shall be submitted on the appropriate form to the Human Resources Office.

4. All forms containing changes (e.g., address, beneficiary, etc.) should be transmitted to the TPA directly.

F. Minimum and Maximum Deferral Calculations

1. Minimum deferral amounts:

   a. 403(b) Plan - $200.00 per year

   b. 401(k) Plan - $20.00 per month

   c. 457 Plan - $20.00 per month

2. Maximum deferrals for 403(b), 401(k), and 457 plans are subject to applicable Internal Revenue Service (IRS) Limits.

G. Limitations and Contributions

1. Participants who also participate in other qualified plans sponsored by an employer in which the participant has a controlling ownership interest (this includes employee and employer contributions to 401(k), 401(a), 403(b), simplified employee pension (SEPs), and Keogh plans) are required to report to the institution contribution information.

   a. The contribution amounts to other plans must be combined with the Tennessee Board of Regents Retirement Plan contributions to determine whether the 415(c) limit has been reached. This is in accordance with Internal Revenue Service regulations.

2. All 403(b), 401(k), and 457 contributions must be coordinated so that excess contributions are not made.

3. Contributions (deferrals) for employees who also participate in the Optional Retirement Plan (ORP) are subject to additional limitations/restrictions.

4. Deferrals for 403(b), 401(k) and 457 plans may be deducted from regular or longevity pay (see Section H for information regarding longevity deferrals). "Advance" deferrals are not permitted (e.g., deferrals cannot be made before the money is earned).

5. An institution may decline to enter into any agreement that could, in the institution's opinion, cause the employee to exceed permissible contribution levels.

H. Longevity Deferrals

1. Participants may elect to defer regular pay and/or a portion of their longevity bonus paycheck.

   a. A deferral from the longevity paycheck may be directed to the 403(b), 401(k), and 457 plan; however, it may not be divided among the plans.

   b. Due to the required deduction of the applicable Social Security taxes, the full longevity amount may not be deferred.

c. A participant who elects to defer any portion of the longevity paycheck will be required to complete a Participation Agreement specifically for longevity each year.

I. Changing Deferrals

1. Changes in the amount of regular paycheck deferrals may be made by submitting a new Participation Agreement within the timeframe established by the TPA and Institution/System Office.

J. Changing Investment Options

1. Changing the Investment of Future Deferrals

a. Participants may change the investment options of future deferrals at any time by calling the TPA's customer service department or completing the transaction on the TPA's website.

b. The investment of money on deposit (already in account) is not affected by initiating a future change.

c. Employees will need to complete a separate transaction for the 403(b), 401(k), and 457 if they participate in more than one plan.

2. Transferring Money on Deposit

a. Participants may change the investment options of money on deposit (already in account) at any time by calling the TPA's customer service department or completing the transaction on the TPA's website Transfers are processed by the investment companies.

b. The investment of future deferrals is not affected by transferring money already on deposit.

d. Employees will need to complete a separate transaction for the 403(b), 401(k), and 457 if they participate in more than one plan.

3. All responsibility for investment performance shall be between the employee and the vendor.

K. Effect of a Leave of Absence on Deferrals

1. The deferred compensation program requires payroll deductions (reductions); therefore, participants may not pay contributions directly to the TPA or Institution/System Office in order to receive matching funds that may be available.

2. When a participant returns from an unpaid leave of absence, deferrals can restart with the paycheck following his/her return to work.

3. The deferred compensation program does not contain a catch-up provision for employees who have been returned to a paid status retroactively.

    a. Therefore, double deductions are not permitted. Example: An employee on unpaid leave returns to work, but notification is not provided to Human Resources and/or Payroll for the affected pay period. When the next paycheck is processed, it will reflect a deferral and match (if funded) for only the current pay period.

L. Termination/Cancellation of Deferrals

1. An employee wishing to terminate his/her participation in a 401(k), 457 and Roth 401(k) shall complete the cancellation directly with the TPA's customer service call center or website.

2. All 403(b) cancellations shall be submitted on the appropriate form to the Human Resources Office.

3. Following cancellation of participation in deferred compensation plan, administrative fees will continue to be charged for each month in which the principle is sufficient to cover the fee. Insufficient principal will result in final termination of participation in the plan.

4. Previous deferrals may not be withdrawn unless the employee meets one of the conditions for withdrawal (see Sections II. D. and III. D.).

M. Institutional Endorsement

1. The administration of an Institution/System Office will not endorse or recommend in a positive or negative manner any TPA or TPA program.

2. The Institution/System Office may make available information which could be useful in a selection decision by an employee.

3. This provision does not prohibit recommendation or evaluation by groups of employees or representatives of groups of employees.

N. Retirement Age

1. For purposes of this guideline, "normal retirement" will be the age used by the Tennessee Consolidated Retirement System (TCRS).

2. Once an employee reaches or passes the normal retirement age, for purposes of calculating limitations on contributions for purposes of this Plan, such computation should be made assuming retirement at the end of the year for which the calculation is being made.

~~I. Tax Deferred Annuity, Sections 401 (k) and 457~~

~~A. Effective July 1, 1995, employees within the Tennessee Board of Regents system became eligible to participate in the State's 401 (k) and 457 deferred compensation program.~~

~~B. The Chancellor of the Tennessee Board of Regents is empowered to set appropriate administrative guidelines and procedures necessary to coordinate administration with the State of Tennessee.~~

~~C. Third Party Administrators and Vendors~~

~~1. Great West, hereinafter referred to as the "Company" is the third party administrator. The vendors are the companies selected by the State.~~

~~D. Plan Period~~

~~1. Where a "plan year" or other official period is needed, the plan year for the institution shall be the calendar year.~~

~~E. Internal Revenue Service Requirements~~

~~1. It is intended that all provisions of this guideline be consistent with provisions of the Internal Revenue Code, regulations, and other authoritative issuances of the Internal Revenue Service, the Tax Reform Act of 1986, and the Employee Retirement Income Security Act of 1974 (ERISA) with respect to plans permitted by Internal Revenue Code Section 401(k) as amended from time to time.~~

~~a. a. Any provision of this Plan is invalid to the extent such provision is not consistent with Internal Revenue Service provisions.~~

~~2. Unless otherwise provided in this guideline, it is intended that Internal Revenue Service provisions be controlling on such matters as limitations on contributions, withdrawal of contributions, payment of benefits, rollovers, and similar matters.~~

~~3. Notwithstanding E.1 and E.2, the Chancellor shall be empowered to establish reasonable requirements for the administration of the guideline, so long as such requirements do not conflict with any Internal Revenue Service provisions.~~

~~4. It is the intention of the Tennessee Board of Regents that an "excess contribution" as defined by the Internal Revenue Service provisions be returned to the participant as soon as administratively possible. Returned excess contributions would be reported as taxable income.~~

~~F. 401(k) and 457 Eligibility~~

~~1. All employees of an institution/System Office, except students scheduled to work less than twenty (20) hours per week, are eligible to participate in the 401 (k) and 457 plans.~~

2. ~~Contingent upon appropriate funding each fiscal year, the employer may match an amount in addition to the employee's 401(k) contributions.~~

3. ~~However, only regular full-time and regular part-time employees are eligible to receive matching funds.~~

G. ~~Participation Agreements~~

1. ~~Each employee desiring to participate in a 401 (k) and/or 457 plan shall complete the appropriate Participation Agreement form.~~

2. ~~A Participation Agreement form must be received by the Human Resources Office by the last working day of a month prior to the effective date of the first deferral and before the end of the first working day of a month for any subsequent payroll change, e.g., increase, decrease or cancellation.~~

