

**DISCLOSURE STATEMENT AND PROGRAM DESCRIPTION
OF THE
WALLACE-FOLSOM PREPAID COLLEGE TUITION TRUST FUND**

For the Enrollment Period Through September 30, 1996
This Disclosure Statement is dated as of September 1, 1996

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**DISCLOSURE STATEMENT AND PROGRAM DESCRIPTION
RELATING TO THE
WALLACE-FOLSOM PREPAID COLLEGE TUITION TRUST FUND**

This disclosure statement and program description of the Wallace-Folsom Prepaid College Tuition Trust Fund (herein the "Disclosure Statement") is provided in connection with the offering for purchase of a prepaid college tuition contract by the Wallace-Folsom Prepaid College Tuition Trust Fund (herein the "Fund"), an agency and instrumentality of the State of Alabama. In order to purchase a prepaid college tuition contract, you must first apply for the purchase of a prepaid college tuition contract. A prepaid college tuition contract consists of the terms of the Application (as defined below), the MasterPACT and the participation and payment schedule (collectively, such documents combine to form the Contract"). Applications for the purchase of a Contract are available at the State Treasurer's office located at 100 North Union Street, Suite 660, Montgomery, Alabama 36130 (herein the "Application"). The application for, purchase of, and ownership of a Contract are governed by the terms of the Application, the MasterPACT, as well as the rules, regulations, and procedures of the Fund (herein the "Rules"). The offering of prepaid college tuition contracts by the Fund is herein referred to as the "Tuition Program." The capitalized terms not otherwise defined herein have the meanings attributed to such terms in the Rules.

Use of the terms "you" and "your" herein, as well as any derivatives thereof, shall mean and refer to the Purchaser of a Contract. Pronominal references herein used shall include the masculine, feminine and neuter and the singular and plural, as the context requires. The captions of the various sections of this Disclosure Statement are for convenience of reference only and are not intended to define, limit, expand or describe the scope or extent of the Disclosure Statement.

This Disclosure Statement Provides Important Information Concerning Certain of The Risks Relating To The Purchase Of A Prepaid College Tuition Contract From The Fund. For This Reason, This Disclosure Statement Should Be Read In Its Entirety Before Taking Any Action To Apply For The Purchase Of A Prepaid College Tuition Contract With The Fund. This Disclosure Statement Is Not A Part Of The Contract.

The purchase of a prepaid college tuition contract is necessarily a long-term investment because generally no payment is made for several years until a beneficiary enrolls in a college or university. You should not purchase a Contract if you anticipate liquidity needs or other financial needs which will require you to cancel or transfer the Contract in order to provide for such needs. With respect to the transfer of a Contract, no market for resale is known to exist. Limited opportunities, if any, exist for the transfer of a Contract and the liquidation of amounts paid into the Contract. Therefore, no representation is made or assurance given that you will be able to transfer the Contract to another Purchaser in order to liquidate your investment in the Contract.

Any description herein of the Application, the MasterPACT, the Rules, or any other document relating to the Tuition Program is not intended to be a definitive or comprehensive statement of the terms and conditions of such documents. Reference is made in each instance to each document for the complete details of all terms and conditions of that document. All statements herein relating to such documents are qualified in their entirety by the terms and conditions of each such document.

Copies of the Application, the MasterPACT, the Rules, and other documents relating to the Tuition Program are available at the State Treasurer's office at the address listed above.

If you are not considering the purchase of a Contract during the 1996 enrollment period, you may gain an understanding of the Tuition Program by reading this Disclosure Statement. However, if you desire to purchase a Contract in a subsequent year, you should be aware that the terms and features of the Tuition Program and documents relating thereto in that subsequent year may differ, even materially, from the terms and features described in this Disclosure Statement. Some or all of the terms and features of the Tuition Program in a subsequent year may be materially changed from the terms and features described in this Disclosure Statement. Some terms and features of the Tuition Program described in this Disclosure Statement for the 1996 enrollment period may be entirely eliminated from the Tuition Program in a subsequent enrollment period. As such, the terms and features of the Tuition Program in that subsequent year will govern.

OVERVIEW

The following descriptive overview of the risks and features of the Tuition Program is not intended to be a comprehensive or definitive description of the risks and features of the Tuition Program. Each statement contained in this Disclosure Statement is subject to qualification in its entirety by the terms and conditions of the Application, the Rules and other documents relating to the Tuition Program and the descriptions contained elsewhere in this Disclosure Statement.

The Wallace-Folsom Prepaid College Tuition Trust Fund was created by the Alabama Legislature as a state agency and instrumentality to advance and improve higher education in the state of Alabama by increasing financial access to public colleges and universities. The Fund is administered by a ten member Board of Trustees. See "**THE TRUST FUND—Management of the Fund.**" To fulfill the Fund's purpose, the Board of Trustees is empowered, for and on behalf of the Fund, to enter into prepaid college tuition contracts with qualifying purchasers. See "**THE TRUST FUND—Powers of the Board.**"

The Fund uses an independent accounting and consulting firm, Coopers & Lybrand L.L.P. to perform actuarial services to determine tuition payment obligations. Contract prices are determined based on anticipated investment results and expected future payment obligations. See "**THE TRUST FUND—Selected Financial Information.**"

