

# COVERDELL EDUCATION SAVINGS ACCOUNT

## ESA

## APPLICATION

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**STEWARD**  
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MANAGING WEALTH, PROTECTING VALUES  
FAITH-BASED SCREENED FUNDS

Steward Mutual Funds  
P.O. BOX 183004  
Columbus, OH 43218-3004

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# ESA APPLICATION (PLEASE PRINT)

## Investment Company Information:

Name \_\_\_\_\_  
Address \_\_\_\_\_ P.O. Box 182284  
City\State\ZIP \_\_\_\_\_ Columbus, OH 43218-2284

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

Name \_\_\_\_\_

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

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

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

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

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

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

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

Identification Number (please check and complete one):

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

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

### Designated Beneficiary Information:

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

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

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

Telephone \_\_\_\_\_

### Responsible Individual Information:

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

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

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

Telephone \_\_\_\_\_

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

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

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

### Successor Responsible Individual Information:

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

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

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

Telephone \_\_\_\_\_

### ESA Information:

The enclosed contribution(s) is (are):

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

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

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

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

### Investment Information:

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

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

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

# TELEPHONE EXCHANGE PRIVILEGE:

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

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

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

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

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

## Death Beneficiary Designation:

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

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

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

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

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

## Signature (please read before signing):

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

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

I assume complete responsibility for:

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

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

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

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

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

# TRANSFER REQUEST FORM (PLEASE PRINT)

## Designated Beneficiary Information (transferring ESA):

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

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

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

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

## Transfer Information:

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

Address \_\_\_\_\_

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

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

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

## Asset Liquidation Instructions:

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

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

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

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

## Investment Information:

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

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

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

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

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

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

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

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

**Accepting ESA Custodian:**

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

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

# **COVERDELL ESA CUSTODIAL ACCOUNT AGREEMENT**

Form 5305-EA Under Section 530 of the Internal Revenue Code

The Depositor whose name appears on the Application is establishing a Coverdell Education Savings Account under Section 530 for the benefit of the Designated Beneficiary whose name appears on the Application exclusively to pay for the qualified elementary, secondary, and higher education expenses, within the meaning of Section 530(b)(2), of such Designated Beneficiary.

The Depositor has assigned the custodial account the sum indicated on the Application.

The Depositor and the Custodian make the following agreement:

## **ARTICLE I**

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

## **ARTICLE II**

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

## **ARTICLE III**

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

## **ARTICLE IV**

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

## **ARTICLE V**

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

## **ARTICLE VI**

*(See the Application and Section 10.05 of this agreement for information regarding the Responsible Individual's ability to change the Designated Beneficiary named by the Depositor).*

## **ARTICLE VII**

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

## **ARTICLE VIII**

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

## **ARTICLE IX**

This agreement will be amended as necessary to comply with the provisions of the Code and the related regulations. Other amendments may be made with the consent of the Depositor and the Custodian whose signatures appear on the Application.

# COVERDELL ESA CUSTODIAL ACCOUNT AGREEMENT

## ARTICLE X

10.1 *Notices and Change Of Address:* Any required notice regarding this Coverdell ESA will be considered effective when the Custodian mails it to the last address of the intended recipient which the Custodian has in its records. Any notice to be given to the Custodian will be considered effective when the Custodian actually receives it. The Responsible Individual must notify the Custodian of any change of address.

10.2 *Representations And Responsibilities:* The Depositor and the Responsible Individual represent and warrant to the Custodian that any information the Depositor and Responsible Individual have given or will give the Custodian with respect to this agreement is complete and accurate. Further, the Depositor and the Responsible Individual agree that any directions they give the Custodian, or action they take will be proper under this agreement and that the Custodian is entitled to rely upon any such information or directions. The Custodian shall not be liable for acting upon any instructions given by the Responsible Individual named on the Application prior to the time the Custodian receives appropriate written notice that the Designated Beneficiary has met the requirements for assuming control of the Coverdell ESA or that a new Responsible Individual has been appointed. The Custodian shall not be responsible for losses of any kind that may result from the Depositor's and Responsible Individual's directions to it or the Depositor's and Responsible Individual's actions or failures to act. The Depositor and Responsible Individual agree to reimburse the Custodian for any loss the Custodian may incur as a result of such directions, actions or failures to act. The Custodian has no duty to determine whether the contributions or distributions with respect to this Coverdell ESA comply with the Code, regulations, rulings or this agreement and shall not be responsible for any penalties, taxes, judgements expenses of the Designated Beneficiary or any Depositor to this Coverdell ESA.