3. ~~Initial enrollment forms must be completed entirely; however, forms to restart deferrals do not require completion of the investment option section.~~

4. ~~All forms containing changes (e.g., address, beneficiary, etc.) should be transmitted to the Company via the Human Resources Office.~~

H. ~~Approval of Participation Agreements~~

1. ~~The Participation Agreement must be approved (i.e., certified that the deferral amount has not exceeded the maximum allowed) by the President/Director/Chancellor or his/her designee.~~

2. ~~The President/Director/Chancellor or his/her designee may decline to enter into an agreement that could, in his/her opinion, cause the employee to exceed permissible contribution levels.~~

I. ~~Minimum and Maximum Deferral Calculations~~

1. ~~401(k), 457, and 403 (b) contributions must be coordinated so that excess contributions are not made.~~

2. ~~Contributions (deferrals) for employees who also participate in the Optional Retirement Plan (ORP) are subject to additional limitations/restrictions. See the Deferred Compensation Manual for additional information.~~

3. ~~Deferrals for 403 (b), 401 (k) and 457 plans may be deducted from regular or longevity pay. (See Section I for information regarding longevity deferrals.) "Advance" deferrals are not permitted (e.g., deferrals cannot be made before the money is earned).~~

   a. ~~Minimum deferral amounts per month~~

      1. ~~457 Plan - $20.00~~

      2. ~~401 (k) Plan - $20.00~~

   b. ~~Maximum deferrals for 457 and 401(k) Plans subject to applicable Internal Revenue Service (IRS) Limits.~~

J. ~~Longevity Deferrals~~

1. ~~Effective January 1 1998, a participant may elect to defer regular pay and/or any portion of their longevity bonus paycheck.~~

   a. ~~A deferral from the longevity paycheck may be directed to the 403 (b), 457 or 401 (k) plan; however, it may not be divided among the plans. Due to the required deduction of the applicable Social Security taxes, the full amount may not be deferred.~~

   b. ~~A participant who elects to defer any portion or all of the longevity paycheck will be required to complete a Participation Agreement form specifically for longevity each year.~~

K. ~~Changing Deferrals~~

~~1. Changes in the amount of regular paycheck deferrals may be made by submitting a new Participation Agreement form to the Human Resources Office within the timeframe established by the institution/System Office.~~

~~L. Changing the Investment of Future Deferrals~~

~~1. Employees may change the way future deferrals are invested by completing an Investment Option Allocation form or by submitting a new Participation Agreement. Investment option changes do not require dollar amounts, only percentages.~~

~~2. Money on deposit is not affected by initiating a future change.~~

~~3. Employees will need to complete a separate form for the 457, 401(k), and 403(b) if they participate in more than one plan.~~

~~M. Transferring Money on Deposit~~

~~1. Employees will need to complete a separate form for the 457, 401(k) and 403 (b) if they participate in more than one plan.~~

~~2. Transfers are processed by the investment companies.~~

~~3. The investment of future deferrals is not affected by transferring money already on deposit.~~

~~N. Effect of a Leave of Absence on Deferrals~~

~~1. The deferred compensation program requires payroll deductions (reductions); therefore, participants may not pay contributions directly in order to receive matching funds that may be available.~~

~~2. When a participant returns from an unpaid leave of absence, deferrals can restart with the paycheck following his/her return to work.~~

~~3. The deferred compensation program does not contain a catch-up provision for employees who have been returned to a paid status retroactively.~~

~~a. Therefore, double deductions are not permitted. Example: An employee on unpaid leave returns to work, but notification is not provided to Human Resources and/or Payroll for the affected pay period. When the next paycheck is processed, it will reflect a deferral and match (if funded) for only the current pay period.~~

~~O. Termination/Cancellation of Deferrals~~

~~1. An employee wishing to terminate his/her participation in a 401(k) or 457 plan must complete a Participation Agreement form in accordance with the provisions of Section II, G and indicate that a cancellation is being authorized.~~

~~a. Following cancellation of participation in the plan, administrative fees will continue to be charged for each month in which the principle is sufficient to cover the fee.~~

~~b. Insufficient principle will result in final termination of participation in the plan.~~

~~2. Previous deferrals may not be withdrawn unless the employee meets one of the conditions for withdrawal. (See Section II, Q.)~~

~~P. Withdrawals~~

~~1. Withdrawals shall be permitted by this Plan for the following reasons:~~

~~a. Retirement~~

~~b. Termination of employment~~

~~c. Death~~

~~d. Disability~~

~~e. Financial hardship (as defined by the plan)~~

~~f. Age 59 ½ - not available for 457 deferrals.~~

~~2. To make a withdrawal, the participants should contact the Company to obtain instructions and a withdrawal form.~~

~~a. If the withdrawal is approved and it is for reasons other than retirement, termination of employment, death, or attainment of age 59 1/2, the Company will notify the institution/System Office to stop deferrals.~~

~~3. A request for withdrawal will be reviewed by a committee consisting of State employees (usually five members). Consideration for a hardship withdrawal will be based on the following definitions:~~

~~a. 457 Plan Hardship Definition - A severe financial hardship resulting from:~~

~~1. Sudden and unexpected illness or accident of the participant or a dependent;~~

~~2. Loss of the participant's property due to uninsured casualty; or~~

~~3. Other similar or extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.~~

~~b. Examples of non-qualifying circumstances:~~

~~1. Purchase of a home or car;~~

~~2. Educational expenses;~~

~~3. Payment of child support or alimony;~~

~~4. Bankruptcy or wage garnishment;~~

~~5. Past due credit card bills; or~~

~~6. Payment of taxes or tax penalties.~~

~~c. 401 (k) Plan Hardship Definition~~

~~1. An immediate and heavy financial need caused by one or more of the following:~~

~~1. Unreimbursed medical expenses incurred by the participant or a dependent of the participant,~~

~~2. Purchase of the participant's primary residence,~~

~~3. Payment of college tuition for the next year for the participant or a dependent of the participant,~~

~~4. Funeral expenses for an immediate family member of the participant which exceed life insurance coverage, or~~

~~5. Official notification of implementation of eviction or foreclosure proceedings regarding the participant's primary residence.~~

~~4. Withdrawals may not include employer contributions or earnings accrued on your account after December 31, 1988.~~

~~a. Federal regulations require that all deferrals be canceled for the remainder of the current year and for one calendar year thereafter.~~

~~b. An employee who qualifies for a loan in the 401 (k) plan may be required to apply for such loan before applying for a hardship withdrawal from the plan.~~

~~5. Hardship withdrawals are subject to regular income tax and may be subject to the 10% early distribution tax penalty. Such distributions are not eligible for forward income averaging tax treatment or rollover.~~

~~6. Withdrawals Following Termination of Employment~~

a. ~~Accounts smaller than $3,500 - A lump sum withdrawal or rollover to another tax deferred plan (if employee qualifies) is permitted for such smaller amounts.~~

b. ~~Accounts larger than $3,500 - Employee may leave account in the State's plan.~~

7. ~~Withdrawals Required Due to Age~~

a. ~~Per IRS regulations, employees must begin drawing benefits no later than April 1 of the year following the age of 70 ½ or retirement.~~

b. ~~If the employee does not meet the required distribution provisions, a penalty tax is imposed equal to 50% of the amount that the employee should have withdrawn that year.~~

8. ~~Charges on Withdrawals~~

a. ~~Participants should contact the Company to determine if there are any surrender charges on their current investment options.~~