In order to purchase a Contract, you must file an Application for such purchase with the State Treasurer. Upon the acceptance of an Application, which such acceptance may be denied based upon the prospective purchaser's failure to meet certain conditions set forth in the Rules, a person may purchase a prepaid college tuition contract (that person sometimes herein referred to as the "Purchaser") for the benefit of a qualified beneficiary. A qualified beneficiary is defined generally as a person under the age of 18 who is living at the time of the application and who meets certain residency and grade level requirements. The purchase price of a contract is determined actuarially based on various assumptions, such as projected investment return. See "**TUITION PROGRAM.**"

When a purchaser's Application has been accepted and the full purchase price is paid, the Fund is obligated to pay the tuition costs and mandatory fees of the designated qualified beneficiary over a specified number of academic hours. The Contract may be used to pay tuition costs and mandatory fees at both in-state and out-of-state colleges and universities. However, the Contract only assures the payment of tuition and mandatory fees over the specified number of academic periods at in-state public universities and colleges. Amounts paid to an in-state private institution or an out-of-state institution may be less than the amounts paid to in-state public universities and colleges. For a description of these limitations, see "**TUITION PROGRAM—Use Of The Prepaid Tuition Contract.**" The Tuition Program does not assist a beneficiary with respect to admission, continued attendance or graduation from a particular college or university. The only assistance provided by the Fund to the beneficiary is the payment of tuition costs and mandatory fees over a specified number of academic hours.

In order to maintain the Fund's financial soundness to meet its tuition payment obligations, the purchase price of a Contract is determined actuarially. Such factors as projected investment return and projected rates of tuition increases are used, among other relevant factors determined by the Board of Trustees, in making pricing assumptions. The amounts received from the purchase of a Contract are invested by the Fund in certain designated investment areas, as authorized by statute. No representation is made or guarantee given that the investment return earned will be sufficient to fulfill the tuition payment obligations of the Fund under the Tuition Program. See "**TUITION PROGRAM—Funding.**" Even if funding is adequate to pay the beneficiary's tuition, in some instances the beneficiary will either be unable or voluntarily elect not to attend a college or university.

If the beneficiary does not attend a college or university because of the beneficiary's death, disability, failure to qualify academically or voluntary election not to attend, certain amounts paid under the Contract will be refunded to you. See "**TUITION PROGRAM—Refunds.**" As an alternative to obtaining a refund under the Contract, you may substitute a qualifying individual as a beneficiary under the Contract, provided that certain requirements are met. See "**TUITION PROGRAM—Beneficiary Substitution.**" However, other than obtaining a refund or substituting a beneficiary, limited opportunities, if any, exist for you to realize any of the amounts you paid under the Contract. See "**TUITION PROGRAM—Transfer of Contract.**"

The transfer or other disposition of a Contract may be further limited in at least two ways. First, under the Contract, you must submit a written transfer request to the State Treasurer. Second, since the Contracts have not been registered as securities under either the federal or state securities laws, the transfer of a Contract may be subject to significant restrictions on transfer. See "**SECURITIES CONSIDERATIONS.**"

Various administrative and processing fees are imposed upon you under the Contract and the Rules. For instance, you must pay a nonrefundable application fee of \$75 when applying for the purchase of a Contract. Other fees apply under other circumstances as described more fully in the Contract and the Rules. See "**TUITION PROGRAM.**"

In addition to the foregoing considerations, significant tax consequences are connected with the application for and purchase of a Contract. See "**TAX CONSIDERATIONS.**" The Fund has been conducted under the assumption, by the Board of Trustees, that the Fund is tax-exempt and that its investment earnings are tax-exempt as a result of being an agency of the State of Alabama. See "**TAX CONSIDERATIONS—Income Tax Consequences.**"

On the other hand, the beneficiary under a Contract is generally taxable when tuition payments are made on behalf of the beneficiary. The amount taxable to the beneficiary is generally the amount of tuition and fees paid on behalf of the beneficiary in excess of the amount paid by you under the Contract determined each year on a pro rata basis. However, the Internal Revenue Service may require a Contract beneficiary to recognize interest income each year in an amount determined at a specified interest rate. See "**TAX CONSIDERATIONS—Income Tax Consequences.**" In addition to the income tax consequences, certain gift tax consequences may be implicated by the purchase of the Contract for a beneficiary and by the transfer of a Contract itself. See "**TAX CONSIDERATIONS—Gift Tax Consequences.**"

Finally, the impact of a Contract on the beneficiary's ability to obtain financial aid must be considered. The receipt of benefits under a Contract may affect the beneficiary's qualification for certain financial aid. See "**FINANCIAL AID IMPLICATIONS.**"

Contract pricing for the 1996 enrollment period does not include any consideration for the imposition of federal or state income taxes

on the investment earnings of the Fund. No assurance can be given, and none is hereby given, that the Internal Revenue Service may not seek to impose liability for income taxes on the Fund for this year, prior years or future years, the impact of which may be materially adverse to the Fund.

THE TRUST FUND

The Fund was created by the Alabama Legislature through the Wallace-Folsom Prepaid College Tuition Trust Fund Act on May 17, 1989. That act was subsequently amended on April 19, 1990 (as amended, the "Act"). Under the Act, the Fund was created as an agency and instrumentality of the State of Alabama. The purpose of the Act is to advance and improve higher education in the state by assisting qualified students in financing a portion of their costs of attending state colleges and universities. This purpose is fulfilled by encouraging the prepayment of tuition costs through the purchase of affordable prepaid college tuition contracts. The prepaid college tuition contracts create an obligation of the Fund to pay a Contract beneficiary's tuition costs and mandatory fees over a specified number of academic hours. **The Fund's obligations to Contract purchasers, beneficiaries or others, are not, however, backed by the full faith and credit of the State of Alabama. See "TUITION PROGRAM—Use of the Prepaid Tuition Contract."**

Management of the Fund.