Notwithstanding anything in this agreement to the contrary, the Custodian may establish a policy permitting someone other than the Designated Beneficiary's parent or legal guardian to serve as Responsible Individual, provided the individual is not prohibited by law from serving in that capacity and fulfilling his or her obligations under this agreement.

10.3 *Service Fees:* The Custodian has the right to charge an annual service fee or other designated fess (for example, a transfer, rollover or termination fee) for maintaining this Coverdell ESA. In addition, the Custodian has the right to be reimbursed for all reasonable expenses incurred in connection with the administration of this Coverdell ESA. The Custodian may charge the Designated Beneficiary separately for any fees or expenses or may deduct the amount of the fees or expenses from the assets in this Coverdell ESA at the Custodian's discretion. The Custodian reserves the right to charge any additional fee upon 30 days notice to the Responsible Individual that the fee will be effective.

Any brokerage commissions attributable to the assets in the Coverdell ESA will be charged to the Coverdell ESA. The Responsible Individual, Depositor or Designated Beneficiary cannot reimburse the Coverdell ESA for those commissions.

### 10.4 *Beneficiary(ies):*

1. Unless indicated otherwise on the Application, the Responsible Individual may not change the Designated Beneficiary. If the Depositor has indicated on the Application that the Responsible Individual may change the beneficiary designated under this agreement and the Responsible Individual chooses to do so, the Responsible Individual must designate a member of the family (as defined in Section 529(e)(2)) of the existing Designated Beneficiary. This designation can only be made on a form prescribed by the Custodian.
2. The Depositor or Responsible Individual may name one or more person or entity as death beneficiary of this Coverdell ESA. This designation can only be made on a form prescribed by the Custodian and it will only be effective when it is filed with the Custodian during the lifetime of the effective when it is filed with the Custodian during the lifetime of the Designated Beneficiary. Each beneficiary designation filed with the Custodian will cancel all previous ones unless the beneficiary designation specifies otherwise. The consent of a death beneficiary designation shall not be required in order to revoke a death beneficiary designation. If a death beneficiary is not designated with respect to this Coverdell ESA, the Designated Beneficiary's estate will be the death beneficiary.

10.5 *Termination:* Either the Custodian or the Responsible Individual may terminate this agreement at any time by giving written notice to the other. The Custodian can resign as Custodian at any time effective 30 days after mailing written notice of its resignation to the Responsible Individual. Upon receipt of that notice, the Responsible Individual must make arrangements to transfer the Coverdell ESA to another financial organization. If the Responsible Individual does not complete a transfer of the Coverdell ESA assets to a successor Coverdell ESA trustee or custodian that the Custodian chooses in its sole discretion or the Custodian may pay the Coverdell ESA balance to the Designated Beneficiary in a single sum. The Custodian shall not be liable for any actions or failures to act on the part of any successor trustee or custodian nor for any tax consequences the Designated Beneficiary may incur that result from the transfer or distribution of the Coverdell ESA assets pursuant to this section.

If this agreement is terminated, the Custodian may hold back from the Coverdell ESA a reasonable amount of money that it believes is necessary to cover any one or more of the following:

- any fees, expenses or taxes chargeable against the Coverdell ESA;
- any penalties associated with the early withdrawal of any savings instrument or other investment in the Coverdell ESA.

If the Custodian is merged with another organization (or comes under the control of any Federal or State agency) or if the entire organization (or any portion which includes the Coverdell ESA) is bought by another organization, that organization (or agency) shall automatically become the trustee or custodian of the Coverdell ESA, but only if it is the type of organization authorized to serve as a Coverdell ESA trustee or custodian.

If the Custodian is required to comply with Section 1.408-2(e) of the Treasury Regulations and fails to do so, or the Custodian is not keeping the records, making the returns or sending the statements as are required by forms or regulations, the IRS may, after notifying the Responsible Individual or the Designated Beneficiary, require that a substitute trustee or custodian be appointed.

10.6 *Amendments:* The Custodian shall have the right to amend this agreement at any time. Any amendment the Custodian makes to comply with the Code and related regulations does not require the consent of either the Responsible Individual or the Depositor. Notwithstanding anything in this agreement to the contrary, other amendments may be made with the consent of the Responsible Individual. The Responsible Individual will be deemed to have consented to any other amendment unless, within 30 days from the date the Custodian mails the amendment, the Responsible Individual notifies the Custodian in writing that the Responsible Individual does not consent.

