



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

Independent Auditor's Report

Members of the General Assembly
Members of the Board of Trustees
The Honorable David H. Lillard, Jr., Treasurer

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Achieving a Better Life Experience (ABLE TN) Program, a private-purpose trust fund of the State of Tennessee, as of June 30, 2019, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Achieving a Better Life Experience (ABLE TN) Program's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express

no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Achieving a Better Life Experience (ABLE TN) Program as of June 30, 2019, and the changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A.1, the financial statements present only the Achieving a Better Life Experience (ABLE TN) Program, a private-purpose trust fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee, as of June 30, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, on our consideration of the Achieving a Better Life Experience (ABLE TN) Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Achieving a Better Life Experience (ABLE TN) Program's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA, Director
Division of State Audit
December 13, 2019

ABLE TN

ABLE TN
Achieving a Better Life Experience Plan
Statement of Fiduciary Net Position
June 30, 2019

ASSETS

Cash and cash equivalents	\$	4,248,756
Investments at Fair Value		
Investment in Mutual Funds (Fixed Income)		1,372,308
Investment in Mutual Funds (Blended)		3,365,388
Investment in Mutual Funds (Equity)		6,601,426
Total Investments at Fair Value		<u>11,339,122</u>
TOTAL ASSETS		<u>15,587,878</u>
TOTAL LIABILITIES		<u>0</u>
NET POSITION - RESTRICTED FOR PLAN PARTICIPANTS	\$	<u><u>15,587,878</u></u>

See accompanying Notes to the Financial Statements

ABLE TN

ABLE TN
Achieving a Better Life Experience Plan
Statement of Changes in Fiduciary Net Position
For Fiscal Year Ended June 30, 2019

ADDITIONS

Contributions	\$	5,600,383
Investment Income		713,469
TOTAL ADDITIONS		<u>6,313,852</u>
DEDUCTIONS		
Withdrawals		1,743,792
Administrative cost		17,607
TOTAL DEDUCTIONS		<u>1,761,399</u>
CHANGE IN NET POSITION		4,552,453
NET POSITION - RESTRICTED FOR PLAN PARTICIPANTS		
BEGINNING OF YEAR		<u>11,035,425</u>
END OF YEAR	\$	<u><u>15,587,878</u></u>

See accompanying Notes to the Financial Statements

ABLE TN
Achieving a Better Life Experience Plan
Notes to the Financial Statements
For Fiscal Year Ended June 30, 2019

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Tennessee Achieving a Better Life Experience (ABLE TN) Program (the “Program”) is included in the State of Tennessee financial reporting entity. Because of the state’s fiduciary responsibility, the Program has been included in the *Tennessee Comprehensive Annual Financial Report* as a private-purpose trust fund. That report is available on the state’s website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

2. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

3. Cash and Cash Equivalents

Cash and cash equivalents include cash and short term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received that cannot be immediately invested in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer.

4. Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. The fair value of investments in open-end mutual funds is based on the share price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

The fair value of assets held at June 30, 2019, represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by Generally Accepted Accounting Principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; assets or liabilities that have a bid-ask spread price in an inactive dealer market, brokered market and principal-to-principal market; and Level 1 assets or liabilities that are adjusted.

- Level 3 - Valuations derived from valuation techniques in which significant inputs are unobservable.

Where inputs used in the measurement of fair value fall into different levels of the hierarchy, fair value of the instrument in its entirety is categorized based on the lowest level input that is significant to the valuation. This assessment requires professional judgment and as such management developed a fair value committee that worked in conjunction with our custodian and investment professionals to make these valuations. All assets held were valued individually and aggregated into classes so to be represented in the table below.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

Equity and equity derivative securities classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date.

Investments Measured at Fair Value
For Fiscal Year Ended June 30, 2019
Expressed in Thousands

Investments	GAAP Hierarchy Level 1
EQUITY INVESTMENTS	
DFA Large Cap International I	\$ 567
DFS US Small Cap I	397
PRIMECAP Odyssey Aggressive Growth	2,379
Vanguard Mid Cap Growth Inv	0
DFA US Large Cap Value I	361
Vanguard Institutional Index I	2,898
	6,602
FIXED INCOME INVESTMENTS	
DFA Inflation-Protected Securities I	211
Vanguard Interm-Term Investment-Grade Adm	286
Vanguard Interm-Term Treasury Adm	275
Vanguard Total Bond Market Index I	600
	1,372
BLENDED INVESTMENTS	
Vanguard LifeStrategy Cnsrv Growth Inv	1,337
Vanguard LifeStrategy Income Inv	392
Vanguard Wellington Admiral	1,636
	3,365
TOTAL INVESTMENTS AT FAIR VALUE	11,339
Cash and Cash Equivalents	4,249
TOTAL FINANCIAL STATEMENT ASSETS	\$ 15,588

B. DEPOSITS AND INVESTMENTS

In accordance with State statute, the State Treasurer maintains the powers and authorities necessary and convenient to carry out the purposes and objectives of ABLE TN including providing investment options or investment products for eligible individuals who have established an ABLE account.