Under the Act, the Fund is to be administered by a ten member Board of Trustees. The ten members of the Board of Trustees are to consist of the following persons: (1) the Lieutenant Governor (an ex officio member); (2) the Executive Director of the Alabama Commission on Higher Education (an ex officio member); (3) a representative from the Council of College and University Presidents (an ex officio member); (4) the State Treasurer (an ex officio member); (5) the Chancellor of the Alabama Department of Postsecondary Education (an ex officio member); (6) a person appointed by the Speaker of the State House of Representatives; (7) a person appointed by the Lieutenant Governor; (8) a person appointed by the State Treasurer; and (9) two persons appointed by the Governor.

Each ex officio member of the Board of Trustees ("Board") shall serve on the Board as long as such person remains in his or her designated capacity. The remaining members of the Board of Trustees are appointed for specific terms. Appointed members shall serve four-year terms of office and shall be eligible for reappointment. A member of the Board shall serve until a successor is appointed, regardless of whether such member's term has expired. The Act provides no method for removal of a member of the Board of Trustees. In the event a vacancy occurs, the person who is entitled to appoint a person for that position is likewise entitled to appoint the person to fill the vacancy. Any person appointed to fill a vacancy shall serve only for the unexpired term.

In order to be eligible for appointment to the Board, the Act requires that the person possess knowledge, skill, and experience in business or financial matters commensurate with the duties and responsibilities of the Fund. However, no person holding a full-time office or position of employment with the state, any county or municipality in the state, any educational institution, or any instrumentality, agency or subdivision of the foregoing, shall be eligible for appointment to the Board. The members of the Board shall serve without compensation, but they are entitled to reimbursement for each day's official duties of the Board of Trustees at the same per diem and travel rate as is paid to State of Alabama employees.

A quorum of the Board of Trustees is required for the Board to transact the business of the Fund. Under the Act, a majority of the members of the Board shall constitute a quorum. The State Treasurer is the Chairman of the Board and its presiding officer. Other officers may be appointed by the State Treasurer as the Board deems advisable or necessary. Pursuant to this authority, an Executive Director of the Fund has been appointed. The Executive Director assists the State Treasurer in managing the day-to-day operations of the Fund. The Executive Director works directly under the State Treasurer and is compensated as a state employee. The Executive Director is an Alabama merit system employee.

The current members of the Board of Trustees are listed in the table below.

MEMBERS OF THE BOARD OF TRUSTEES

Name	Age
Lucy Baxley Treasurer of the State of Alabama, Montgomery, AL	58
Stephen E. Bradley President of Bradley-Townsend Public Affairs, a governmental advertising and public relations firm Birmingham, AL	52
Charles R. Carr Director of The Wallace Foundation Director of The Community Bank of Oneonta Montgomery, AL	48
John H. DeLoach, Jr. Partner, DeLoach, Poarch and Associates, P.A. Certified Public Accountants Hoover, AL	48
Dr. Fred Gainous Chancellor of the Alabama Department of Postsecondary Education Montgomery, AL	49
Logan Gray Senior Vice President of the SouthTrust Corporation Birmingham, AL	48
Dr. Hank Hector Executive Director of the Alabama Commission on Higher Education Montgomery, AL	57
Don Siegelman Lieutenant Governor of the State of Alabama Montgomery, AL	50
Joseph T. Sutton Former Executive Director of the Alabama Commission on Higher Education (retired in 1990) Wetumpka, AL	73
James H. White III President of Porter, White and Company, Inc. Investment Bankers Birmingham, AL	53

The Fund's business offices are located in the State Treasurer's office. The facilities of that office are used in the administration of the Fund. The duties of the State Treasurer's office with respect to the Fund include, but are not limited to, recordkeeping, management of investments, and transfer of funds for the Fund.

Powers of the Board.

Under the Act, the Board, or its authorized agent, is authorized to contract with you for the lump sum or installment prepayment of tuition costs for the benefit of a qualified beneficiary. The price to be paid by you under a Contract is determined actuarially, based on various factors. See "**TUITION PROGRAM.**" The Board is to obtain actuarial assistance to determine the sufficiency of the Fund and, consequently, to determine Contract pricing. Pursuant to this authority and pursuant to the authority to engage the services of private persons for technical assistance, the Fund has engaged the accounting firm of Coopers & Lybrand L.L.P. to render certain accounting and actuarial services to the Fund. Based upon the actuarial valuation, the Board of Trustees may adjust the price of subsequent prepaid college tuition contracts in order to maintain the actuarial soundness of the Fund. Furthermore, if your Contract payment is late, the Board of Trustees can impose an actuarial assessment on you to compensate the Fund for loss of earnings.

The payments received from you are to be deposited in the Fund. The amounts received constitute public funds of the state and, as such those assets may only be invested in instruments, obligations, securities and properties that constitute legal investments for the investment of public funds in the state, including legal investments for the State Treasurer, the Alabama Trust Fund and the Heritage Trust Fund, that are deemed most appropriate by the Board. The Board of Trustees is authorized by the Act to invest the Fund's assets. The Fund's assets are subject to market factors and fluctuations affecting its value. In the discretion of the Board, the assets of the Fund may be pooled for investment purposes with any other investments of the State of Alabama which are eligible for asset pooling. To assist with the investment of Fund assets, the Board of Trustees has engaged the services of both an investment consultant and investment managers.