# **COVERDELL ESA CUSTODIAL ACCOUNT AGREEMENT**

10.7 *Transfer From Other Plans:* The Custodian can receive amounts transferred to the Coverdell ESA from the custodian or trustee of another Coverdell ESA.

10.8 *Liquidation Of Assets:* The Custodian has the right to liquidate assets in the Coverdell ESA if necessary to make distributions or to pay fees, expenses or taxes properly chargeable against the Coverdell ESA. If the Responsible Individual fails to direct the Custodian as to which assets to liquidate, the Custodian will decide in its complete and sole discretion and the Responsible Individual agrees not to hold the Custodian liable for any adverse consequences that result that from the Custodian's decision.

10.9 *Restrictions On The Fund:* Neither the Responsible Individual, the Designated Beneficiary (nor anyone acting on behalf of the Designated Beneficiary), the Depositor nor any contributor may sell, transfer or pledge any interest in the Coverdell ESA in any manner whatsoever, except as provided by law or this agreement.

The assets in the Coverdell ESA shall not be responsible for the debts, contracts or torts of the Responsible Individual, the Designated Beneficiary, the Depositor or any person entitled to distribution under this agreements.

10.10 *What Law Applies:* This agreement is subject to all applicable Federal and State laws and regulations. If it is necessary to apply any State law to interpret and administer this agreement, the law of the Custodian's domicile shall govern.

If any part of this agreement is held to be illegal or invalid, the remaining parts shall not be affected. Neither the Responsible Individual's nor the Custodian's failure to enforce at any time or for ay periods of time any of the provisions of this agreements shall be construed as a waiver of such provisions, or the parties' right thereafter to enforce each and very such provision.

## **INSTRUCTIONS**

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

### **PURPOSE OF FORM**

Form 5305-EA is a model custodial account agreement that meets the requirements of Section 530(b)(1) and has been pre-approved by the IRS. A Coverdell Education Savings Account (ESA) is established after the form is fully executed by both the Depositor and the Custodian. This account must be created in the United States for the exclusive purpose of paying the qualified elementary, secondary, and higher education expenses of the Designated Beneficiary.

If the model account is a trust account, see Form 5305-E, Coverdell Education Savings Trust Account.

Do not file Form 5305-EA with the IRS. Instead, the Depositor must keep the completed form in its records.

### **DEFINITIONS**

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

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

*Designated Beneficiary:* The Designated Beneficiary is the individual on whose behalf the custodial account has been established.

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

*Responsible Individual:* The Responsible Individual, generally, is a parent or guardian of the Designated Beneficiary. However, under certain circumstances, the Responsible Individual may be the Designated Beneficiary.

### **IDENTIFICATION NUMBERS**

The Depositor's and Designated Beneficiary's social security numbers will serve as their identification numbers. If the Depositor is a nonresident alien and does not have an identification number, write "Foreign" in the block where the number is requested. The Designated Beneficiary's social security number is the identification number of his or her Coverdell ESA. If the Designated Beneficiary is a nonresident alien, the Designated Beneficiary's individual taxpayer identification number is the identification number of his or her Coverdell ESA. An employer identification number (EIN) is required only for a Coverdell ESA for which a return is filed to report unrelated business income. An EIN is required for a common fund created for Coverdell ESAs.

## **SPECIFIC INSTRUCTIONS**

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

*Article X:* Article X and any that follow may incorporate additional provisions that are agreed to by the Depositor and Custodian to complete the agreement. They may include, for example, provisions relating to: definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the Custodian, Custodian's fees, state law requirements, treatment of excess contributions, and prohibited transactions with the Depositor, Designated Beneficiary, or Responsible Individual, etc. Attach additional pages as necessary.

*Optional Provisions in Article V and Article VI:* Form 5305-EA may be reproduced in a manner that provides only those optional provisions offered by the Custodian.

# **DISCLOSURE STATEMENT**

## **REQUIREMENTS OF A COVERDELL ESA**

A. *CASH CONTRIBUTIONS* – A Coverdell ESA contribution must be in cash.

B. *MAXIMUM CONTRIBUTION* – The total amount that may be contributed to any and all Coverdell ESAs on behalf of a Designated Beneficiary is \$2,000 per year, excluding rollover and transfer contributions.

Contributions may not be made to a Coverdell ESA after the Designated Beneficiary's 18th birthday, except in the case of a special needs beneficiary.

