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

For the Enrollment Period Through September 30, 1997
This Disclosure Statement is dated as of September 1, 1997

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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 (**the "Disclosure Statement"**) is provided in connection with the offering for purchase of Prepaid College Tuition Contracts by the Wallace-Folsom Prepaid College Tuition Trust Fund (**the "Trust Fund"**), an agency and instrumentality of the State of Alabama. A Prepaid College Tuition Contract consists of the terms of the Application (as defined below), the MasterPACT, the Participation and Payment Schedule, and additional documents issued, disseminated or received by the State Treasurer in connection with any of the foregoing (**collectively, 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 (**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 promulgated by the Trust Fund from time to time (**the "Rules"**). The offering and administration of Prepaid College Tuition Contracts by the Trust 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 MasterPACT and Rules.

"Purchaser," as used herein, shall mean and refer to potential or actual purchasers of Contracts, as the

context requires. Pronominal references used herein 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 this Disclosure Statement.

References to the State Treasurer, or the office thereof, shall mean and refer to the State Treasurer in her capacity as Chairperson of the Board of Trustees of the Trust Fund (the "Board") and as the authorized officer of the Board for contracting with Purchasers of Prepaid College Tuition Contracts on behalf of the Trust Fund.

THIS DISCLOSURE STATEMENT PROVIDES IMPDRTANT INFORMATION CONCERNING CERTAIN MATERIAL RISKS ASSOCIATED WITH THE PURCHASE OF A PREPAID COLLEGE TUITION CONTRACT FROM THE TRUST FUND. PURCHASERS ARE STRONGLY URGED TO READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY BEFDRE PURCHASING A PREPAID COLLEGE TUITION CONTRACT FROM THE TRUST FUND.

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 hereby made to each respective document for the details of all terms and conditions of that document. All statements herein relating to such documents are qualified in their entirety by the text of the applicable documents. Copies of the Application, the MasterPACT, the Rules, and other documents relating to the Tuition Program are available through the State Treasurer's office at the address listed above.

Those persons who are not considering the purchase of a Contract during the 1997 Enrollment Period may gain an understanding of the Tuition Program by reading this Disclosure Statement. However, persons desiring to purchase a Contract in a subsequent year should be aware that the terms and features of the Tuition Program, the Contract, and the documents relating thereto in any 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 described in this Disclosure Statement, at any time, may be materially changed or eliminated, and material additional terms, restrictions, or conditions may be included in the Tuition Program from time to time. The terms and features of the Tuition Program applicable to a subsequent year will govern that particular year's Contract. Purchasers also should be aware and consider that no representations or assurances can be made, and none are made by this Disclosure Statement or otherwise, that the Tuition Program or Prepaid College Tuition Contracts will be offered by the Trust Fund in any subsequent year.

OVERVIEW

The following descriptive overview of the Tuition Program is not intended to be an exhaustive or definitive description of the 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 each document comprising the Contract, the Rules, and other documents relating to the Tuition Program, and by the descriptions contained elsewhere in this Disclosure Statement.

The "Summary of Risk Factors and Other Special Considerations" section that follows this Overview is a vital part of this Disclosure Statement, and every part of this Disclosure Statement should be considered in light of such risks and considerations and other factors. However, Purchasers should not consider reading this Overview and/or the Summary of Risk Factors and Other Special Considerations to be a substitute for careful review of the entire Disclosure Statement and the various documents referred to herein.

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 Trust Fund is administered by a ten-member Board of Trustees. See **"THE TRUST FUND–Management of the Trust Fund."** To fulfill the Trust Fund's purpose, the Board is empowered, for and on behalf of the Trust Fund, to enter into Prepaid College Tuition Contracts with qualifying Purchasers. See **"THE TRUST FUND--Powers of the Board."**

To purchase a Contract, a Purchaser must file an Application with the State Treasurer, who is authorized to enter into Contracts with Purchasers on behalf of the Board. The Application will be accepted or denied based upon the conditions set forth in the Rules. If the Application is accepted, a Contract may be purchased for the benefit of a "Qualified Beneficiary," which is defined as a person under the age of 18 who has been born at the time the application is made, who meets certain residency and grade level requirements, who is named in the Application, and who is intended to receive the benefits of the Contract.

When a Purchaser's Application has been accepted and the full purchase price has been paid, the Trust Fund is contractually committed 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 Alabama's public colleges and universities, at Out-of-State and In-State Private Postsecondary Institutions, and, in some instances, at institutions outside the United States. However, the Contract only assures the payment of tuition and Mandatory Fees over the specified number of academic periods based upon the cost of tuition and Mandatory Fees at public universities and colleges in Alabama. Amounts paid to a Private In-State Institution or an Out-of-State Institution may be less than the amounts paid to in-state public universities and colleges. If a Qualified Beneficiary attends a United States military academy, or if a Qualified Beneficiary attends an institution outside the United States and the Purchaser either does not desire to or fails to properly request payment of tuition and Mandatory Fees to the foreign institution, the Purchaser of the Contract will be eligible for a refund of an amount based on the Contract payments made by the Purchaser, excluding all Administrative Fees, minus any Contract benefits paid. For additional information regarding these limitations, see **"TUITION PROGRAM--Use Of The Prepaid Tuition Contract."**

Neither the Tuition Program nor the purchase of a Contract assures a Beneficiary of admission to, continued attendance at, or graduation from any college or university. The only assistance provided by the Trust Fund to the Beneficiary is the payment of tuition costs and Mandatory Fees over a specified number of academic hours.

The Trust Fund uses an independent accounting and consulting firm, Coopers & Lybrand L.L.P., to perform actuarial services to estimate the Trust Fund's future tuition payment obligations. Projected investment returns, projected rates of tuition increases, and other relevant factors determined by the Board in consultation with its actuarial consultants are used in making Contract pricing assumptions.