In addition to the foregoing powers, the Board of Trustees is entitled to adopt rules and regulations necessary to implement the provisions of the Act with or without compliance with the state administrative procedures statutes. Furthermore, the Board of Trustees is entitled to impose reasonable limits on the number of Contract participants in the Fund at any given time. The Board is also entitled to impose reasonable time limits on the use of tuition benefits. Additionally, the Board of Trustees is allowed to impose residency requirements at the time of the purchase of a Contract for qualification as a qualified beneficiary.

The enumeration of the powers herein contained is not intended to be a comprehensive or exhaustive list of the powers of the Board of Trustees, but is merely illustrative of such powers. Reference must be made in each instance to the Act, the Application, the MasterPACT and other documents relating to the Tuition Program for a comprehensive statement of the Board's powers in any particular instance. As such, any statement regarding any power of the Board is qualified in its entirety by the terms of the Act, the Rules and the terms of each such document.

With respect to financial reporting requirements, the Board of Trustees is to make available summary information on the financial condition of the Fund to all purchasers of Contracts. Moreover, the Board of Trustees is to prepare, or cause to be prepared, an annual accounting of the Fund and to transmit a copy of the same to each of the Governor, the Lieutenant Governor and the Speaker of the House of Representatives. Furthermore, the Board of Trustees is to make all necessary and appropriate arrangements with state colleges and universities in order to fulfill its obligations under the prepaid tuition contracts.

Selected Financial Information.

The Board of Trustees engaged the accounting firm of Jackson, Thornton & Co., P.C. to audit the balance sheet of the fund as of September 30, 1995 and the related statements of revenues, expenses, and changes in retained earnings and statement of cash flows for the year ended September 30, 1995. Jackson, Thornton & Co., P.C. has issued its independent auditors' report to the Board of Trustees of the Fund. A copy of such auditors' report is attached hereto as Exhibit A.

As of September 30, 1995, the Fund had total assets of \$215,580,071, total liabilities of \$211,719,933 and retained earnings of \$3,860,138. The financial statements of the Fund for the period ending September 30, 1995, do not reflect any reserve for income tax liabilities.

The annual rates of return for total Fund investments for the fiscal years ending on September 30 of each year were as follows: for 1991, 13.8%; for 1992, 15.6%; for 1993, 14.8%; for 1994, 0.4%; for 1995, 17.4%.

TUITION PROGRAM

Prepaid College Tuition Contracts.

The Board of Trustees is authorized to contract with you for the prepayment of college tuition costs of a "qualified beneficiary" to attend an in-state public college or university. Upon your full payment of the purchase price of a Contract, the Contract provides for the payment of (1) in-state tuition until the earlier of (a) the award of a baccalaureate degree to the qualified beneficiary or (b) payments by the Fund have been made for 135 semester hours (or other academic term equivalent units), and (2) mandatory fees until the earlier of (a) the award of a baccalaureate degree to the qualified beneficiary, or (b) payments by the Fund have been made for 135 semester hours (or other academic term equivalent units), or (c) not more than 8 registrations on a semester system, 12 registrations on a quarter system, or the equivalent number of registrations on any other academic basis. Mandatory fees are those fees required as a condition of enrollment for all students. The Fund does not pay for any other fees or costs that a beneficiary is obligated to pay, such as, but not limited to, student activity fees, lab fees, books, room and board, and food. To purchase a Contract, you must first apply to the State Treasurer for a Contract.

Contract Purchase.

To apply for a Contract, an Application must be filed with the State Treasurer's office during an enrollment period. No representation is made or assurance given that your application for the purchase of a Contract will be accepted by the State Treasurer. The Application must be submitted with a nonrefundable application processing fee of \$75. If you do not purchase a Contract or your Application is rejected, the application fee will be forfeited unless your Application is rejected and you are denied participation in the Tuition Program through no fault of your own. Although an enrollment period has existed in each fiscal year of the Fund, no representation is made or assurance given that an enrollment period will be established for any subsequent year.

After you apply during an enrollment period and your Application is accepted by the State Treasurer, you are allowed to enter into a Contract with the Fund. To purchase a Contract, you must be an individual who is 19 years of age or older, or a corporation, trust, charitable organization, or any other entity approved, in writing, by the State Treasurer, as eligible to purchase a Contract. Upon entering the Contract, you are obligated to make advance payments in accordance with the Contract. The Contract is purchased by you for the benefit of a qualified beneficiary.

Beneficiary of Contract.

For a person to be a beneficiary of a Contract, the person must be a qualified beneficiary. A qualified beneficiary is defined as an individual meeting the following four requirements: (1) the individual must be living at the time an Application is made; (2) the individual must be under 18 years of age as of the beginning of the applicable enrollment period; (3) the individual must not have completed the ninth grade as of the beginning of the applicable enrollment period; and (4) the individual is either (a) a resident of the State on the first day of the month in which

the enrollment period begins or (b) is a minor child of a noncustodial parent who is a resident of this State. The determination as to whether a particular individual satisfies a requirement to be a qualified beneficiary will be made by the Board of Trustees, in its sole discretion. In certain circumstances, you can substitute certain qualifying individuals for the original Contract beneficiary. See **"TUITION PROGRAM—Beneficiary Substitution."** After the determination is made as to whether a particular individual constitutes a qualified beneficiary, the purchase price for the Contract is finally determined based upon the age or grade of the qualified beneficiary.