Q. ~~401 (k) Loans~~

1. ~~Active employees who have accumulated $4,000 or more in the plan may borrow up to half of the account balance.~~

a. ~~The minimum loan is $2,000; the maximum, $50,000.~~

b. ~~Employees are required to sign documents stipulating repayment via payroll deductions, normally in 5 or less years.~~

c. ~~Both the principal and interest go back into the employee's 401 (k) account. Employees should contact the Company for information on loan limitations and fees or for a copy of the loan brochure.~~

R. ~~Applying for Benefits~~

~~1. Benefits may be distributed in one of three ways:~~

~~a. lump sum~~

~~b. periodic payments, or~~

~~c. in an annuity.~~

~~2. Employees may not change the method of payment selected.~~

~~a. Withdrawal application forms may be obtained from the Company.~~

~~b. Annuity payment estimates and materials describing payment options are available on request.~~

~~3. Employees should obtain current information before selecting a payment schedule due to the fact that the provisions of this guideline may be revised by Congress.~~

~~S. Payment Options~~

~~1. Lump Sum Payment~~

~~a. Used to withdraw entire account balance.~~

~~b. May be only option available to participants with less than $3,500 in plan.~~

~~c. May be most beneficial option for participants who have more than 5 years in the plan and qualify for forward income averaging.~~

~~2. Periodic Payments~~

~~a. May be withdrawn in equal annual or monthly payments for a specified number of years.~~

~~b. Withdrawal period limited to life expectancy.~~

~~c. May be directly deposited into checking or savings accounts.~~

~~3. Annuity Payments~~

~~a. Investments risks for future years assumed by insurance company.~~

~~b. Payments made to participant or beneficiary regardless of investment returns.~~

~~c. Currently available through Aetna or Great West.~~

~~4. Types of annuity options:~~

~~a. Designated Period Annuity - Certain amount paid for specified period (e.g. 5, 10, 15 years).~~

~~b. Life Annuity - A certain amount paid to the participant for his/her lifetime. No payments made to beneficiary.~~

~~c. Life Annuity with Period Certain Feature - A certain amount paid to the participant's as long as he/she lives and also payments paid to a beneficiary for the "period certain" should participant's death occur prior to the end of the period.~~

~~d. Life Annuity with Joint & Survivor Feature - A certain amount paid to the participant for as long as he/she lives and continued payments to beneficiary after participant's death at 100% or 50% of original payment, depending on option elected.~~

~~T. Taxes on Withdrawals~~

~~1. Basic information~~

~~a. Must be reported when payments or withdrawals are received as income in the year(s) received.~~

~~b. Income from plan reported to both participant and IRS on appropriate tax form for each year payments are received.~~

~~2. Withholding taxes~~

~~a. Normally applied as payments are received. Amount of withdrawal and amount of taxes reported on W-2 statement for 457 plan; 1099-R form, 401 (k) plan.~~

~~b. Rate of taxation~~

~~1. 457 plan - flat 28% rate~~

~~2. 401 (k) plan - 20% on lump sum distributions and any other type of distribution received from plan which would be eligible for rollover.~~

~~3. Withdrawals not subject to flat withholding tax - calculated as if recipient were married with 3 dependents unless a withholding certificate has been filed for a different amount. W-4 form used for 457 payments; W-4P, for 401 (k) payments.~~

~~c. Early distribution tax penalty~~

~~1. A 10% tax penalty is assessed on 401(k) withdrawals made before 59 ½ except when distributions meet IRS exceptions.~~

~~2. It is the participant's responsibility to make the determination and payment of the early distribution tax penalty.~~

~~U. Five Year or Ten Year Forward Averaging~~

~~1. Eligibility is contingent upon a participant receiving a qualifying lump sum distribution from a 401 (k) plan after age 59 ½ and having 5 or more years in the plan. Participants born on or before 12/31/35 may be eligible for ten year averaging. Questions should be addressed to the Company.~~

~~2. Tax calculated as if money was received over 5 years and is calculated separately from tax on any other income.~~

~~V. Rollovers from Other Plans~~

1. ~~Employees who previously participated in another government's Section 457 plan may apply to have the assets of the prior plan transferred to the State's 457 plan.~~

2. ~~Employees who participated in another 401 (k) plan may apply to have their distribution from that plan transferred to the 401 (k) plan; however, the employee must be enrolled in the State of Tennessee Plan prior to applying for the transfer.~~

W. ~~Plan to Plan Transfers and Rollovers to Other Plans~~

1. ~~Upon separation from employment, a participant may move deferred compensation into another plan under the following provisions:~~

a. ~~457 Plan~~

1. ~~The other plan accepts such transfers.~~

b. ~~401 (k) Plan~~

1. ~~If a participant is eligible to withdraw accumulations, these may be moved to an IRA or a qualified retirement plan.~~

2. ~~A distribution is eligible for transfer unless it is:~~

1. ~~Part of a series of substantially equal periodic payments made for the participant's life or life expectancy of for the life expectancy of a the participant and his/her beneficiary,~~

2. ~~Part of a series of substantially equal periodic payments made for a specified period of 10 or more years,~~

3. ~~A withdrawal a participant is required to take due to age.~~

c. ~~Money may be transferred directly to the new plan or the participant may receive a check from the 401 (k) plan and make a rollover to the new plan.~~

~~d. Participants must arrange direct transfers when an application is submitted for withdrawal from the plan.~~

~~e. The plan must apply 20% withholding to any distribution which would have been eligible for direct transfer.~~

~~f. Prior service in TCRS may be purchased with a rollover from the 401 (k) plan when the participant becomes eligible to make a withdrawal from the 401 (k) plan. Excess amounts may be rolled into an IRA or reported as taxable income. TCRS should be contacted for additional information.~~

~~g. Participants who move their 401 (k) accounts into IRAs may want to set up special "conduit accounts" in the event they later become eligible to roll funds back into a qualified retirement account. (Withdrawals from IRAs are not eligible for income averaging.) Additional information on rollover and transfer rules may be obtained from the IRS.~~

~~X. Non-Assignability of Benefits~~

~~1. 457 Plan~~

~~a. Deferrals are assets of the State of Tennessee until paid to the participant or beneficiary.~~

~~b. Amounts cannot be assigned or attached to satisfy debts or obligations of an individual.~~

~~2. 401 (k) Plan~~

~~a. Accumulations are part of a qualified pension plan.~~

~~b. Assets are exempt from execution, attachment, garnishment, or other process, other than levies issued by the IRS.~~

~~c. Benefits cannot be given to an ex-spouse as marital property or as alimony.~~

II. Section 403(b)

A. Institutions governed by the Tennessee Board of Regents and employees thereof may enter into agreements to participate in tax-deferred annuity plans or programs consistent with Section 403(b) of the Internal Revenue Code and related provisions of the Internal Revenue Code, regulations, rulings, etc., and subject to the provisions of this guideline and the Tennessee Board of Regents 403(b) Retirement Plan Document.

B. 403(b) Eligibility

1. All employees within the Tennessee Board of Regents system are eligible to participate in Section 403(b) programs.

C. Employer

1. For the purposes of a Section 403(b) program, the employer shall be the Tennessee Board of Regents.

D. Withdrawals & Loans

1. Early in service withdrawals and loans shall not be permitted consistent with the Tennessee Board of Regents 403(b) Retirement Plan Document and Internal Revenue Service provisions.