Assets of the Trust Fund, including amounts received from the sales of Contracts, may be invested only in accordance with the Board's statutory authorization in a broad variety of asset classes. No representation is made or guarantee given that investment returns will be sufficient to fulfill the tuition payment obligations of the Trust Fund under the Tuition Program. Moreover, the obligations of the Trust Fund to pay tuition benefits under each Contract are not backed by the full faith and credit of the State of Alabama and are payable solely out of the assets of the Trust Fund. See **"TUITION PROGRAM--Funding."**

Even if funding is adequate to pay the Beneficiary's tuition, in some instances the Beneficiary may either be ineligible under the terms of the Contract to receive benefits, or voluntarily may 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, the Purchaser may either request a refund of Contract payments, or name a qualifying Substitute Beneficiary, provided that certain requirements are met. A refund can be made only to the Purchaser of a particular Contract and will never include any earnings in respect of the Purchaser's payments under the Contract. See **"TUITION PROGRAM--Refunds"** and **"TUITION PROGRAM--Beneficiary Substitution."** Other than these two options, a Purchaser's opportunities to recoup any amounts paid to purchase a Contract are extremely limited. See **"TUITION PROGRAM--Transfer of Contract."**

Various administrative and processing fees are imposed upon Purchasers under the Contract and the Rules. For instance, potential Purchasers 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."**

Purchasers should also consider the tax consequences associated with the application for, and purchase of, a Contract. See **"TAX CONSIDERATIONS."** The Trust Fund has been operated under the assumption that the Trust Fund is tax-exempt for federal income tax purposes and that its investment earnings are tax-exempt for federal income tax purposes because they are attributable to an agency and instrumentality of the State of Alabama. Recent federal legislation has confirmed the correctness of this assumption. Under Alabama law, the Trust Fund also is exempt from Alabama taxes. See **"TAX CONSIDERATIONS--Income Tax Consequences."** With respect to benefits received under a Contract, the Beneficiary generally will be taxed, for both federal and Alabama income tax purposes, when tuition payments are made on behalf of the Beneficiary. The amount taxable to the Beneficiary generally will be the amount actually paid on behalf of the Beneficiary in excess of the amount paid by the Contract Purchaser as determined each year on a pro rata basis. See **"TAX CONSIDERATIONS--Income Tax Consequences."** In addition to income tax consequences, certain estate and gift tax consequences may result from the purchase of a Contract for a Beneficiary or from the transfer of a Contract. See **"TAX CONSIDERATIONS--Estate and Gift Tax Implications."** The tax information appearing in this Disclosure Statement is not intended to be exhaustive. Current and potential Purchasers are urged to seek the advice of their own attorney, accountant, or financial consultant for specific advice on estate planning and other applicable tax considerations.

The impact of a Contract on the Beneficiary's ability to obtain financial aid also should be considered by prospective Purchasers. The receipt of benefits under a Contract may affect the Beneficiary's qualification for certain financial aid. See **"FINANCIAL AID IMPLICATIONS."**

SUMMARY OF RISK FACTORS AND OTHER SPECIAL CONSIDERATIONS

This Summary of Risk Factors and Other Special Considerations is intended only to serve as an overview of certain of the more significant risks and other considerations associated with the Tuition Program. All information provided under this heading is subject to further description and qualification elsewhere in this Disclosure Statement, the Contract, the Rules, and other documentation pertaining to the Tuition Program. This Summary does not purport to be an exhaustive discussion of the risks and other special considerations that are important to Purchasers' review and consideration of the Tuition Program. Purchasers should not rely solely on this Summary as an exclusive source of information regarding the merits and risks of participating in the Tuition Program. Current and potential Purchasers are urged to seek the advice of their own attorney, accountant, or financial consultant for specific advice concerning risks and other considerations associated with participation in the Tuition Program.

Tuition Program Risks

Not a general obligation of the State. The obligations of the Trust Fund to pay benefits under each Contract are not backed by the full faith and credit of the State of Alabama and are not otherwise obligations of the State itself. Such obligations are purely matters of contract between the Treasurer (on behalf of the Trust Fund) and each Purchaser, and are supported solely by the assets of the Trust Fund. If sufficient Trust Fund assets are not available to pay obligations of the Trust Fund at any time in the future, the benefits otherwise payable to Beneficiaries either will not be paid at all or will be substantially curtailed.

Risks associated with cancellation or termination. The purchase of a Contract is necessarily a long-term investment because no benefits generally are paid until a Beneficiary enrolls in a college or university. If a Contract is cancelled or terminated, its Purchaser may request and, subject to the ability of the Trust Fund to pay a refund, receive a refund equal to total Contract payments made, not including Administrative Fee amounts, less any amounts paid on behalf of the Beneficiary, and less a Cancellation or Termination Fee. However, earnings in respect of Contract payments will not be refunded under any circumstances. Accordingly, any current or prospective Purchaser concerned with liquidity should consider the risk of loss of earnings which might have been realized had he or she invested in another investment vehicle offering greater liquidity of principal and earnings. Any current or prospective Purchaser concerned with liquidity also should recognize that the Board, in its discretion, may pay any refund in installments, rather than in a lump-sum. In that event, the total refund amount would not be immediately available to the Purchaser. Moreover, interest will not be paid on such refund installment payments.

Lack of Contract transferability. No known market exists for resale of Contracts. Although limited opportunities to transfer a Contract for consideration may arise, no representation is made or assurance given that a Purchaser will be able to transfer his or her Contract.

No assurance of admission to Postsecondary Institutions. The obligations of the Trust Fund under the Contract in no way constitute a promise, commitment, or guarantee by the State Treasurer, the Board, or the State of Alabama, or employees or consultants of the State Treasurer, the Board, or the State of Alabama that a Qualified Beneficiary: (a) will be admitted to a Postsecondary Institution; (b) will be admitted to a particular Postsecondary Institution; (c) will be allowed to continue to attend a Postsecondary Institution after having been admitted; (d) will be graduated from a Postsecondary Institution; or (e) if admitted to a Postsecondary Institution, will meet that institution's residency requirements for In-State Tuition and/or Mandatory Fees. If the Beneficiary is not admitted to a Postsecondary Institution, for any reason, or fails to register for less than the maximum number of academic credit hours for which Contract benefits are payable at a Postsecondary Institution, for any reason, the Beneficiary likely will realize less than all of the Contract benefits for which he or she otherwise may have been eligible. Also, if a Beneficiary matriculates at an In-State Institution and does not satisfy the Institution's residency requirements, the Beneficiary will be solely responsible for any amounts owed to the Institution beyond the payment of In-state Tuition and Mandatory Fees prescribed in the Contract.

Limited substitutability of Beneficiaries. If the original Beneficiary, or any successor Beneficiary, under a Contract has not yet matriculated at a Postsecondary Institution or received any benefit under a Contract, the Purchaser may be eligible to substitute another Qualified Beneficiary according to the Rules. However, substitution of a Beneficiary whose Projected College Entrance Date is later than that of the current Beneficiary will not result in any refund of Contract payments or earnings realized by the Trust Fund in respect of such payments. In limited circumstances, a Purchaser may request substitution of a Beneficiary with a Projected College Entrance Date that is earlier than the date of the current Beneficiary. In this instance, the Purchaser may be required to pay additional amounts based on actuarial calculations.