Contract Pricing.

Pursuant to the Act, the Board of Trustees is required to obtain actuarial assistance in order to establish, maintain and certify a fund sufficient to defray the obligations of the Fund. This actuarial determination is to be completed annually. After the actuarial valuation is completed, the Board of Trustees determines, based on such actuarial valuation, the purchase price of Contracts offered during an enrollment period in order to ensure the actuarial soundness of the Fund. Investment return is a significant factor in the pricing of the Contracts. A beneficiary's age or grade level are also material factors in determining pricing for Contracts. Thus, based on such valuation, the purchase price of the Contract is determined annually in advance of an enrollment period.

Under the Act, if the value of the trust fund is determined to be in excess of the actuarially determined obligations of the Fund, as determined by the Board of Trustees, the excess funds are to be deposited into the general fund of the State. As of yet, it is still unclear when a determination of such excess is to be made by the Board and when a deposit due to such excess is required to be made.

Payment.

The purchase price for a Contract may be paid in three different methods. First, you may make a lump sum payment of the purchase price. Second, you may make monthly installments payments over a period of 60 months. Finally, you may make monthly installment payments commencing on a certain date with such payments continuing on a monthly basis until a date set in the Contract in the summer prior to the beneficiary's projected college enrollment date, which is the academic year following a beneficiary's projected graduation date from high school. You are responsible for making all payments under the Contract. The Contract will be cancelled if no Contract payments have been received within 45 days of the first payment due date. You may make a written request for a change in the payment schedule through the tenth day of the month in which the first payment is due. The request must be accompanied by a \$20 administrative fee. Each payment by you under the Contract includes a nonrefundable account maintenance fee. In addition, there are fees for returned items, late payments and changes in payment method. See **"TUITION PROGRAM."**

Use of the Prepaid Tuition Contract.

The Contract may be used at either an in-state university or college or an out-of-state university or college to defray certain costs for the undergraduate education of a qualified beneficiary as described hereinbelow. Tuition, fees and any other costs of any graduate school education are not covered by the Contract. For an in-state public university or college, the full payment of the purchase price of the Contract provides the qualified beneficiary with the payment of: (1) in-state tuition until the earlier of (a) the award of a baccalaureate degree to the qualified beneficiary or (b) payments from the Fund for not more than 135 semester hours (or the academic equivalent units); and (2) the payment of mandatory fees until the earlier of (a) the award of a baccalaureate degree to the qualified beneficiary, or (b) payments from the Fund for not more than 135 semester hours (or the academic equivalent units). (c) or not more than 8 registrations on a semester system, 12 registrations on a quarter system or the comparable number of registrations on an academic equivalent basis for terms that are not semesters or quarters.

For in-state private colleges or universities or out-of-state colleges or universities, the Fund will be responsible for forwarding each academic term the weighted average of in-state tuition and mandatory fees for Alabama's four year public postsecondary institutions, (hereinafter "Current Tuition Value"), to the extent such Current Tuition Value is not in excess of the tuition and mandatory fees at such in-state private college or university or out-of-state college or university. A \$25 processing fee will also be assessed for each academic term for which the Contract benefits are forwarded to the in-state private institution or the out-of-state institution. The amount forwarded to the in-state private institution or the out-of-state institution will be limited to the cost of the undergraduate tuition plus mandatory fees of such institution, even if such amount is less than the Current Tuition Value. With respect to these private and out-of-state institutions, the Contract does not guarantee the full payment of tuition and mandatory fees at such institution. As a result, the Contract beneficiary may be required to pay an amount toward the tuition costs and mandatory fees of the private or out-of-state institutions which he or she is attending.

The tuition amounts and mandatory fees are paid directly to the institutions themselves. Generally speaking, the Contract benefits must be used within ten years after the beneficiary's projected enrollment date, which projected enrollment date is considered the academic school year following the beneficiary's projected high school graduation.

No representation is made or assurance given that a beneficiary (i) will be admitted to a college or university, (ii) will be admitted to a particular college or university, (iii) will be allowed to continue to attend a college or university after having been admitted, or (iv) will graduate from a college or university. Furthermore, the Fund provides no assistance to a beneficiary with respect to admission to, continuation at or graduation from a college or university other than the payment of tuition and mandatory fees as described in the Contract.

Funding.

The funding of the Tuition Program is derived entirely from payments received from Purchasers of Contracts and the investment income earned by the Fund. The amount of the Fund's future tuition payment obligations is determined by projecting the amount of current tuition costs into the future, based on certain assumptions, such as rate of tuition increases. The actual current value of the Fund is then projected into the future based on certain actuarial assumptions. The projected obligations are then compared with the projected asset values to determine if there will be a funding shortfall. This comparison, plus estimating the additional obligations created by increasing the number of Contract participants in the Fund, is then used to determine the purchase price of a Contract for a particular enrollment period.

The projections and valuations are based on various actuarial assumptions. Some, but not all, of the actuarial assumptions used by the Fund are (i) projected investment return; (ii) rate of tuition increases; (iii) rate of contract cancellations or withdrawals; (iv) utilization rates of credit hours; (v) timing regarding payment of tuition and (vi) allocation of enrollment between universities and community colleges. These factors are not intended to be a comprehensive or exhaustive list of the assumptions used by the Fund in determining funding requirements, but is merely an illustrative list. For any enrollment period, the Board of Trustees may select differing valuation factors or give varying degrees of weight to pricing factors. This may cause greater or less weight to be placed on any particular factor in any instance.