The Coverdell ESA contribution that may be made by a Depositor is further limited if the Depositor's modified adjusted gross income (MAGI) exceeds \$190,000 and he or she is a married individual filing jointly (\$95,000 for single taxpayers). Married individuals filing jointly with MAGI exceeding \$220,000 may not fund a Coverdell ESA. Single individuals with MAGI exceeding \$110,000 may not fund a Coverdell ESA. The MAGI limits apply only to Depositors that are individuals.

If the Depositor is married filing jointly with MAGI between \$190,000 and \$220,000, the maximum Coverdell ESA contribution is determined as follows: (1) subtract the Depositor's MAGI from \$220,000, (2) divide the difference by \$30,000, and (3) multiply the result in step (2) by \$2,000. For example, if the Depositor's MAGI is \$205,000, the maximum Coverdell ESA contribution that may be made by such Depositor is \$1,000. This amount is determined as follows: [(\$220,000 minus \$205,000) divided by \$30,000] multiplied by \$2,000.

If the Depositor is a single tax filer with MAGI between \$95,000 and \$110,000, the maximum Coverdell ESA contribution is determined as follows: (1) subtract the Depositor's MAGI from \$110,000, (2) divide the difference by \$15,000, and (3) multiply the result in step (2) by \$2,000. For example, if the Depositor's MAGI is \$98,000, the maximum Coverdell ESA contribution that may be made by such Depositor is \$1,600. This amount is determined as follows: [(\$110,000 minus \$98,000) divided by \$15,000] multiplied by \$2,000.

The Coverdell ESA contribution that may be made by a Depositor is not limited by contributions made by the Depositor to Traditional or Roth IRAs. In addition, there is no earned income requirement to be eligible to contribute to a Coverdell ESA. There is no requirement that the Depositor be related to the Designated Beneficiary in order to make contributions. In addition, the Designated Beneficiary may contribute to his or her own Coverdell ESA.

C. *ELIGIBLE CUSTODIANS* – The Custodian of the Coverdell ESA must be a bank, savings and loan association, credit union, or person approved by the Secretary of the Treasury.

D. *COMMINGLING ASSETS* – The assets of the Coverdell ESA cannot be commingled with other property except in a common trust fund or common investment fund.

E. *LIFE INSURANCE* – No portion of the Coverdell ESA may be invested in life insurance contracts.

F. *COLLECTIBLES* – The assets of the Coverdell ESA may not be invested in collectibles (within the meaning of Internal Revenue Code (IRC) Sec. 408(m)). A collectible is defined as any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or other tangible personal property specified by the Internal Revenue Service (IRS). However, specially minted United States gold and silver bullion coins and certain state-issued coins are permissible investments. Beginning January 1, 1998, platinum coins and certain gold, silver, platinum or palladium bullion (as described in IRC Sec. 408(m)(3)) are also permitted as Coverdell ESA investments.

G. *REQUIRED DISTRIBUTIONS* – Except in the case of a special needs beneficiary, the assets of the Coverdell ESA are required to be distributed to the Designated Beneficiary within 30 days of the Designated Beneficiary's attainment of age 30. The Designated Beneficiary will be subject to both income tax and an additional 10 percent tax on the portion of the distribution that represents earnings, if the Designated Beneficiary does not have any qualified education expenses in that year.

Any balance remaining in the Coverdell ESA upon the death of the Designated Beneficiary shall be distributed within 30 days of the Designated Beneficiary's death, unless a death beneficiary is named and the death beneficiary is a qualified family member under age 30. If the death beneficiary is a qualified family member under age 30, that individual will become the Designated Beneficiary as of the date of death.

H. *RESPONSIBLE INDIVIDUAL* – The Responsible Individual is generally the parent or guardian of the Designated Beneficiary. However, the financial organization may establish a policy that permits someone other than the Designated Beneficiary's parent or legal guardian to serve as the Responsible Individual. Unless otherwise indicated on the Application, the Responsible Individual may not change the Designated Beneficiary. If the Depositor has indicated on the Application that the Responsible Individual may change the Designated Beneficiary, the Responsible Individual may change the Designated Beneficiary to another member of the Designated Beneficiary's family. The Responsible Individual shall perform the following duties.