~~II. III. Miscellaneous~~

~~A. For the purpose of a Section 401(k) program, the employer shall be the Tennessee Board of Regents and/or any of its institutions, the State of Tennessee, and the University of Tennessee System.~~

~~B. All responsibility for investment performance shall be between the employee and the vendor.~~

III. Sections 401(k), 457, and Roth 401(k)

A. Institutions governed by the Tennessee Board of Regents and employees of such institutions may enter into agreements to participate in tax-deferred annuity plans or programs consistent with Section 401(k) and 457 of the Internal Revenue Code, regulations, and other authoritative issuances of the Internal Revenue Service, the Tax Reform Act of 1986, and the Employee Retirement Income Security Act of 1974 (ERISA) with respect to plans permitted by Internal Revenue Code Section 401(k) and 457 as amended from time to time.

B. 401(k), 457, and Roth 401(k) Eligibility

1. All employees within the Tennessee Board of Regents system are eligible to participate in the State's 401(k), 457, and Roth 401(k) deferred compensation programs.

2. Contingent upon eligibility and appropriate funding each fiscal year, only regular full-time and regular part-time employees may be eligible to receive matching funds in addition to the employee's 401(k) contributions. The match for eligible Roth 401(k) participants will be directed to the 401(k) account.

C. Employer

1. For purposes of the 401(k), 457, and Roth 401(k), the employer shall be the Tennessee Board of Regents and/or any of its institutions, the State of Tennessee, and the University of Tennessee System.

2. The Chancellor of the Tennessee Board of Regents is empowered to set appropriate administrative guidelines and procedures necessary to coordinate administration with the State of Tennessee.

D. Withdrawals

1. To make a withdrawal, the participant should contact the TPA or access his/her online account to obtain instructions and the applicable withdrawal form.

2. A request for withdrawal will be reviewed by the Human Resources Office.

3. If the withdrawal is approved and it is for reasons other than retirement, termination of employment, death, or attainment of age 59 ½, the TPA will notify the Institution/System Office to stop deferrals.

4. Withdrawals shall be permitted for the following reasons:

   a. Retirement

   b. Death

   c. Disability

   d. Age 59 ½ - not available for 457 deferrals

   e. Termination of employment

   f. Financial hardship (as defined by the plan)

5. Financial Hardship:

   a. Consideration for a hardship withdrawal will be based on the following definitions:

      (1) 401(k) Plan Hardship Definition - An immediate and heavy financial need caused by one or more of the following:

         (a) Unreimbursed medical expenses incurred by the participant or a dependent of the participant,

         (b) Purchase of the participant's primary residence,

         (c) Payment of college tuition for the next year for the participant or a dependent of the participant,

         (d) Funeral expenses for an immediate family member of the participant which exceed life insurance coverage, or

(e) Official notification of implementation of eviction or foreclosure proceedings regarding the participant's primary residence.

(2) 457 Plan Hardship Definition - A severe financial hardship resulting from:

(a) Sudden and unexpected illness or accident of the participant or a dependent;

(b) Loss of the participant's property due to uninsured casualty; or

(c) Other similar or extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.

(d) Examples of non-qualifying circumstances shall include but not be limited to the following:

(i) Purchase of a home or car;

(ii) Educational expenses;

(iii) Payment of child support or alimony;

(iv) Bankruptcy or wage garnishment;

(v) Past due credit card bills; or

(vi) Payment of taxes or tax penalties.

6. Withdrawals may not include employer contributions or earnings accrued on the account.

a. Federal regulations require that all deferrals be cancelled for the remainder of the current year and for one calendar year thereafter.

b. An employee who qualifies for a loan in the 401(k) plan may be required to apply for such loan before applying for a hardship withdrawal from the plan.

7. Hardship withdrawals are subject to regular income tax and may be subject to the 10% early distribution tax penalty. Such distributions are not eligible for forward income averaging tax treatment or rollover.

8. Withdrawals Required Due to Age

   a. Per IRS regulations, employees must begin drawing benefits no later than April 1 of the year following the age of 70 ½ or retirement.

   b. If the employee does not meet the required distribution provisions, a penalty tax is imposed equal to 50% of the amount that the employee should have withdrawn that year.

9. Withdrawals Following Termination of Employment

   a. Accounts smaller than $3,500 - A lump sum withdrawal or rollover to another tax deferred plan (if employee qualifies) is permitted for such smaller amounts.

   b. Accounts larger than $3,500 - Employee may leave account in the State's plan.

10. Charges on Withdrawals

   a. Participants should contact the TPA to determine if there are any surrender charges on their current investment options.

11. Taxes on Withdrawals

   a. Basic information

      (1) Must be reported when payments or withdrawals are received as income in the year(s) received.

      (2) Income from plan reported to both participant and IRS on appropriate tax form for each year payments are received.

b. Withholding taxes

(1) Normally applied as payments are received. Amount of withdrawal and amount of taxes reported on W-2 statement for 457 plan and on a 1099-R form for 401(k) plan.

(2) Rate of taxation

(a) 457 plan - flat 28% rate

(b) 401(k) plan - 20% on lump sum distributions and any other type of distribution received from plan which would be eligible for rollover.

(c) Withdrawals not subject to flat withholding tax - calculated as if recipient were married with 3 dependents unless a withholding certificate has been filed for a different amount. W-4 form is used for 457 payments and W-4P form is used for 401(k) payments.

(3) Early distribution tax penalty

(a) A 10% tax penalty is assessed on 401(k) withdrawals made before age 59 ½ except when distributions meet IRS exceptions.

(b) It is the participant's responsibility to make the determination and payment of the early distribution tax penalty.

10. 401(k) Loans

a. Active employees who have accumulated $4,000 or more in the plan may borrow up to half of the account balance.

b. Loans may not include employer contributions or matches.

c. The minimum loan is $2,000; the maximum, $50,000.

d. Employees are required to sign documents stipulating repayment via payroll deductions, normally in 5 or less years.

e. Both the principal and interest go back into the employee's 401(k) account. Employees should contact the Company for information on loan limitations and fees or for a copy of the loan brochure.

11. Applying for Benefits

a. Benefits may be distributed in one of three ways:

(1) lump sum

(2) periodic payments, or

(3) in an annuity.

b. Employees may not change the method of payment selected.

(1) Withdrawal application forms may be obtained from the TPA.

(2) Annuity payment estimates and materials describing payment options are available on request.

c. Employees should obtain current information before selecting a payment schedule due to the fact that the provisions of this guideline may be revised by Congress.

d. Payment Options

(1) Lump Sum Payment

(a) Used to withdraw entire account balance.

(b) May be only option available to participants with less than $3,500 in plan.

(c) May be most beneficial option for participants who have more than 5 years in the plan and qualify for forward income averaging.

(2) Periodic Payments

(a) May be withdrawn in equal annual or monthly payments for a specified number of years.

(b) Withdrawal period limited to life expectancy.

(c) May be directly deposited into checking or savings accounts.

(3) Annuity Payments

(a) Investments risks for future years assumed by insurance company.

(b) Payments made to participant or beneficiary regardless of investment returns.

(c) Types of annuity options:

(i) Designated Period Annuity - Certain amount paid for specified period (e.g. 5, 10, 15 years).

(ii) Life Annuity - A certain amount paid to the participant for his/her lifetime. No payments made to beneficiary.

(iii) Life Annuity with Period Certain Feature - A certain amount paid to the participant's as long as he/she lives and also payments paid to a beneficiary for the "period certain" should participant's death occur prior to the end of the period.