Since the actuarial valuation process uses assumptions, the actual results may differ, even materially, from the projections based on those actuarial assumptions. The actual results could have a material negative impact on both the value of Fund assets and the Fund itself. No representation is made or assurance given that the actual results will not differ, even materially, from the actuarial projections.

No representation is made or assurance given that future investment results of the Fund will be sufficient for the Fund to satisfy its current or future obligations. If a funding shortfall occurs for any reason, the State of Alabama is not obligated to remedy any such funding shortfall of the Fund. In that case, the Fund would not have the funds necessary to satisfy all of its Contract obligations. The Contracts are not backed by the full faith and credit of the State of Alabama.

However, based on these considerations and the technical advice of actuarial consultants, the Board of Trustees has followed what it

considers to be conservative actuarial assumptions to ensure the fiscal soundness of the Fund so that the Fund will be able to satisfy its future obligations. Nevertheless, no representation is made or assurance given that the actual investment results will not result in a funding shortfall.

Refunds.

In certain circumstances, you may be entitled to a refund of certain amounts paid under a Contract. If a refund is requested due to the death or disability of a beneficiary, you are entitled to a refund of all contract payments made, excluding administrative fees paid, reduced by any amounts paid by the Fund to the college or university on behalf of the beneficiary. The cancellation fee will be waived. Alternatively, the Contract benefits may be transferred to an eligible substitute beneficiary. See **"TUITION PROGRAM—Beneficiary Substitution."**

In the case of a scholarship award to the beneficiary, you may request a refund of any overpayment of tuition and mandatory fees to a beneficiary's college or university from the particular college or university itself. In lieu of a refund, the Contract benefits may be transferred to an eligible substitute beneficiary.

If you voluntarily cancel the contract for reasons other than the beneficiary's death, disability or a scholarship award to the beneficiary, you shall receive as a refund the sum of all Contract payments paid to date, excluding any administrative fees paid, reduced by any amounts paid by the Fund to a university or college on behalf of the beneficiary and further reduced by a Cancellation Fee. The Cancellation Fee amounts to 50% of the amounts paid by the Purchaser into the Fund, excluding administrative fees, up to a maximum dollar amount of \$150.

If the Contract is involuntarily terminated, you are entitled to receive as a refund amount the sum of all Contract payments paid by you to date, excluding any administrative fees paid, reduced by any amounts paid by the Fund to the college or university on behalf of the beneficiary, further reduced by a Termination Fee. The Termination Fee is equal to 100% of the amounts paid into the Fund, excluding administrative fees, up to a maximum dollar amount of \$500.

Beneficiary Substitution.

Under the Contract, a qualifying individual may be substituted as the beneficiary for the original Contract beneficiary if certain requirements are met. Certain exceptions to these requirements for transfer can be made by petition to the State Treasurer. The individual must be living. The individual must be an immediate family member (as defined in the Rules) of either you or the original Contract beneficiary. To be an immediate family member of yours, the individual must be your child, stepchild, adopted child, grandchild, niece or nephew. To be an immediate family member of the original Contract beneficiary, the person must be the beneficiary's brother, sister, half-brother, half-sister, step-brother, step-sister, legally adopted brother, legally adopted sister, or first cousin.

Additionally, the individual must be a resident of the State of Alabama or the minor child of a noncustodial parent who is a resident of the State of Alabama. Furthermore, the individual must be under the age of 18 and not yet enrolled in a college or university. The person must also have, with certain exceptions, a projected college entrance date that is the same as or later than the projected college entrance date of the original Contract beneficiary. The request must be in writing and approved by the State Treasurer. An administrative fee of \$55 is charged for the substitution. Furthermore, an actuarial assessment may be made in which case you will be responsible for paying such actuarial assessment before the substitute beneficiary will be entitled to use any of the benefits under the Contract. The substitution of beneficiaries must be made before the original Contract beneficiary is enrolled in a college or university or utilizes any of the Contract benefits.

Transfer of Contract.

A request to transfer a Contract must be submitted in writing, and signed by both you and the new Purchaser, unless the original Purchaser has died or is disabled. If the original Purchaser has died or is disabled, the written request must be accompanied by proof of death or disability. Furthermore, a \$20 administrative fee must accompany the request to transfer the Contract. Except pursuant to the written request for a transfer of the Contract, neither the Contract nor any interest, right or benefit in the Contract may be assigned or transferred. No secondary market for resale of the Contract exists. Therefore, no representation is made or assurance given that you will be able to transfer your Contract in any instance. As such, if a liquidity or other financial need arises, you may not be able to liquidate your investment in the Contract in order to satisfy such financial need. See also **"SECURITIES CONSIDERATIONS."**

SECURITIES CONSIDERATIONS

The Board of Trustees has not heretofore requested a "no-action" letter from the United States Securities and Exchange Commission, nor has it sought any type of ruling or advisory opinion from the Alabama Securities Commission as to whether the Contracts constitute securities. The Board of Trustees, however, has received an opinion of counsel that if the Contracts constitute "securities" as defined in the Securities Act of 1933 (the "Securities Act"), they are exempt from the registration provisions of the Securities Act under the exemption afforded by Section 3(a)(2) of the Securities Act. A similar exemption exists with respect to the Contracts under the Alabama Securities Act pursuant to Section 8-6-10(1), **Code of Alabama, 1975.**