Recognizing that program participants may have an investment horizon ranging from a few months to more than twenty years, the State Treasurer has selected a group of investment products that have an investment risk profile ranging from conservative to aggressive. The investment products selected are evaluated based on a number of factors including but not limited to fees, investment performance, investment strategy, and any available ratings of the products to Program participants who select the options that suit their individual investment needs.

The ABLETN program has deposits in the State Pooled Investment Fund. The State Pooled Investment Fund is not rated by a nationally recognized statistical ratings agency. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented in the State Pooled Investment Fund Report. That report is available on the state's website at www.treasury.tn.gov.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations with regard to debt. The Program does not currently own specific fixed income securities, but provided options to Program participants to invest in mutual funds that invest in fixed income securities. Mutual funds with 100% allocations in fixed income securities are considered to be fixed income investments while mutual funds with some portion of their assets invested in fixed income securities are considered blended investments. At June 30, 2019, these funds were not specifically rated by any rating agency; however the underlying securities of the funds had an average credit quality of Baa (4th highest) or better. At June 30, 2019, 19.0% of all the plan assets, as well as \$4,248,756 in a money market account classified as cash equivalents, was invested in fixed income securities. Those plan investments in the money market account are FDIC insured and are not considered to be exposed to credit risk. The investment policy for the Program does not specifically address credit risk.

Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The Program provides investment products for participants to select, however it is the participant that is responsible for selecting an option(s) that best suits their investment needs. As such, the Program does not have a policy regarding the management of interest rate risk in periods of volatile interest rates. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. Presented below is a statement of Effective Duration as of June 30, 2019.

ABLE TN

Expressed in Thousands

Fund Name	Fair Value as of June 30, 2019	Effective Duration (Years)
Blended		
Vanguard LifeStrategy Cnsrv Growth Inv	\$ 1,337	6.58
Vanguard LifeStrategy Income Inv	392	6.58
Vanguard Wellington Admiral	1,636	7.09
Fixed Income		
DFA Inflation-Protected Securities I	\$ 211	7.31
Vanguard Interm-Term Investment-Grade Adm	286	5.45
Vanguard Interm-Term Treasury Adm	275	5.31
Vanguard Total Bond Market Index I	600	6.00

C. DESCRIPTION OF THE EDUCATIONAL SERVICES PLAN

The ABLE TN program was created under *Tennessee Code Annotated*, Title 71, Chapter 4, Part 8 and is a savings program designed to help individuals with disabilities put aside money to pay for qualified expenses. These accounts provide the opportunity to save and invest, with tax-free earnings, to help participants maintain independence and quality of life. The Trustees are empowered under the Statute to develop a plan to carry out the purposes and objectives of the Program. The State Treasurer has the authority to establish and develop ABLE TN, including the implementation, administration, operation, marketing, investment options, customer service, and investment management services of the Program, in the form of a plan, as approved by the Trustees. The Statute provides for the powers and authorities of the State Treasurer that are necessary and convenient to carry out the purposes and objectives of ABLE TN. The ABLE TN program began operations on May 18, 2015.

Upon opening an account, eligible participants may choose to invest in any of the Program's available investment options based on their own objectives and strategies. The complete list of available investment options are listed below:

Type	Fund Name	Ticker Symbol
Equity	DFA Large Cap International I	DFALX
	DFS US Small Cap I	DFSTX
	PRIMECAP Odyssey Aggressive Growth	POAGX
	Vanguard Mid Cap Growth Inv*	VMGRX
	DFA US Large Cap Value I	DFLVX
	Vanguard Institutional Index I	VINIX
Blended	Vanguard LifeStrategy Cnsrv Growth Inv	VSCGX
	Vanguard LifeStrategy Income Inv	VASIX
	Vanguard Wellington Admiral	VWENX
Fixed Inc	DFA Inflation-Protected Securities I	DIPSX
	Vanguard Interm-Term Investment-Grade Adm	VFIDX
	Vanguard Interm-Term Treasury Adm	VFIUX
	Vanguard Total Bond Market Index I	VBTIX

*This investment option was closed in September 2018.

Participants in the Program can make withdrawals at any time after contributions have been invested for 10 days. Withdrawals used for qualifying disability expenses receive certain tax incentives; additionally those not used for qualifying disability expenses receive certain tax penalties based on the participant's individual circumstances.

D. OTHER ACCOUNTING DISCLOSURES

Third Party Administration

Effective February 26, 2018, the State contracted with Ascensus College Savings Recordkeeping Services, LLC for the provision of recordkeeping services for the ABLE TN Program.

Unit Valuation

Each account owner's interest in an investment option is evidenced by a whole or fractional unit. The value of a unit in an investment option is calculated daily based on the fair market value of the underlying investment assets, adjusted for the net effects of transactions such as accrued administrative fees, contribution and withdrawal requests approved but not processed, or investment income that has not yet been reinvested. This value, known as the net asset value, is divided by the total number of units outstanding to determine the net asset value per unit. The value of an account owner's interest in an investment option is determined by multiplying the number of units owned by the net asset value per unit.