(iv) Life Annuity with Joint & Survivor Feature - A certain amount paid to the participant for as long as he/she lives and continued payments to beneficiary after participant's death at 100% or 50% of original payment, depending on option elected.

12. Five Year or Ten Year Forward Averaging

a. Eligibility is contingent upon a participant receiving a qualifying lump sum distribution from a 401(k) plan after age 59 ½ and having 5 or more years in the plan. Participants born on or before 12/31/35 may be eligible for ten year averaging. Questions should be addressed to the TPA.

b. Tax calculated as if money was received over 5 years and is calculated separately from tax on any other income.

13. Rollovers from Other Plans

a. Employees who previously participated in another government's Section 457 plan may apply to have the assets of the prior plan transferred to the State's 457 plan.

b. Employees who participated in another 401(k) plan may apply to have their distribution from that plan transferred to the 401(k) plan; however, the employee must be enrolled in the State of Tennessee Plan prior to applying for the transfer.

14. Plan to Plan Transfers and Rollovers to Other Plans

a. Upon separation from employment, a participant may move deferred compensation into another plan under the following provisions:

(1) 457 Plan

(a) The other plan accepts such transfers.

(2) 401(k) Plan

(a) If a participant is eligible to withdraw accumulations, these may be moved to an IRA or a qualified retirement plan.

(3) A distribution is eligible for transfer unless it is:

(a) Part of a series of substantially equal periodic payments made for the participant's life or life expectancy of the participant and his/her beneficiary,

(b) Part of a series of substantially equal periodic payments made for a specified period of 10 or more years,

(c) A withdrawal a participant is required to take due to age.

b. Money may be transferred directly to the new plan or the participant may receive a check from the 401(k) plan and make a rollover to the new plan.

c. Participants must arrange direct transfers when an application is submitted for withdrawal from the plan.

d. The plan must apply 20% withholding to any distribution which would have been eligible for direct transfer.

e. Prior service in Tennessee Consolidated Retirement System (TCRS) may be purchased with a rollover from the 401(k) plan when the participant becomes eligible to make a withdrawal from the 401(k) plan. Excess amounts may be rolled into an IRA or reported as taxable income. TCRS should be contacted for additional information.

f. Participants who move their 401(k) accounts into IRAs may want to set up special "conduit accounts" in the event they later become eligible to roll funds back into a qualified retirement account. (Withdrawals from IRAs are not eligible for income averaging.) Additional information on rollover and transfer rules may be obtained from the IRS.

15. Non-Assignability of Benefits

a. 457 Plan

(1) Deferrals are assets of the State of Tennessee until paid to the participant or beneficiary.

(2) Amounts cannot be assigned or attached to satisfy debts or obligations of an individual.

b. 401(k) Plan

(1) Accumulations are part of a qualified pension plan.

(2) Assets are exempt from execution, attachment, garnishment, or other process, other than levies issued by the IRS.

(3) Benefits cannot be given to an ex-spouse as marital property or as alimony.

Sources

TBR Presidents Meeting: November 13, 1990; November 9, 1993; November 8, 1995; August 13, 1996; November 12, 1996; February 5, 1997; May 6, 1997; February 17, 1998, August 10, 1999; November 5, 2008; February 17, 2009.

Sick Leave: 5:01:01:07

Purpose

It is the policy of the Tennessee Board of Regents to protect all regular full-time and part-time employees against loss of earnings due to illness, injury, or incapacity to work including illness or incapacity to work due to pregnancy, and to provide the time off to employees in the event of illness or death of certain family members.

Definitions

The body of the policy defines terms.

Policy/Guideline

I. Eligibility to Accrue Sick Leave

A. Regular full-time employees and academic personnel, regardless of probationary status, shall be eligible to accrue sick leave. All eligible employees (regular full-time and regular part-time) will accrue sick leave after working more than 50% of the month.

B. Regular part-time employees, including academic personnel scheduled to carry less than a full teaching load or its equivalent, regardless of probationary status, shall be eligible to accrue sick leave on a prorated basis equal to the percentage of their employment to full-time employment.

C. Temporary employees shall not be eligible to accrue sick leave. Temporary employees who are subsequently appointed as regular employees with no break in service between the temporary assignment and the regular position shall become eligible to accrue sick leave and shall receive sick leave balances accrued retroactively from the date of employment.

D. All full-time and part-time employees who are employed pursuant to funds available to the institution through grants or contracts are not eligible to accrue sick leave unless the grant or contract involved provides sufficient funds to cover the costs of such leave, or unless eligibility to accrue sick leave is approved by the president or director of the institution.

E. Student employees shall not be eligible to accrue sick leave.

II. Eligibility for and Rate of Accrual of Sick Leave

A. Regular full-time personnel and full-time academic personnel, whether employed on a twelve-month or nine-month service basis, shall accrue sick leave at the rate of 7.5 hours (1 day) for each month of actual service. A regular full-time employee working 37.5 hours per week, earns 90 hours (12 days) of sick leave per year. An employee on a 40 hour per week schedule, shall accrue 8 hours (1 day) for each month of actual service or 96 hours of sick leave per year.

B. Regular part-time personnel and part-time academic personnel, whether employed on a twelve-month or nine-month service basis shall accrue sick leave on a prorated basis equal to the percentage of their employment compared to full-time employment.

C. Accrued days of sick leave shall be cumulative for all days not used.

D. Eligible employees shall accrue sick leave from the date of employment. (See Section I, item C, providing for retroactive credit for temporary employees who subsequently become eligible to accrue sick leave.)

E. Eligible employees earn and accrue sick leave for each month upon completion of service for a major fraction thereof.

F. All modified fiscal year (MODFY) employees who are employed during the period which would normally be the non-duty period of their appointment shall accrue sick leave at the rate of 7.5 hours for each month of full-time employment. For part-time employment during that period, MODFY employees shall accrue sick leave on a prorated basis in accordance with item B of this section.

G. Notwithstanding any other provision herein which might be construed to the contrary, regular nine-month academic personnel shall accrue 67.5 hours (9 days) of sick leave for full-time employment for a full academic year and up to 22.5 hours (3 days) of sick leave for full-time employment throughout summer sessions based on hours worked during the summer.

H. Employees otherwise eligible to earn sick leave do not earn or accrue sick leave while on an unpaid leave of absence.

III. Use of Sick Leave

A. Sick leave and Family and Medical Leave (FMLA) shall run concurrently in accordance with the provisions of TBR Policy 5:01:01:14. (Note: Unless an employee is on a reduced or intermittent work schedule, periods of less than three days shall not be designated as FMLA leave.)

B. Sick leave is generally applicable to absences due to illness or injury to an employee, including illness or incapacity to work due to pregnancy, medical examinations and dental appointments. In addition, sick leave may be used for parental leave. Refer to TBR Policy 5:01:01:08.

C. Where an employee must be absent because of illness in the immediate family, sick leave may be granted by the appropriate approving authority.

1. For purposes of this section, "immediate family" shall be deemed to include:

a. spouse;

b. child, step-child, foster child;

c. parent, step-parent, foster parent and parent-in-law;

d. sibling; and

e. other members of the family who reside within the home of the employee.

D. Sick leave, if available, may be granted at the discretion of the appropriate approving authority in instances of death of a member of the family as follows:

1. Immediate family member as defined in Policy No. 5:01:01:09 - Bereavement Leave, may be granted for a maximum of two (2) days after the three (3) day bereavement leave has been used for a maximum of five (5) consecutive or non-consecutive regularly scheduled work days.