1. receive a copy of the plan agreement and disclosure statement.
2. direct the Custodian regarding the investment of contributions, including the ability to redirect the investment of the initial contribution.
3. direct the Custodian regarding the administration, management and distribution of the account, unless the plan agreement indicates otherwise.
4. name a successor responsible individual if the need arises.
5. notify the Custodian of any address change for the individuals identified on the plan agreement.
6. remove excess contributions made to the Coverdell ESA.

## **INCOME TAX CONSEQUENCES OF ESTABLISHING A COVERDELL ESA**

A. *CONTRIBUTIONS NOT DEDUCTED* – No deduction is allowed for Coverdell ESA contributions, including transfer and rollover contributions.

## **DISCLOSURE STATEMENT**

**B. TAX-DEFERRED EARNINGS** – The investment earnings of the Coverdell ESA are not subject to federal income tax as they accumulate in the Coverdell ESA. In addition, distributions of the Coverdell ESA earnings will be free from federal income tax if the distributions are taken to pay for qualified education expenses, as discussed below.

**C. TAXATION OF DISTRIBUTIONS** – The taxation of distributions from the Coverdell ESA depends on whether or not the distributions are used for qualified education expenses.

**1. Qualified Education Expenses** – The Designated Beneficiary may take tax-free distributions from a Coverdell ESA to pay for elementary, secondary or post-secondary education expenses at an eligible educational institution. Such expenses include tuition, fees, books, supplies, special needs services, room and board, uniforms, transportation, academic tutoring and supplementary items or services (including extended day programs). Also qualifying are expenses for the purchase of computer technology or equipment, Internet access and related services, if such technology, equipment or services are to be used by the Designated Beneficiary or Designated Beneficiary's family during any of the years the Designated Beneficiary is in school. Qualified expenses may also include amounts contributed to a qualified tuition program .

**2. Nonqualifying Distributions** – If a Designated Beneficiary withdraws amounts from a Coverdell ESA which exceed the qualified education expenses for the same year, or the distributions are not used for qualified education expenses, a portion of the distributions will be taxable. The amount in excess of the qualified education expenses is taxable pro rata, based on the earnings and the basis in the account.

In most cases of a nonqualified distribution, the taxable portion of a Coverdell ESA distribution is also subject to an additional 10 percent tax. There are several exceptions to the 10 percent tax including distributions made payable

- a. to a designated death beneficiary of the Coverdell ESA or to the estate of the Designated Beneficiary following the death of the Designated Beneficiary;
- b. to the Designated Beneficiary if the Designated Beneficiary is disabled;
- c. to the Designated Beneficiary if the Designated Beneficiary received a qualified scholarship, an educational assistance allowance or an excludable payment exception, but only to the extent the distribution is not more than the amount of the scholarship, allowance or excludable payment, and
- d. to the Designated Beneficiary as a removal of excess along with the net income attributable.

**3. Hope or Lifetime Learning Credits** – A Designated Beneficiary may claim the Hope Credit or the Lifetime Learning Credit on his or her federal income tax return in the same taxable year that a tax-free distribution from a Coverdell ESA is claimed, as long as the distribution(s) does not cover the same expenses claimed for the Hope Credit or Lifetime Learning Credit.

**D. ROLLOVERS** – Coverdell ESA amounts may be rolled over to another Coverdell ESA of the same Designated Beneficiary or that of a qualified family member, provided that all of the applicable rollover rules are followed. Rollover is a term used to describe a tax-free movement of cash to a Coverdell ESA from another Coverdell ESA. The rollover rules are generally summarized below. These transactions are often complex. If you have any questions regarding a rollover, please see a competent tax advisor.

**1. ESA to ESA Rollovers** – Funds distributed from a Coverdell ESA may be rolled over to another Coverdell ESA of the same Designated Beneficiary or that of a qualifying family member if the requirements of IRC Sec. 530(d)(5) are met. A proper Coverdell ESA to Coverdell ESA rollover is completed if all or part of a distribution is rolled over not later than 60 days after the distribution is received. The Responsible Individual may not have completed another rollover from the distributing Coverdell ESA during the 12 months preceding the date the distribution was received. Further, the Responsible Individual may roll the same dollars or assets only once every 12 months.

**2. Qualified Family Member** – A Coverdell ESA may be rolled to another Coverdell ESA of the same Designated Beneficiary or to a Coverdell ESA maintained for the benefit of a qualified family member of the Designated Beneficiary, who is under the age of 30. The age 30 limitation does not apply to qualified family members who are special needs beneficiaries. Qualified family members of the Designated Beneficiary include the Designated Beneficiary's spouse, child, grandchild, sister, brother, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law and the spouse of any such individual. A first cousin of the Designated Beneficiary, but not his or her spouse is also considered a qualified family member.