TUITION PROGRAM FEES

Various administrative fees are charged by the Fund under the Tuition Program. The following is a list of fees charged by the Fund and their current amounts:

1. Application Cost and Fee—\$75. This is the amount required to be submitted with an Application.
2. Account Maintenance Fee—A fee amounting to \$3 per month, or \$20 if paid in a lump sum on an annual basis.
3. Cancellation Fee—50% of the amount paid into the Fund, up to a maximum of \$150. This fee acts as a penalty because the amount of the fee is deducted from the amount you would otherwise have received on a refund.
4. Termination Fee—100% of amount paid into the Fund, up to a maximum of \$500. The fee also acts as a penalty because the amount of the fee is deducted from the amounts to be refunded to you upon such termination.
5. Substitution of Beneficiary Fee—\$55. This is the fee submitted with your request to substitute a beneficiary under the Contract. The fee is waived in cases involving the death, disability or receipt of a scholarship award by a beneficiary.
6. Fee for Transfer of Contract Ownership—\$20. This is the fee that you must submit with your request to transfer ownership of the Contract. This fee is waived in cases of the death of the Purchaser.
7. Fee for enrollment at an institution other than an In-State Public College or University—\$25. The beneficiary is deemed to be enrolling at an institution other than an in-state public college or university upon his or her actual enrollment each academic term. Therefore, the Fund will charge this \$25 processing fee for each academic term of enrollment at an institution other than an in-state public college or university.
8. Late Payment Fee—\$15. This amount is charged on Contract payments which are received more than fifteen (15) days past the payment due date.
9. Fee for Returned Items—\$15. The fee will be charged for each returned item.

10. Fee for Document Replacement of Copies—\$7.00 per document. This is the fee which accompanies a request for copies of document replacement.
11. Failure to Provide Sufficient Notice of Intent to Use Contract Benefits—\$45. Under the Rules, you are required to give at least 60 days written notification of the beneficiary's intent to use the benefits under a Contract and you must specify the institution the beneficiary will attend. Failure to provide such notice may result in an assessment of this fee. Furthermore, this fee must be paid before any benefits will be paid to any institution the beneficiary attends.
12. Fee for Changes in Payment Schedule—\$20. This is the fee charged for a request to change the payment schedule.

These fees may be waived by the State Treasurer in her sole discretion. No representation is made or assurance given that the fees will be waived. Furthermore, the amount of the fees are subject to change. The fees in a subsequent enrollment period may be greater than or less than the fees provided in this Disclosure Statement. These amounts listed above are in addition to the Contract purchase price. For a complete description of the fees and their terms of applicability, reference must be made in each instance to the Rules, the Application and the MasterPACT.

FEDERAL TAX CONSIDERATIONS

Income Tax Consequences.

Fund.

The Board of Trustees of the Fund has, since its inception, taken the position that the Fund is exempt from federal income taxation and, accordingly, the Fund has not filed any federal tax returns for prior periods. Furthermore, the Board of Trustees, in computing Contract prices for the 1996 enrollment period, assumed that the Fund's earnings are not taxable.

The federal income tax consequences to the Fund are dependent upon whether the Fund is considered a taxable or tax-exempt entity. If the Fund is considered to be a tax-exempt entity, the Fund will not be subject to federal income tax on its investment earnings or upon receipt of Contract payments. The basis upon which the Board of Trustees has taken the position that the Fund is tax-exempt is its relationship and position as an agency and instrumentality of the State of Alabama. It has been a recognized principle of federal tax law that state agencies, in general, are not subject to income taxation.

There is only one federal court decision dealing with the tax attributes of a prepaid tuition fund, namely, *Michigan v. United States*, 40 F.3d 817 (6th Cir. 1994). There, the United States Court of Appeals held that the Michigan prepaid college tuition fund was not liable for federal income tax because the fund was a state agency. The IRS did not seek review of that decision. Attorneys for the Fund have been advised by the IRS that no other federal tax litigation is pending anywhere concerning college prepaid tuition plans.

During 1995, the Fund submitted a Private Letter Ruling Request to the IRS seeking favorable rulings as to the tax exempt status of the Fund and the taxation of Contract beneficiaries. Although in April 1996 the IRS notified the Fund that it had made a tentative decision to issue an adverse private letter ruling, on June 20, 1996 the IRS notified the Fund that it would not issue any private letter ruling concerning the Fund or comparable prepaid tuition plans of other states. The IRS further stated that it was returning the Fund's request, refunding the filing fee and not taking any additional action pending the possible development of federal legislation addressing the issues. The substance of this communication was confirmed by the IRS by letter dated July 10, 1996.

Possible Federal Legislation.

Congressional legislators are currently considering one or more federal bills that may clarify that prepaid college tuition plans such as the Fund are and have been tax exempt for federal income tax purposes and that the beneficiaries were and are taxable when payments are made for or on their behalf. The IRS is working with Congress to develop such legislation. The trustees have been advised that such legislation passed the U.S. Senate on July 9, 1996 and will now go to the U.S. House. It cannot be predicted when and if any such federal legislation will finally pass both Congressional Houses and be signed into law. The passage of such legislation could clarify the tax exempt status of the Fund and tax consequences of the Contracts for the beneficiaries. Fund representatives are closely following these federal legislative developments.

While the Trustees are encouraged by the current developments toward such federal legislation, if, as described in the Fund's 1995 Disclosure Statement, the Fund is considered to be a taxable entity for federal income tax purposes, certain material income tax consequences will result. The Fund would be considered taxable on its investment earnings in the year earned.