2. In instances of death of one of the following relatives, sick leave may be granted for a maximum of 22.5 hours (3 days):

a. sons-in-law and daughters-in-law;

b. brothers-in-law and sisters-in-law;

c. foster brothers and foster sisters; and

E. Abuse of sick leave by an employee will result in the withholding of payment of the sick leave and possible additional disciplinary action. Sick leave may not be taken until earned and available and may not be advanced.

F. Sick leave may not be used by nine-month academic personnel for absences due to illness or injury during a summer or other inter-session unless the employee has been physically present and actually commenced employment for the term in question.

G. Upon prior approval of the Chancellor, an employee who is injured in the line of duty as a result of the commission of an assault upon him or her which disables the employee from performing his or her regular duties, may be retained on the regular payroll for a period not to exceed twenty-eight (28) calendar days without being required to use any accrued sick leave. The length of time for such retention on the payroll shall be based upon a written statement from the attending physician that the employee is unable to perform his or her regular duties.

H. Subject to the conditions outlined in Transfer of Sick Leave between Employees Policy 5:01:01:15, sick leave may be transferred to members of the institution/school's Sick Leave Bank(s).

IV. <u>Physician's Statement or Other Certification</u>

A. An employee may be required to present evidence in the form of personal affidavits, physician's certificates, or other testimonials in support of the reason for sick leave upon request of his or her supervisor or an appropriate approving authority.

B. Sick leave may not be denied where an employee furnishes an acceptable statement from a licensed physician or accredited Christian Science practitioner or other healthcare provider, provided that the supervisor or approving authority may require additional documentation or statements from other physicians or accredited practitioners.

V. <u>Return to Work</u>

A. An employee may be required to present a written release to return to work, including any restrictions that may apply, from a licensed physician or other accredited practitioner prior to resuming employment.

B. An employee will be allowed to return to work if the release certifies that he/she is able to perform the essential functions of the position with or without a reasonable accommodation.

VI. Exhaustion of Sick Leave

A. When the illness, injury, or disability of an employee continues beyond the period of accumulated sick leave, the employee shall use any accumulated annual leave for continued absence.

B. However, in cases of workers' compensation, an employee may choose to be placed on an unpaid leave of absence and retain sick and/or annual leave.

C. When an employee has exhausted all accumulated sick and annual leave, he or she may be placed on leave of absence, if requested and found to be justifiable. (See TBR Policy No. 5:01:01:03.)

VII. Separation of Employees with Accrued Sick Leave

A. Upon termination of employment, accumulated sick leave shall not be used as terminal leave, and the employee shall not be entitled to any lump sum payment for accumulated sick leave.

B. If an employee is transferring to another state agency, his or her accumulated sick leave shall be transferred according to Leave Transfer between TBR Institutions and State Agencies. (See TBR Policy No. 5:01:01:06.)

C. If an employee leaves the System or any other state service in good standing after having worked on a full-time continuous basis for at least one (1) full year and thereafter returns to service with the System on a full-time basis, the employee shall immediately be credited with all sick leave to which he or she was entitled at the time of the previous termination.

1. Certification of such entitlement must be received from the previous employer if other than the new employer;

2. If the employee has had interim employment with the System or any other agency of the State of Tennessee of less than one (1) year, he or she shall not be disqualified from receiving credit for sick leave to which he or she is otherwise entitled.

D. Notwithstanding the above paragraph, if any state employee or teacher employed by a local school board in Tennessee leaves the employment of the state or of that board in good standing and becomes a full-time employee within six (6) months of the date of termination, the employee shall immediately be credited with all sick leave to which he or she was entitled at the time of the previous termination.

E. TCRS member employees who terminate due to retirement shall have all unused accumulated sick leave credited toward retirement. ORP member employees who terminate due to retirement shall have all unused accumulated sick leave credited toward retirement service for insurance purposes.

VIII. <u>Death of Employees with Accrued Sick Leave</u>

A. The estate or designated beneficiary of any employee, upon the employee's death, shall be paid for the employee's unused and accrued sick leave in the same manner as the estates of deceased employees are paid for annual leave.

Educational Assistance for TBR System Employees: P-130

Purpose

The purpose of this guideline is to establish the process and procedures regarding educational assistance for TBR System employees.

Definitions

- Institution shall refer to the University, Community College, College of Applied Technology, or the System Office as appropriate.
- Chief Executive shall refer to the President, Director of the Institution, or Chancellor, as applicable.

Policy/Guideline

I. Support for Educational Assistance

A. The Tennessee Board of Regents is committed to the need for the continued professional growth and development of employees.

1. Support for educational assistance of personnel and their dependents is an important vehicle for addressing that need.

2. The programs described in this guideline provide benefits to personnel at TBR institutions to further their formal education.

3. With the exception of the Fee Waiver (formerly referred to as PC-191) which is mandated by the State of Tennessee, the classes and

programs for TBR employees and dependents are available subject to funds being budgeted and available within the institution.

4. The programs are:

   a. Fee Waiver for TBR/UT System Employees Program (formerly PC-191)

   b. Faculty and Staff Tuition Reimbursement Program

   c. Employee Audit/Non-Credit Program

   d. Faculty or Administrative/Professional Staff Grant-in-Aid Program

B. Campuses may develop and administer educational or professional development programs that are designed to advance the objectives of the institutions diversity plan.

C. Exceptions to the provisions of the programs for TBR employees can be made upon recommendation of the institution's chief executive and approval by the Chancellor.

D. For-credit coursework attempted through one of the programs in this guideline must be through an institution accredited by one of the Regional Accrediting Organizations recognized by the Council for Higher Education (www.chea.org).

II. <u>Taxation of Educational Assistance Programs</u>

A. A portion of undergraduate and graduate course tuition, paid by the Tennessee Board of Regents institutions and the University of Tennessee System for their employees may be eligible for exclusion from the employees' gross annual income, in accordance with Internal Revenue code (IRC).

Employees should seek assistance from their personal tax consultants on this issue, however.

III. Fee Waiver for TBR/UT System Employees Program

A. Full-time regular employees of the TBR and UT systems are eligible to enroll in one credit course per term at any state of Tennessee public postsecondary institution (TBR or UT), with fees waived for the employee.

B. Part-time regular and part-time temporary employees, excluding adjuncts, of community colleges and TN Colleges of Applied Technology (TCATs) are eligible to enroll in one credit course per term at the college in which they work, with fees waived for the employee.

C. The waiver is limited to one class, not to exceed 4 credits or 120 clock hours. It may apply for partial payment for classes of more than 4 credit hours or 120 clock hours.

D. The enrollment is limited to available space with the intent that tuition-paying students shall not be denied enrollment by a student using a fee waiver.

E. If applicable, the fee waiver should be used before other forms of educational assistance that may be offered by the institution.

F. Eligibility

1. All full-time employees (faculty, administrators, and support staff) of an institution are eligible to participate.

2. Part-time regular and part-time temporary employees, excluding adjuncts, of community colleges and TN Colleges of Applied Technology (TCATs) are eligible to enroll in one credit course per term at the college in which they work, with fees waived for the employee.

3. The employment status of an employee on the published first day of classes for each term determines eligibility for participation in this program. Any change in employment status after the first day of classes shall not affect eligibility for that term or the amount of assistance received.