Modification or clarification of Trust Fund documents. The Board will not retroactively modify or clarify existing Contracts in a manner adverse to the Purchaser or Beneficiary except to the extent necessary to assure compliance with applicable law or to preserve the tax treatment of the Trust Fund or the tax treatment of interests of Purchasers or Beneficiaries therein. See **"FEDERAL TAX CONSIDERATIONS--Income Tax Consequences (1996 Federal Legislation)."** The Board may from time to time clarify the terms of particular Contracts as well as the application of those terms to specified circumstances through the promulgation of Rules or the modification of existing Rules, some of which may adversely affect the rights of Purchasers or Beneficiaries. The terms of new Contracts also may differ materially from existing Contracts; however, to the extent such differences are adverse to Purchasers or Beneficiaries, they will apply only to new Contracts and not to existing ones, unless the application of such differences to existing Contracts is necessary to assure compliance with applicable law or to preserve the tax treatment of the Trust Fund or the tax treatment of interests of Purchasers or Beneficiaries therein.

No investment return beyond Contract performance. Under no circumstances will Purchasers or Beneficiaries be entitled to receive investment returns from the Trust Fund as a result of favorable Trust Fund investment performance in excess of current obligations and actuarially determined future obligations. Any such favorable investment performance, if achieved by the Trust Fund, will enhance the likelihood that the Trust Fund's Contract obligations will be performed, but will not result in other direct or indirect benefit to Purchasers or Beneficiaries. Moreover, the enabling legislation under which the Trust Fund was established provides that any Trust Fund moneys in excess of the actuarially determined obligations of the Trust Fund (as determined by the Board) shall be deposited into the General Fund of the State. To date, the Board has determined that all moneys held by the Trust Fund in excess of the current amount of the Trust Fund's projected future liabilities should be retained for application against future actuarial losses. It is possible, however, that at some time in the future, the Board may determine, in its discretion, to return excess moneys to the State's General Fund, which would reduce the value of Trust Fund assets available to be applied against future Contract liabilities of the Trust Fund.

Actuarial Risks

Inherent uncertainty of actuarial projections. In fulfillment of the Trust Fund's purpose to provide tuition benefits to defray the costs of undergraduate college education, the Trust Fund pools and invests monies received from the sale of Contracts and seeks to earn rates of return on such investments that exceed anticipated inflation rates of certain costs of undergraduate college education in Alabama. The Board has engaged the assistance of actuarial experts to project the ability of the Trust Fund to meet its obligations and to assist the Board in establishing the pricing for new Contracts each year. In this regard, various actuarial assumptions are employed to evaluate the assets and liabilities of the Trust Fund. These assumptions cover such areas as the inflation rate affecting college tuition, the enrollment mix of Beneficiaries between junior and community colleges on the one hand and four-year universities on the other, the rate of Contract cancellations, the average number of credit hours required for each Beneficiary, the timing of tuition payments, and the investment return achieved by the Trust Fund. In many cases, the actuarial analysis is highly sensitive to changes in one or more of these assumptions. The Board, in consultation with its actuarial experts, has developed the current assumptions, monitors such assumptions as new historical data becomes available, and revises such assumptions from time to time. Because actuarial determinations necessarily involve predictions regarding future events, no assurance can be given that such assumptions will prove to be accurate or that the Trust Fund will be able to satisfy its future obligations, despite the indication of current actuarial evaluations that the assets of the Trust Fund should be sufficient to satisfy the Trust Fund's future obligations. In the event that one or more of the underlying assumptions proves to be inaccurate, the Trust Fund may be unable to perform its obligations under the Contracts.

Limited ability to increase the price of future Contracts. To a limited degree, the Trust Fund may correct temporary actuarial shortfalls in a given year by increasing the price of future Contracts. At some point, however, increasing the price of future Contracts is likely to reduce the public demand for such Contracts, which could prevent the Trust Fund from offsetting future actuarial shortfalls (if any should occur) by increasing the price of new Contracts. Although increases in the pricing of Contracts to date apparently have not significantly reduced demand for new Contracts (as indicated by the fact that the number of new Contracts sold was essentially constant during 1993-1996 despite increases in Contract pricing), there can be no assurance that demand for new Contracts will continue at these levels in the future.

Investment Risks

Dependence on investment performance. One of the primary factors affecting the Trust Fund's ability to satisfy its obligations under the Contracts is the Trust Fund's attainment of a sufficient return on the Trust Fund's investments. The Trust Fund's current investment policies provide for a targeted total rate of return (currently 9% per annum) based on the actuarial determination that such rate of return is needed to enable the Trust Fund to meet its obligations given current Contract pricing. Although the average annual historic investment return achieved by the Trust Fund has exceeded this level, see **"THE TRUST FUND--Selected Financial Information,"** there can be no assurance that future investment returns will equal or exceed this targeted 9% investment return or any future targeted investment return. If the investment return on the Trust Fund's assets were to fall short of its targeted level for a sustained period of time, the Trust Fund's ability to perform its Contract obligations would be significantly impaired.

Possible future changes to investment policies. It is anticipated that the Board will review its investment policy, including asset allocations, at least annually. The Board may in the future determine to revise its investment policies to permit investment in assets possessing a greater degree of risk and/or volatility than that currently represented by the Trust Fund's investment portfolio.

Emphasis on investment in equity securities. Currently, the Board, with the advice of its investment consultant, has determined to target an investment mix in which 80% of total Trust Fund assets will be invested in equity securities (17% of which will be invested in international equity securities). Although the Trust Fund's present investments include approximately 56% of total Trust Fund assets invested in domestic equity securities and approximately 9% of total Trust Fund assets invested in international equity securities, the composition of the Trust Fund's investment portfolio likely will change as the investment managers move toward the targeted investment mix. Additionally, the composition of the Trust Fund's investments may change from time to time as other factors, in the opinion of the Board with the advice of its investment consultant, merit a change in or departure from the current targeted investment mix.

Movement in the price of equity securities, and hence the value of investments in equity securities, is subject to numerous economic and market forces and uncertainties, as well as the particular financial and other attributes of specific issuers of equity securities. Additionally, equity securities are not guaranteed by the U.S. Government, the State of Alabama or any other state, or the issuing corporation as to either value or return.