AS THE 1995 FUND DISCLOSURE STATEMENT ALSO ADVISED, IN THE EVENT THAT THE IRS ASSERTS A TAX LIABILITY AGAINST THE FUND, ITS CONTRACT PURCHASERS AND BENEFICIARIES MAY BE MATERIALLY, NEGATIVELY IMPACTED. THE FUND'S ABILITY TO MEET EXISTING CONTRACT OBLIGATIONS IN FULL MAY BE IMPAIRED. FURTHER, IF THE FUND IS CONSIDERED TO BE A TAXABLE ENTITY, PRICING OF FUTURE CONTRACTS AND AMOUNTS DUE ON UNPAID CONTRACTS WOULD HAVE TO BE ADJUSTED TO ACCOUNT FOR THE EFFECTS OF FEDERAL TAX LIABILITIES. BECAUSE OF THE PRESENT DEVELOPMENTS CONCERNING THE TAX STATUS OF THE FUND AND THE CONTRACTS, YOU WILL BE PURCHASING A CONTRACT WITH CURRENTLY UNRESOLVED TAX CONSEQUENCES.

Taxation of Beneficiaries.

The taxation of a beneficiary is generally not dependent upon the tax status of the Fund. The following summary discusses only the federal income tax consequences to a Contract beneficiary. Due to the possibility that a beneficiary could be taxable under the tax laws of a state other than the State of Alabama, no representation is made as to the taxation of a beneficiary under any state law. To determine the tax situation of a Contract beneficiary, a beneficiary should consult his or her professional tax advisor.

With respect to the federal income taxation of a Contract beneficiary, the Board of Trustees of the Fund has, since its inception, taken the position that the beneficiary is generally considered taxable only upon payment of an amount to or on behalf of the beneficiary. Furthermore, the taxable amount to such beneficiary is the amount paid to or on behalf of the beneficiary in excess of a pro rata portion of the basis in the Contract (i.e., a prorated portion of the amounts paid into the Contract by you.) Thus, the beneficiary is taxable on such excess amount in the year the amount is paid on behalf of the beneficiary.

In some limited circumstances, you, and not the beneficiary, may be taxable on amounts received under the Contract. The amounts received in excess of the amounts paid by you under the Contract will be taxable in the year received.

As described in the Fund's 1995 Disclosure Statement, in December 1994 the IRS issued proposed Treasury Regulations concerning the taxation of contingent payment debt instruments which the IRS tentatively regarded as applicable to the Contracts. On June 11, 1996, the IRS announced that it would not regard the proposed Treasury Regulations as applying to state sponsored prepaid college tuition plans. If, as the Board of Trustees maintains, the Fund is considered as such a state sponsored prepaid college tuition plan, then the proposed Treasury Regulations should not apply to the Contracts.

Gift Tax Consequences.

Under current federal gift tax law, your payments under the Contract for the benefit of the beneficiary should be considered a gift. If your payment of amounts under the Contract is deemed to create a present interest in the beneficiary, and the amount paid by you in a calendar year for that Contract is less than \$10,000 (or \$20,000 for a married couple if a split gift is elected), then the amount paid by you should not subject you to federal gift tax consequences. However, if it is determined that the payment does not create a present interest in the Contract beneficiary, you could have gift tax liability arising from the payment of amounts under the Contract. A present interest is defined for federal gift tax purposes as an unrestricted right to the immediate use, possession, or enjoyment of property or the income from property (such as a life estate or term certain).

In addition, if you are allowed to transfer ownership of a Contract to a new Purchaser, the transfer of the Contract, to the extent that its fair market value is greater than any consideration paid to you by a new Purchaser, might be considered a gift. The transfer could be considered by the IRS as creating a present interest in the new Purchaser.

FINANCIAL AID IMPLICATIONS

The receipt of Contract benefits by a beneficiary may affect a beneficiary's qualification for or receipt of financial aid. For need-based financial aid, the receipt of or potential for receipt of Contract benefits may preclude a beneficiary from qualifying for or receiving need-based financial aid, as the Contract benefits may be seen as financial resources of the beneficiary.

The receipt of Contract benefits should not impact the beneficiary's qualification for or receipt of merit-based financial aid (i.e., academic or athletic scholarships, for example). There can be no assurance, however, that the Contract benefits, as a financial resource of the beneficiary, will not be considered either explicitly or implicitly in determining whether a Contract beneficiary is entitled to or will receive a merit-based scholarship.

Furthermore, the receipt of or potential for receipt of Contract benefits may affect the ability of a beneficiary to receive private or student loans. Such receipts or potential for receipts may be considered financial resources which preclude the beneficiary from receiving private or student loans, especially if the loans are in any way need-based. This may also preclude the beneficiary from receiving more favorable interest rates or repayment options.

THE OBLIGATIONS OF THE FUND UNDER THE CONTRACTS ARE LIMITED OBLIGATIONS PAYABLE ONLY FROM MONIES RECEIVED FROM CONTRACT PURCHASERS AND EARNINGS FROM INVESTMENT PERFORMANCE, AND NO RECOURSE SHALL BE HAD BY THE PURCHASER OR CONTRACT BENEFICIARY AGAINST THE TREASURER OF THE STATE OF ALABAMA OR THE STATE OF ALABAMA IN CONNECTION WITH ANY OBLIGATION ARISING OUT OF THE CONTRACT.