G. Fees Paid/Type Course Paid/Number of Hours

1. This waiver applies to one credit course, graduate or undergraduate, which includes maintenance fees, registration fees, tuition, debt service fees, technology access fees, online course fees, RODP fees, and service charges.

   a. There is a limit of one course per term with a maximum limit of four (4) terms per year.

   b. Term shall mean any period of time in which a student may receive a grade for the completion of a course.

   c. Employees are responsible for special course fees, books and supplies, application fees, applied music fees, lab fees, off-campus facility fees, parking fees, traffic fines and similar fees.

   d. Employees are not eligible for fee waivers at more than one institution per term.

2. This waiver applies to courses that are normally offered for-credit, although auditing a course is allowed.

   a. Employees must meet the regular academic rules and regulations of the institution offering the course.

   b. This program does not apply to continuing education or other non-credit courses.

3. Fees will not be waived for programs for which part-time or course-by-course enrollment is prohibited as determined by the institutions, or where costs exceed regular for-credit courses.

   a. Examples include, but are not limited to, programs of law, medicine, dentistry, pharmacy, and veterinary medicine.

H. Payback Provisions

1. Payback provisions do not exist.

I. When the Participant May Attend

1. Supervisors/Department Heads who approve Fee Waiver applications should keep in mind that job performance is paramount and must receive priority.

2. Courses should be scheduled at times other than during regularly scheduled work hours unless the use of annual leave or an alternate work arrangement is documented and approved by the supervisor prior to enrolling in the course.

J. Accounting/Budgeting Provisions

1. An employee must complete the Fee Waiver section of the Request for Educational Assistance form (<u>Exhibit</u> 6) and receive approval from his/her supervisor prior to registering for a course.

2. If the employee is attending the employer institution, the expenditure is charged to employee benefits.

   a. If the employee is attending another institution, the institution attended charges the expenditure to scholarships and fellowships.

b. The employer institution does not recognize an expenditure when an employee attends another institution.

3. The University of Tennessee and the Tennessee Board of Regents do not exchange funds for employees taking courses between the systems.

IV. Faculty and Staff Tuition Reimbursement Program

A. This program's general goal is to encourage faculty and staff members to develop their skills and knowledge through participation in educational programs and is intended to serve as a means of job-related career development.

B. The program is designed to provide assistance for an employee who takes credit courses in a degree program while continuing work responsibilities.

C. The program should be used in the employee's pursuit of a degree that is judged by the employer in its sole discretion to be beneficial to the institution.

1. Eligibility

a. Any regular part-time or full-time employee who has been continuously employed by the institution for at least six months, may, upon verification of service, be eligible to participate.

1. Regular part-time employees may receive a pro rata portion of assistance based on percentage of employment.

2. Employees with prior temporary service immediately preceding regular employment shall receive credit for such service if they qualify for leave accrual and longevity adjustments.

b. TBR employees who retire with at least 10 years of state service maintain eligibility under this program.

2. Fees Paid/Type Course Paid/Number of Hours

a. This program is designed to provide maintenance or tuition-related fees for a maximum of six (6) credit hours per term, as term is defined by the employing institution, with a maximum of four (4) terms per year.

b. An employee may enroll in more than one course during the summer as long as the summer terms in which the courses are to be taken do not overlap. Tuition-related fees may include maintenance fees, registration fees, tuition, debt service fees, technology access fees, online course fees, RODP fees, service charges and incidental fees payable at the time of registration.

c. Employees are responsible for required deposits, special course fees, books and supplies, application fees, applied music fees, lab fees, off-campus facility fees, parking fees, traffic fines and

d. Employees must meet the requirements for admission and the regular academic rules and regulations of the institution offering the course.

3. Payback Provisions

a. Unless retired, the recipient shall be required, after completion of the course or courses, to be employed for not less than one (1) month of full-time employment for each month of the term of participation in the Staff Tuition Reimbursement Program.

1. Early voluntary separation will, therefore require the employee to reimburse the institution for the remaining balance of this commitment.

b. In order to receive future reimbursement, participants must satisfactorily complete all course requirements as defined by the academic program in which they enrolled. A grade of Incomplete at the conclusion of the grading period or a withdrawal is not considered as satisfactory completion. The employee must pay for and satisfactorily complete the same number of hours before again being eligible for this program. Exceptions will be made only in cases (1) where a course is failed for health reasons or (2) where another substantial reason is recognized by the attending institution's academic guidelines.

4. For employees taking courses at other than the home institution, reimbursement applications shall be conditionally approved and held by the office designated by the institution to process these requests until the employee requests reimbursement and documents satisfactory course completion. At that time, the employee will be reimbursed for the prior course(s) and subsequent applications may be conditionally approved.

5. At the institution's discretion, fees may be waived for classes taken at the home institution, but employees will be subject to the provisions of this guideline regarding service time after the class and satisfactory course completion. Successful completion of courses must be documented before being granted approval to take subsequent classes under this program.

6. When the Participant May Attend

   a. Courses should be scheduled at times other than during the regularly scheduled work hours unless the use of annual leave or an adjusted work schedule has been documented and approved by the supervisor prior to enrolling in the program.

7. Accounting/Budget Provisions

   a. Requests for approval to participate in the Reimbursement Program shall be submitted via the form which appears in (Exhibit 2).

1. If the employee is required to pay fees when due, fees may be paid in accordance with the provisions of Deferred Payment Plan Guideline B-070, provided a Deferred Payment Plan has been implemented at the institution the employee is attending.

b. The employer institution shall account for the chargeback as an employee benefit to indicate the employer institution is paying the cost for the benefit of the employee. The charged institution shall remit the tuition fees to the institution providing instruction as maintenance income.

8. Limits on Tuition Reimbursement Rates

a. Requests for participants attending public institutions will be reimbursed at the current semester hour rate for that institution.

b. For individuals who wish to attend other than a Tennessee public institution under this program, reimbursement will not exceed the highest current semester hour rate for a comparable program offered by a Tennessee public institution.

c. Reimbursement for concentrated programs at public or private institutions will be limited to the prevailing graduate fee rate for a comparable program within a Tennessee public institution.

V. <u>Employee Audit/Non-Credit Program</u>

A. This program is designed to provide course or maintenance fees only for an employee who takes courses based on one of the following:

1. Audit;

2. Job-related non-credit basis;

3. Any wellness-related courses that are clearly designed to positively affect one’s physical well-being as defined by the institution.

B. Such courses may be taken at the home institution or another Tennessee public institution while continuing work responsibilities at the home institution.

1. Eligibility

a. Any regular part-time or full-time employee who has been employed by the institution for at least six months may, upon verification of service, be eligible to participate.

1. Employees with prior temporary service immediately preceding regular employment shall receive credit for such service if they qualify for leave accrual and longevity adjustments.

2. Requests for approval to participate shall be submitted on the request form (Exhibit 1). Regular part-time employees may receive a pro rata portion of assistance based on percentage of employment.

b. TBR employees who retire with at least 10 years of state service immediately preceding retirement maintain eligibility under this program.

c. With the exception of retirees, as stated above, the employment status of an employee on the published first day of classes for each term determines eligibility for participation in this program. Any change in employment status after the first day of classes shall not affect eligibility for that term or the amount of assistance received.

d. Retired state employees with 30 or more years of service are eligible to audit courses at state institutions of higher education without charge.

2. Fees Paid/Type Course Paid/Number of Hours

a. This program is designated to pay maintenance or tuition-related fees for audit, job-related non-credit courses, or wellness courses to a maximum of six credit hours or two job-related non-credit or wellness courses per term.

b. Tuition-related fees may include maintenance fees, registration fees, tuition, debt service fees, technology access fees, online course fees, ROPD fees, service charges and incidental fees payable at the time of registration.

c. Job related courses designed to prepare an individual to sit for specific certification or licensure exams may be eligible for reimbursement under this program, subject to approval by the employing institution.