Risks associated with investments in debt securities. The Board, with the advice of its investment consultant, has determined that the balance of the Trust Fund's targeted investment mix should be comprised of 20% of total Trust Fund assets invested in debt securities (including 5% invested in international debt securities). At present, approximately 27% of total Trust Fund assets are invested in domestic bonds and approximately 5% of total Trust Fund assets are invested in international bonds. The composition of the Trust Fund's investment portfolio likely will change as the investment managers move toward the current targeted investment mix, and also may change as the Board, in consultation with the investment consultant, reevaluates the targeted investment mix from time to time.

Bonds are subject to two primary risks: the risk of default by the issuer and the risk of deflation in value as a result of rising interest rates. Although some domestic bonds are guaranteed by the U.S. Government or a state of the United States or other issuer, the international (foreign) debt instruments currently held by the Trust Fund are not guaranteed by the U.S. Government or any state of the United States.

THE TRUST FUND

The Alabama Legislature created the Trust Fund by enactment of the Wallace-Folsom Prepaid College Tuition Trust Fund Act on May 17, 1989, and such Act was subsequently amended on April 19, 1990 (**the "Act"**). Under the Act, the Trust 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 Trust Fund to pay a Contract Beneficiary's tuition costs and Mandatory Fees over a specified number of academic hours. **The Trust 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 Trust Fund

Under the Act, the Trust Fund is to be administered by a ten-member Board. The ten members of the Board 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; (9) two persons appointed by the Governor.

A Board member serving ex officio will serve on the Board during the term of his or her office by virtue of which he or she sits on the Board of the Trust Fund. The remaining members of the Board are appointed for specific terms. Appointed members serve four-year terms of office and are eligible for reappointment. A member of the Board serves 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. If 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 serves only for the unexpired term.

The Act requires that persons possess knowledge, skill, and experience in business or financial matters commensurate with the duties and responsibilities of the Trust Fund to be eligible for appointment to the Board. 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, is eligible for appointment to the Board. The members of the Board serve without compensation, but are entitled to reimbursement from Trust Fund assets for each day's official duties of the Board at the same per diem and travel rate as is paid to State of Alabama employees.

A quorum of the Board is required for the Board to transact the business of the Trust Fund. Under the Act, a majority of the members of the Board constitute a quorum. The State Treasurer is the Chairman of the Board and is its presiding officer. The current members of the Board are listed in the table below.

Name	Age	Expiration of Term
Lucy Baxley Treasurer of the State of Alabama Montgomery, Alabama	59	Ex Officio
Stephen E. Bradley President of Bradley-Townsend Public Affairs, a governmental advertising and public relations firm Birmingham, Alabama	53	July 19, 2000
Charles R. Carr Former Director of The Wallace Foundation Director of The Community Bank of Oneonta Montgomery, Alabama	49	July 19, 1999
John H. DeLoach, Jr. Partner, DeLoach, Poarch and Associates, Certified Public Accountants Hoover, Alabama	49	July 19, 1997
Dr. Fred Gainous Chancellor of the Alabama Department of Postsecondary Education Montgomery, Alabama	50	Ex Officio
Logan Gray Senior Vice President SouthTrust Corporation (bank holding company) Birmingham, Alabama	49	July 19, 1999
Dr. Henry J. Hector Executive Director of the Alabama Commission on Higher Education Montgomery, Alabama	58	Ex Officio
Don Siegelman Lieutenant Governor of the State of Alabama Montgomery, Alabama	51	Ex Officio
Dr. Joseph T. Sutton Former Executive Director of the Alabama Commission on Higher Education (retired in 1990) Wetumpka, Alabama	74	Ex Officio
James H. White III President of Porter, White & Company, Inc. Investment Banking and Consulting Birmingham, Alabama	54	July 19, 1997

The Board engages and relies upon the advice of investment consultants, investment managers, custodians, actuarial experts, attorneys, accountants, and other experts in managing, administering, and formulating investment policies for the Trust Fund. Day-to-day administration of the Tuition Program is physically conducted through the facilities and personnel of the State

Treasurer's Office. Treasurer's Office personnel who work with the Tuition Program are State, merit system employees of the Treasurer's Office and are supervised and managed exclusively by the State Treasurer.

Powers of the Board

Under the Act, the Board, or its authorized agent, is authorized to Contract for the lump sum or installment prepayment of tuition costs for the benefit of a Qualified Beneficiary. The price to be paid by a Purchaser under a Contract is determined by the Board based on actuarial calculations which employ various assumptions. See **"TUITION PROGRAM."** The Board is directed to obtain actuarial assistance to project the ability of the Trust Fund to meet its obligations and to determine Contract pricing. Pursuant to this authority and the authority to engage the services of private persons for administrative and technical assistance, the Trust Fund has engaged the accounting firm of Coopers & Lybrand L.L.P. to render certain accounting and actuarial services to the Trust Fund. Based upon the actuarial valuation, the Board may adjust the price of subsequent Contracts to adjust for actuarial shortfalls. The Board also may impose actuarial assessments to compensate the Trust Fund for loss of earnings if a Purchaser makes any payment after its due date.

The payments received from Contract Purchasers are deposited in the Trust Fund, and the Trust Fund's assets are invested by the Board as authorized in the Act. The amounts received may be invested only in instruments, obligations, securities and properties that are deemed appropriate by the Board and that constitute legal investments for the investment of public funds in the State of Alabama, including legal investments for the State Treasurer, the Alabama Trust Fund and the Alabama Heritage Trust Fund. The Trust Fund's assets are subject to market factors and fluctuations affecting their value. In the discretion of the Board, the assets of the Trust 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 Trust Fund assets, the Board has engaged the services of both an investment consultant and various investment managers. See **"THE TRUST FUND--Investment Policies."**

In addition to the foregoing powers, the Board is entitled (i) to adopt rules and regulations necessary to implement the provisions of the Act with or without compliance with the state administrative procedures statutes, (ii) to impose reasonable limitations on the number of Contract participants in the Trust Fund at any given time, (iii) to impose reasonable time limits on the use of Contract benefits and (iv) to impose residency requirements at the time of the purchase of a Contract for qualification as a Qualified Beneficiary.

As soon as practicable following the completion of each fiscal year of the Trust Fund, the Board makes available summary information on the financial condition of the Trust Fund to all Purchasers of Contracts. In addition, the Board causes to be prepared an annual accounting of the Trust Fund and transmits a copy of the same to the Governor, the Lieutenant Governor, and the Speaker of the State House of Representatives. The Board also makes all necessary and appropriate administrative arrangements with Alabama colleges and universities in order to facilitate the performance of its obligations under the Contracts.