**E. CARRYBACK CONTRIBUTIONS** – A contribution is deemed to have been made on the last day of the preceding taxable year if it is made by the deadline for filing the Depositor's income tax return (not including extensions), and the Depositor designates that contribution as a contribution for the preceding taxable year. For example, if the Depositor is a calendar year filer and makes a Coverdell ESA contribution on or before April 15, the contribution is considered to have been made for the previous tax year if the Depositor designates it as such.

### **LIMITATIONS AND RESTRICTIONS**

**A. PROHIBITED TRANSACTIONS** – If the Responsible Individual engages in a prohibited transaction with the Coverdell ESA as described in IRC Sec. 4975, the Coverdell ESA will lose its tax-exempt status and the Designated Beneficiary must generally include the value of the earnings in his or her account in his or her gross income for the year.

**B. PLEDGING** – If the Responsible Individual pledges any portion of the Coverdell ESA as collateral for a loan, the amount so pledged will be treated as a distribution and may be included in the Designated Beneficiary's gross income for that year to the extent that it represents earnings.

**C. ESTATE AND GIFT TAX** – Transfers of Coverdell ESA assets to a death designated beneficiary made during the Designated Beneficiary's life and at his or her request or because of the Designated Beneficiary's failure to instruct otherwise, may be subject to federal gift tax under IRC Sec. 2501 if made after October 22, 1986.

**D. INCOME TAX TREATMENT** – Any withdrawal from the Coverdell ESA is not subject to federal income tax withholding.

# DISCLOSURE STATEMENT

## FEDERAL TAX PENALTIES

A. **EXCESS CONTRIBUTION PENALTY** – An excise tax of 6 percent is imposed upon any excess contribution made to a Coverdell ESA. This tax will apply each year in which an excess remains in the Coverdell ESA. An excess contribution is any contribution amount which exceeds the contribution limit, excluding rollover and direct transfer amounts. The contribution limit is \$2,000 per Designated Beneficiary per year. The contribution limit may be further limited by the Depositor's MAGI as discussed previously. The excess contribution should be removed by the Responsible Individual and made payable to the Designated Beneficiary.

B. **PENALTY REPORTING** – The Designated Beneficiary must file form 5329 with the Internal Revenue Service to report and remit any penalties for excise taxes.

## OTHER

A. **IRS PLAN APPROVAL** – The agreement used to establish this Coverdell ESA has been approved by the IRS . The IRS approval is a determination only as to form. It is not an endorsement of the plan in operation or of the investments offered.

B. **ADDITIONAL INFORMATION** – You may obtain further information on Coverdell ESAs from your District Office of the IRS . In particular, you may wish to obtain IRS Publication 970, *Tax Benefits For Higher Education*, by calling 1-800-TAX-FORM, or by visiting [www.irs.gov](http://www.irs.gov) on the Internet.

C. **IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT** – To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial organizations to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, you are required to provide your name, residential address, date of birth, and identification number. We may require other information that will allow us to identify you.

## WHAT'S NEW FOR 2010

**Modified AGI limit for traditional IRA contributions increased.** For 2010, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is.

- More than \$89,000 but less than \$109,000 for a married couple filing a joint return or a qualifying widow(er).
- More than \$56,000 but less than \$66,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

For 2010, if you either live with your spouse or file a joint return, and your spouse is covered by a retirement plan at work, but you are not, your deduction is phased out if your modified AGI is more than \$167,000 but less than \$177,000. If your modified AGI is \$177,000 or more, you cannot take a deduction for contributions to a traditional IRA. See [\*How Much Can You Deduct?\*](#) in this chapter.

**Conversions to Roth IRAs.** Beginning in 2010, the modified AGI and filing status requirements for converting a traditional IRA to a Roth IRA are eliminated. Also, for any 2010 rollover from an IRA other than a Roth IRA to a Roth IRA, any amounts that would be included as income will be included in income in equal amounts in 2011 and 2012. You can choose to include the entire amount in income in 2010.

**Catch-up contributions in certain employer bankruptcies.** The provision for additional catch-up contributions in certain employer bankruptcies does not apply for 2010 or later years.

**Qualified charitable distributions (QCDs).** The provision for tax-free distributions from IRAs for charitable purpose is scheduled to expire and will not be available for 2010.