3. Payback Provisions

a. Payback provisions do not exist.

4. When the Participant May Attend

a. Supervisor/Department Heads who approve participation in this program should keep in mind that job performance is paramount and must receive priority.

b. Courses should be scheduled at times other than during regularly scheduled work hours unless the use of annual leave or and adjusted work schedule has been documented and approved by the supervisor prior to enrolling in the course.

c. Course enrollment will be permitted on a "space available" basis. The enrollment is limited to available space with the intent that tuition-paying students shall not be denied enrollment by a student using the Employee Audit/Non-Credit Program.

d. An employee may register only after the formal registration period ends as defined by the institution.

5. Accounting/Budgeting

a. Requests for TBR employees shall be submitted to Human Resources on a Request for Educational Assistance form at least two weeks prior to enrollment in the course or courses.

1. State retirees shall submit forms developed by the Tennessee Higher Education Commission available at http://state.tn.us/thec/Divisions/LRA/FeeWaverandDiscount/FeeWaiverandDiscount.html.

b. The institution where the person is an employee shall account for the chargeback as an employee benefit to indicate the employer is paying the cost for the benefit of the employee.

1. The charged institution shall remit the tuition fees to the institution providing instruction as maintenance income.

c. Forms for state retirees shall be processed by the institution in the same manner as fee waivers for state employees.

6. Where the Participant May Attend

a. All such audit/non-credit courses must be accomplished at the institution where the person is/was employed or another Tennessee public institution.

b. Employees requesting the program must meet the requirements for admission and are subject to institutional regulations and academic procedures.

VI. <u>Faculty or Administrative/Professional Staff Grant-in-Aid (GIA) Program</u>

A. The grant-in-aid is intended to serve as a means of job related career development as well as individual professional development. GIA shall be available to eligible employees when the employing institution in its sole discretion determines that the proposed courses of study will enhance the value of the employee to the home institution. This program is dependent upon the availability of funds at the home institution.

1. Eligibility

a. Any regular full-time faculty member or administrative/professional staff member at a TBR institution who has been employed by the institution for two or more years may be eligible for receipt of a grant-in-aid award.

1. Employees with temporary service immediately preceding regular employment shall receive credit for such service if they qualify for leave accrual and longevity adjustments.

2. Requests for grant-in-aid shall be submitted on a TBR GIA Recommendation Form. (Exhibit 3)

b. The grant-in-aid shall be awarded on the basis of demonstrated need for further academic development which will ultimately benefit the institution; written justification must be submitted to and approved by the chief executive of the institution.

c. Grant-in-aid normally will be limited to employees working toward the doctorate, or other terminal degree.

1. However, requests for aid to pursue degrees below the doctoral level in technical/professional disciplines, and for the training or retraining of administrative/professional staff may be considered.

d. Grant recipients must be placed on an approved leave of absence and enroll as full-time students in credit courses, except where less than full-time status is needed to complete the program.

e. No grant-in-aid shall be awarded for a period longer than twelve (12) months.

1. In general, a full-time grant-in-aid will be awarded on a one-time basis.

2. If the program objectives are not achieved by the end of the designated period, the institution may grant a leave of absence for a maximum of an additional twelve-month period.

3. A second grant-in-aid may only be awarded after the recipient has fulfilled the return employment commitment of the first award.

f. The status of an employee on the published first day of classes for each term determines eligibility for participation in this program. Any change in status after the first day of classes shall not affect eligibility for that term or the amount of assistance received.

2. Fees Paid/Type Course Paid/Number of Hours

a. This program is designed to provide an individual with institutional funds for tuition or maintenance fees and/or living allowances in accordance with the following provisions:

1. Reimbursement of tuition-related fees may not exceed actual maintenance fees or tuition. Tuition-related fees may include maintenance fees, tuition, debt service fees, online course fees, RODP fees, service charges and incidental fees payable at the time of registration, but shall not include room, board, and supplies.

2. Monthly living allowances may not exceed 50% of the grantee's monthly salary. Academic year salaries are to be divided by twelve to derive an equated monthly salary rate.

3. Payback Provisions

a. A contract form, (Exhibit 4), shall be executed between the institution and the recipient of the grant-in-aid stating the conditions under which the grant-in-aid is awarded. The conditions of a grant-in-aid shall comply with the following minimum requirements:

1. The recipient shall be required to return and be employed by the institution for not less than three months of full-time employment for each month of grant-in-aid awarded. Repayment of time shall commence immediately after completion of the period of study or withdrawal from program. In exchange for reimbursement of allowable expenses, a participant will commit to work for the sponsoring institution or, if no appropriate employment is available, at one of the other Tennessee Board of Regents institutions or within the University of Tennessee system.

2. Failure on the part of the recipient to remain employed for the period of time agreed upon in the contract shall result in a financial obligation to the institution based upon the terms of the contract. The contract, (Exhibit 4), specifies that if employment is voluntarily terminated prior to fulfillment of the employment obligation, the final paycheck and check representing the amount of accrued, but unused annual leave may be withheld as repayment of the financial obligation. If such amounts are insufficient to recoup the amount owed by the employee, the institution has the option of pursuing one of two methods to achieve repayment as stated below:

a. The amount or balance owed shall become an account receivable and the institution shall follow the procedure outlined in Guideline B-010, Accounts Receivable - Employee Receivables. If payment in full is not obtained, the debt shall be assigned to a collection agency; or

b. The employee will be required to execute a promissory note acknowledging receipt of the grant-in-aid and containing repayment terms and conditions consistent with the grant-in-aid contract prior to the employee leaving the institution should he/she fail to fully complete the employment requirements of the contract.

3. The institution may terminate the employee prior to the commencement of or during the employment service period provided herein. In the event of such termination by the institution, the employee shall be relieved of repayment of the Grant in Aid.

4. Summer or short-term employment shall be considered part-time employment in cases where the employee holds an academic year appointment. No part-time employment shall be creditable toward the fulfillment of the contract.

4. When the Participant May Attend

a. After approval by the chief executive, the institution may issue and execute the contract stating to the recipient the conditions under which the grant-in-aid is awarded, including when the participant may attend.

5. Accounting/Budgeting Provisions

a. The number of grants-in-aid of each institution shall not exceed three percent (3%) of the number of full-time faculty and administrative/professional staff at the institution at the time the awards are requested. At institutions where the number of full-time faculty and administrative/professional staff totals less than one hundred (100), three (3) such grants may be awarded.

b. Requests for grants-in-aid shall be submitted using the form (Exhibit 3) to the chief executive for approval prior to the beginning of the semester. After approval, the institution may issue and execute the contract.

c. Complete materials supporting each grant-in-aid request shall be maintained by Human Resources. Also, each grant recipient shall be required to provide the official grade reports during and upon completion of the grant period. Continual participation is dependent on the recipient's satisfactory progress toward completion of a course of study.

6. Where the Participant May Attend

a. Participants may attend public and private institutions of higher education. Requests for participants attending Tennessee public institutions will be reimbursed at the current semester hour rate for that institution.

b. For individuals who wish to attend other than a Tennessee public institution under this program, reimbursement will not exceed the highest current semester hour rate for a comparable program offered by a Tennessee public institution.

c. Reimbursement for concentrated programs at public or private institutions will be limited to the prevailing graduate fee rate for a comparable program within a Tennessee public institution.