The description of the powers herein contained is not intended to be a comprehensive or exhaustive list of the powers of the Board, 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 other document relating to the Tuition Program.

Selected Financial Information

The Trust Fund's fiscal year begins on October 1 of each year and ends on September 30 of the following year. The Board has engaged the accounting firm of Jackson, Thornton & Co., P.C. to audit its balance sheet as of September 30, 1996, and the related statements of revenues, expenses, and changes in retained earnings and statement of cash flows for the year ended September 30, 1996. Jackson, Thornton & Co., P.C. has issued its independent auditors' report to the Board of the Trust Fund. A copy of such report, along with the financial statements and accompanying footnotes of the Trust Fund, are attached hereto as Exhibit A and incorporated herein by reference.

As of September 30, 1996, the Trust Fund had total assets of $265,377,271, total liabilities of $265,161,359, and retained earnings of $215,912. The financial statements of the Trust Fund for the period ended September 30, 1996, do not reflect any reserve for income tax liabilities. As of September 30, 1996, the Trust Fund had accumulated an actuarial reserve of approximately $35,933,346, which the Board intends to apply against future actuarial losses as needed.

Following are the annual rates of return for total Trust Fund investments for the fiscal years ended on September 30 of each year indicated. The annual rates of return indicated hereafter were computed by taking into account current income, realized and unrealized gains and losses, and investment fees and expenses for the Trust Fund's aggregate investment portfolio during each year.

Annual Investment Rates of Return

12 Months ended September 30	Investment Return
1991	13.8%
1992	15.6%
1993	14.8%
1994	0.4%
1995	17.4%
1996	15.0%

Summary of Key Actuarial Assumptions

Funding of the Tuition Program is derived entirely from Contract payments and the investment income earned by the Trust Fund. The Trust Fund's projected amount of future Contract obligations is determined by calculating expected future Alabama tuition and fee costs based upon current costs and certain assumptions regarding future periods. Similarly, the Trust Fund's projected assets are determined by calculating expected future assets based upon the actual current value of the Trust Fund's assets and various assumptions regarding future events, such as future rates of return. The projected obligations are then compared with the projected asset values to determine if a funding deficit is anticipated. This comparison, along with estimating the additional obligations created by future sales of Contracts, is then used to determine the purchase price of new Contracts for a particular Enrollment Period.

The projections and valuations are based on various actuarial assumptions. The actuarial assumptions currently used by the Trust Fund include, among others, assumptions regarding (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, (vi) allocation of enrollment between universities and community colleges, (vii) and bias toward enrollment at more expensive four-year Alabama public universities. Because the actuarial valuation process relies on such assumptions, actual results may differ, even materially, from the projected results based on those actuarial assumptions. No representation is made or assurance given that future investment results of the Trust Fund will be sufficient for the Trust Fund to satisfy its current or future obligations. If a funding shortfall occurs for any reason, the State of Alabama is not obligated to restore, or otherwise remedy, any such funding shortfall of the Trust Fund.

In its report to the Board dated February 28, 1997, for the year ended September 30, 1996 (the "1996 Actuarial Report"), the Board's actuarial consultant advised the Board that in the opinion of such consultant, the assumptions underlying the analysis contained in the 1996 Actuarial Report were reasonable for the purpose of projecting the expected financial results of the Trust Fund. The Board is not aware of any circumstance or expected future event that appears contrary to or inconsistent with the actuarial consultant's conclusion that the assumptions underlying the 1996 Actuarial Report are reasonable for the purpose of projecting the expected financial results of the Trust Fund.

The key assumptions underlying the actuarial analysis of the Trust Fund are periodically reevaluated by the Board, in consultation with its actuarial consultants. As part of this process, the Board gathers and reviews historical data concerning these assumptions. As a result of review this year, an additional assumption was used to reflect a 5% bias toward enrollment at more expensive four-year Alabama public universities. This process has tended to confirm the reasonableness of the material assumptions. For example, the assumed tuition inflation rate incorporated in the 1996 Actuarial Report was 7.1% per annum. This compares to an actual weighted average tuition increase for four-year universities during 1995- 1996 of 5.2% and a weighted average tuition inflation rate since inception of the Tuition Program of 6.3% per annum. This assumption is below the national average for state tuition, which according to an August 1996 General Accounting Office report, was 9% per annum.

Similarly, the 1996 Actuarial Report assumed an annual investment return for the Trust Fund of 9%, which is substantially below the actual return achieved by the Trust Fund during the 1996 fiscal year and below the average annual return achieved by the Trust Fund since inception. To the extent other data is now available relating to additional assumptions contained in the 1996 Actuarial Report, such data likewise tends to confirm the reasonableness of the material assumptions. Although the Board, in consultation with its actuarial consultants, expects to continue to monitor and, if necessary, revise the relevant actuarial assumptions, there can be no assurance that such assumptions will continue to compare favorably to actual experience.

Investment Policies

The Board is charged with the responsibility for investing the assets of the Trust Fund. Consistent with the Trust Fund's purpose of providing Contracts at a price that reflects current costs of tuition and Mandatory Fees at Alabama Public Postsecondary Institutions, the Board has approved written investment policies with the overall objective of earning a return on monies received from the sale of Contracts that is greater than the tuition and Mandatory Fee cost increases at Alabama Public Postsecondary Institutions.

The ability of the Trust Fund to meet its obligations under the Contracts is dependent upon the investment return generated by the Trust Fund from investment of the moneys received upon sale of Contracts to Purchasers. The Board has employed a professional investment advisor to assist the Board in developing an investment program consistent with the Trust Fund's investment needs and goals. The present advisor employed by the Trust Fund is The Hannah Consulting Group, Inc. based in Boston, Massachusetts. The Hannah Consulting Group, Inc. (**the "Investment Advisor"**) is a wholly owned subsidiary of the Advest Group, Inc. of Hartford, Connecticut. The Hannah Consulting Group, Inc. is registered under the Investment Advisors Act of 1940, as amended, and its president is John A. Hannah.

The Board, in consultation with the Investment Advisor, has determined that the targeted investment returns of the Trust Fund may not be met solely by investing in investments that are designed to preserve the principal of the Trust Fund. Accordingly, the Board has designed the Trust Fund's investment portfolio to achieve potentially higher rates of return through investments in equity securities. Because such investments offer potentially higher rates of return, however, they are more susceptible to investment risks (including possible loss of principal).

The Board also recognizes that investment risk may be mitigated by diversification across various asset classes that are expected to react differently in response to identical market and economic factors. Diversification across asset classes may minimize the negative impact that market, economic and other factors have on the market value and return of any one class of investments. Although the Board employs diversification in its investment policies, the Trust Fund's need to achieve the targeted rate of return limits, to some degree, the Trust Fund's ability to diversify its holdings between equity securities and other investment vehicles.

The investment strategy employed by the Trust Fund involves the following significant attributes:

(a) The identification by the Board of an appropriate investment time horizon for the Trust Fund, which is (and is expected to remain) relatively long-term;

(b) The determination by the Board, in consultation with the Investment Advisor and the actuary engaged by the Board, of an appropriate minimum rate of return which the Trust Fund should seek to achieve to be able to meet its anticipated obligations under Contracts;

(c) The identification by the Board, in consultation with the Investment Advisor, of appropriate asset classes and appropriate ranges of allocations of the Trust Fund's assets among such asset classes in light of the investment objectives, investment time horizon, and risk tolerances of the Trust Fund; and

(d) The selection and engagement of investment firms with expertise and experience in managing the identified asset classes to manage the corresponding portions of the Trust Fund's portfolio.

Among the services provided by the Investment Advisor to the Board are (a) strategic asset allocation (asset and liability analysis), (b) assistance in the preparation and monitoring of the Trust Fund's investment objectives and investment policies, (c) assistance in locating and selecting suitable portfolio managers for each portion of the Trust Fund's investment portfolio, and (d) evaluation and monitoring of the performance of the various portfolio managers.

The assets of the Trust Fund currently are invested principally in stocks of U.S. corporations ("domestic stocks"), debt securities issued by U.S. corporations or various U.S. governmental issuers ("domestic debt securities"), stocks of foreign corporations ("foreign stocks"), and debt securities issued by foreign corporations ("foreign debt securities"), with the portfolio heavily weighted (about 65%) toward stocks. From time to time, the Trust Fund also holds relatively minor positions in cash. While the Board believes that investment in these types of securities is appropriate in light of the investment time horizon and investment needs of the Trust Fund, it should be recognized that many of the securities in which the Trust Fund's assets are invested may present a relatively high level of investment risk. For example, stocks and other equity securities are generally more volatile than debt securities and are affected by a broad range of economic and market factors. Such securities currently comprise approximately 80% of the targeted asset mix of the Trust Fund, and although the current investment of Trust Fund assets in equity securities (65%) is below the targeted investment in equity securities, the Board intends that the portfolio composition will change in the future to more closely reflect the targeted asset mix, unless other factors, in the opinion of the Board with the advice of its investment consultant, merit a change in or departure from the present targeted investment mix. Debt securities, while generally considered less volatile than equity securities, also can be volatile, with the value of debt securities typically fluctuating inversely to market interest rates. In addition, foreign securities may involve a greater degree of risk than U.S. securities, both from market forces and from political factors.

The Board and the Investment Advisor seek to manage the investment risks associated with the Trust Fund's investments by establishing investment parameters for each of the portfolio managers that, among other things, (a) identify permissible types of investments, (b) delineate parameters for exposure to market risks, (c) establish, in the case of domestic debt securities, minimum credit quality, (d) identify undesirable concentrations, including issuer concentration limits, sector concentration limits, and geographical concentration limits, (e) establish parameters for operating history, (f) set portfolio turnover limits, (g) in the case of debt securities, set maximum portfolio durations, (h) identify unacceptable investment techniques, and (i) identify appropriate market indices which the portfolio manager should seek to equal or exceed in the investment of the portfolio assigned to the portfolio manager. The investment parameters set by the Board remain subject to change in the discretion of the Board. The Investment Advisor monitors the performance of each portfolio manager as well as compliance with the investment parameters applicable to their respective portfolios, and reports to the Board periodically concerning such performance and compliance.

No representation is made or guarantee given that the investment return produced under the current or any future investment policies of the Board will be sufficient to fulfill the Trust Fund's obligations in connection with the Tuition Program.

TUITION PROGRAM

Prepaid College Tuition Contracts

The Board is authorized to Contract with a Purchaser for the prepayment of college tuition costs of a "Qualified Beneficiary" to attend an Alabama public college or university. Upon the Purchaser's 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) such time as payments by the Trust Fund have been made for 135 semester hours (or other academic term equivalent units), and (2) Mandatory Fees for a maximum of 8 registrations on a semester system, 12 registrations on a quarter system, or the equivalent number of registrations on any other academic basis, until the earlier of (a) the award of a baccalaureate degree to the Qualified Beneficiary, or (b) such time as payments by the Trust Fund have been made for 135 semester hours (or other academic term equivalent units). Mandatory Fees are those fees required as a condition of enrollment for all students. The Trust Fund does not pay for any other fees or costs that a Beneficiary is obligated to pay, such as, but not limited to, orientation fees, student activity fees, lab fees, books, room and board, and food. Certain benefits are also payable on behalf of a Contract Beneficiary if he or she attends a private, out-of-state, or foreign college or university. To purchase a Contract, a Purchaser must first apply to the State Treasurer for a Contract. Under its terms, the entire Contract is interpreted pursuant to the laws of the State of Alabama.

Contract Purchase

Only a single individual or entity may purchase and own a particular Contract, although payments under a Contract may be made by anyone. Joint purchasers are not permitted. Eligible natural persons must be at least 19 years of age or represented by a court-appointed conservator, guardian, trustee, or custodian under Section 26-2-20, Code of Alabama (1975). Corporations, trusts, charitable organizations, or any other entity approved, in writing, by the State Treasurer are also eligible to purchase Contracts.

To apply for a Contract, a prospective Purchaser must file an Application with the State Treasurer's Office during an Enrollment Period. Generally, to be considered for acceptance, the potential Purchaser and the potential Beneficiary must meet all qualifications provided in the Contract, and the acceptance of the Contract must comply with all federal, state, and local laws. No representation is made or assurance given that an Application for the purchase of a Contract will be accepted by the State Treasurer. The State Treasurer may determine at any time to limit the number of Prepaid College Tuition Contracts.

Once an Application is submitted, if a Contract is not purchased or if the Application is rejected, the Application Processing Fee will be forfeited except in cases where the rejection or non-participation occurs through no fault of the applicant. Although an Enrollment Period has existed in each fiscal year of the Trust Fund, no representation is made or assurance given that an Enrollment Period will be established for any future year.

Acceptance of a Purchaser's Application entitles the Purchaser to enter into a Contract with the Trust Fund. Upon entry into a Contract, the Purchaser is obligated to make advance payments as required in the Contract.

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 have been born and 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 must be either (a) a resident of the State on the first day of the month in which the Enrollment Period begins or (b) a minor child of a noncustodial parent who is a resident of this State. Only one Beneficiary may be named per Contract, and only one Contract may be purchased for a given Beneficiary.

The determination as to whether a particular individual satisfies a requirement to be a Qualified Beneficiary will be made by the Board, in its sole discretion. Certain qualifying individuals may be substituted for the original Contract Beneficiary. See **"TUITION PROGRAM--Beneficiary Substitution."** After determination that a particular individual is 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 is required to obtain actuarial assistance in order to establish, maintain, and certify a fund sufficient to defray the obligations of the Trust Fund. This actuarial determination is to be completed annually. After the actuarial valuation is completed, the Board determines, based on such actuarial valuation, the purchase price of Contracts offered during an Enrollment Period to ensure the actuarial soundness of the Trust Fund. A Beneficiary's age and grade level are material factors in determining pricing for Contracts.

Payment

The purchase price for a Contract may be paid in any of the following three ways: (1) lump-sum; (2) monthly installments over 60 consecutive months, or (3) monthly installments commencing on a certain date and ending on a certain date specified in the Contract. The ending date will be during the summer prior to the Beneficiary's Projected College Entrance Date, defined as the academic year following the projected date of a Beneficiary's graduation date from high school. Requests for changes in the Participation and Payment Schedule may be submitted to the Treasurer at any time, but requests must be in writing. A $20 administrative fee will be charged for processing a request for a change in the Participation and Payment Schedule. Each Contract payment includes a nonrefundable account maintenance fee. Additional fees may apply for returned items, late payments, and changes in payment method. See **"TUITION PROGRAM."**

The State Treasurer's office will provide each Purchaser with a Participation and Payment Schedule that defines the frequency, duration, and due date of Contract payments based on the information contained in the Application. However, the Purchaser is responsible for making all payments on time under the Contract, even without having received a Participation and Payment Schedule. The Contract will be cancelled if no Contract payments have been received within 45 days of the first payment due date. Additionally, failure to make any payment within 30 days of the due date of the payment shall constitute a default of the Contract, in which case the State Treasurer may immediately terminate the Contract. If all delinquent amounts, including Actuarial Assessments and Administrative Fees, are brought current within 6 months after default, the State Treasurer will reinstate the Beneficiary's rights under the Contract. If no payments are received by the State Treasurer's office within 211 days of default, the Contract will be cancelled, and all rights of the Beneficiary under the Contract will be terminated. At the discretion of the State Treasurer and upon receipt of a proper written request, with appropriate justification, the State Treasurer may reinstate a cancelled Contract, but only if all delinquent amounts, including Actuarial Assessments and Administrative Fees, have been received by the office of the State Treasurer.

Administrative Fees

Various Administrative Fees are charged by the Trust Fund under the Tuition Program and are discussed in greater detail in various portions of this Disclosure Statement. The following is a summary of the fees charged by the Trust Fund and their current amounts. The amount of a particular fee may be changed at any time and additional fees designated by the State Treasurer at any time.

1. Application Cost and Fee--$75. This is the amount required to be submitted with an Application. This fee is non-refundable.
2. Account Maintenance Fee--$3 for accounts paid by monthly installment and $20 for Contracts paid by a lump sum. Each such fee is included as part of the regular payment.
3. Cancellation Fee--50% of the amount paid into the Trust Fund, up to a maximum of $150. This fee acts as a penalty because the amount of the fee is deducted from the refund amount the Purchaser would otherwise have received.
4. Termination Fee--100% of amount paid into the Trust 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 the Purchaser upon such Termination.
5. Substitution of Beneficiary Fee--$55. This is the fee submitted with a request to substitute a Beneficiary under the Contract. The fee is waived in cases involving the death or disability of a Beneficiary, or receipt of a Scholarship award by a Beneficiary.
6. Fee for Transfer of Contract Ownership--$20. This is the fee that a Purchaser must submit with his or her 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 Alabama Public Postsecondary Institution--A $25 fee will be charged for each academic term for which the Beneficiary actually enrolls in a postsecondary institution other than an Alabama Public Postsecondary Institution. This fee is charged each time an invoice for Contract benefits is processed for the respective postsecondary institution, and is deducted from each such amount paid to the institution.
8. Late Payment Fee--$15. This amount is charged on Contract payments which are received more than 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 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--A $45 fee will be charged if either the notice of intent to use Contract benefits or the notice of the institution which the Beneficiary plans to attend is not given to the State Treasurer's Office at least 60 days before Contract benefits are to be used at an Out-of-State Postsecondary Institution. The fee must be paid before any Contract benefits will be paid.
12. Fee for Changes in Participation and Payment Schedule--$20. This is the fee charged for a request to change the Participation and Payment Schedule.

Any Administrative Fee may be waived by the State Treasurer in her sole discretion. No Purchaser will be entitled to waiver of these fees as a matter of right. Furthermore, the amounts of the fees are subject to change. The fees in any subsequent Enrollment Period may be greater than or less than the fees provided in this Disclosure Statement. The 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.

Use of the Prepaid Tuition Contract

Benefits under the Contract may be used at either in-state or Out-of-State Postsecondary Institutions, or foreign institutions, to defray certain costs for the undergraduate education of a Qualified Beneficiary as described below. Tuition, fees, and any other costs of any graduate school education are not covered by the Contract. Tuition amounts and Mandatory Fees are paid only directly to the Postsecondary Institution attended by the Beneficiary. Before any such benefits will be paid, all Contract payments, Administrative Fees, and Actuarial Assessments must be paid in full. If the Beneficiary is to attend a postsecondary institution other than an Alabama Public Postsecondary Institution, the Purchaser must give the State Treasurer written notice of both the Beneficiary's intent to use the Contract benefits and the name of the institution to be attended. This notice must be provided at least sixty (60) days before Contract benefits are to be utilized. Failure to provide such notices may result in the assessment of a $45 administrative fee. Additional requirements apply if the Beneficiary attends a foreign institution.

Generally, the Contract benefits must be used within 10 years after the Beneficiary's Projected College Entrance Date, which Date is considered to be the academic school year following the Beneficiary's projected high school graduation, or within 10 years of the actual college entrance date of a Beneficiary who is an accelerated student, as provided in the Rules. An accelerated student may use Contract benefits up to 3 years in advance of the Beneficiary's Projected College Entrance Date. If after 10 years following the Beneficiary's Projected College Entrance Date, or the Actual Entrance Date of a Beneficiary who is an accelerated student, neither the Contract has been terminated nor the Beneficiary's rights under the Contract exercised, the Board, after making reasonable efforts to locate the Purchaser or the Qualified Beneficiary, or the agent of either, shall retain all amounts otherwise payable under the Contract and the rights of the Qualified Beneficiary, the Purchaser, or the agent of either shall be considered terminated.

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 Trust Fund provides no assistance to a Beneficiary with respect to admission to, continued enrollment at, or graduation from a college or university other than the payment of tuition and Mandatory Fees as described in the Contract.

Use of Contract at Alabama public colleges and universities. If a Qualified Beneficiary attends an Alabama Public Postsecondary Institution, the Contract provides for payment on behalf of the Qualified Beneficiary to the Alabama Public Postsecondary Institution of only the following: (1) In-State Tuition until the earlier of (a) the award of a baccalaureate degree to the Qualified Beneficiary or (b) such time as payments from the Trust Fund have been made for 135 semester hours, but not more than 135 semester hours (or other academic equivalent units), and (2) the payment of Mandatory Fees for a maximum of 8 registrations, but not more than 8 registrations, on a semester system, or 12 registrations, but not more than 12 registrations, on a quarter system, or the comparable number of registrations on an academic equivalent basis for terms other than semesters or quarters, until the earlier of (a) the award of a baccalaureate degree to the Qualified Beneficiary, or (b) such time as payments from the Trust Fund have been made for 135 semester hours, but not more than 135 semester hours (or other academic equivalent units).

Beneficiaries may transfer from one Postsecondary Institution to another and still receive Contract benefits. The Contract does not limit the number of times a Beneficiary may transfer from one Postsecondary Institution to another.

Use of Contract at private or non-Alabama colleges and universities. If a Qualified Beneficiary attends either a Private In-State Postsecondary Institution, any Out-of-State Postsecondary Institution, or a foreign institution, the Contract provides for payment on behalf of the Qualified Beneficiary to such institution of either the **Current Tuition Value** or the Beneficiary's tuition and Mandatory Fees at such institution, whichever amount is less. **"Current Tuition Value"** means the weighted average of the In-State Tuition and Mandatory Fees at Alabama's four-year Public Postsecondary Institutions. Therefore, a Beneficiary who attends a private college or university, any out-of-state college or university, or a foreign institution will be responsible for payment of any and all tuition costs and Mandatory Fees in excess of the Current Tuition Value payable under the Contract. If a Qualified Beneficiary attends a United States military academy that does not charge tuition or Mandatory Fees, the Purchaser, will be entitled to seek a refund of the Redemption Value. See **"TUITION PROGRAM–Refunds."** A written request for payment of Contract benefits to the private college or university, out-of-state college or university, or foreign institution along with any applicable Administrative Fee must be submitted to the State Treasurer 60 days prior to the Qualified Beneficiary's matriculation each academic term. In the case of a Qualified Beneficiary's attendance at an institution outside the United States, the Purchaser also must submit, along with the required written request for payment to the foreign institution and the applicable Administrative Fee, an invoice from the foreign institution which states in United States dollars the amount of tuition and Mandatory Fees due to the foreign institution for that academic term on behalf of the Qualified Beneficiary. A $25 processing fee will be assessed for each academic term that Contract benefits are to be paid to a private or out-of-state college or university or a foreign institution.

Beneficiaries may transfer from one Postsecondary Institution to another and still receive Contract benefits. The Contract does not limit the number of times a Beneficiary may transfer from one Postsecondary Institution to another.

Refunds

In certain circumstances, a Purchaser may be entitled to a refund of certain amounts paid under a Contract. Except as provided below under this section "Refunds," any Cancellation or Termination of the Contract shall entitle the Purchaser to a refund of an amount equal to all Contract payments paid by the Purchaser, not including Administrative Fees, minus any amounts paid by the Trust Fund to Postsecondary Institutions on behalf of the Qualified Beneficiary, and minus a Cancellation Fee or Termination Fee (**"Redemption Value"**). If a Purchaser voluntarily cancels a Contract, the Cancellation Fee to be assessed will equal 50% of the amounts paid into the Trust Fund by Purchaser (or on Purchaser's behalf), excluding Administrative Fees, up to a maximum dollar amount of $150. If the Contract is involuntarily terminated, the Termination Fee to be assessed will equal 100% of the amounts paid into the Trust Fund by Purchaser (or on Purchaser's behalf), excluding Administrative Fees, up to a maximum dollar amount of $500. At the discretion of the State Treasurer, any refund may be paid in installments. Interest will not be paid on such refund installment payments.

A Contract Purchaser may request and receive a refund at any time before the Contract benefits are paid. The amount of any refund will be the Redemption Value of the Contract. If the refund is requested due to cancellation of the Contract resulting from the death or disability of the Beneficiary, certain fees normally deducted from the total amount of Contract payments in calculating the Redemption Value of the Contract may be waived.

If the Beneficiary receives a Scholarship, the Purchaser may request a refund of any overpayment of tuition and Mandatory Fees to the Beneficiary's college or university from the particular college or university itself. The State Treasurer is not responsible for any refunds that may be payable by a Postsecondary Institution. In lieu of such a refund, the Contract benefits may be transferred to an Eligible Substitute Beneficiary, in which case the administrative fee for transfer of benefits will be waived. See **"TUITION PROGRAM--Beneficiary Substitution."**

If a Qualified Beneficiary attends a United States military academy, or if a Qualified Beneficiary attends an institution outside the United States and the Purchaser either does not desire to or fails to properly request payment of tuition and Mandatory Fees to the foreign institution, the Purchaser of the Contract will be eligible for a refund of the Redemption Value.

Beneficiary Substitution

Under the Contract, a qualifying individual may be substituted for the existing Contract Beneficiary if certain requirements are met. To request a transfer of benefits under the Contract to a Substitute Beneficiary, a Purchaser must make a written request and provide the necessary documentation to the State Treasurer. A $55 administrative fee is charged for the substitution. The substitution of beneficiaries must be made before the original Contract Beneficiary, or any successor Beneficiary, matriculates at any Postsecondary Institution or utilizes any of the Contract benefits. (However, even if the Beneficiary has begun matriculation or utilized Contract benefits, the Purchaser may still terminate the Contract at any time before all benefits under the Contract have been paid and receive the Redemption Value.)

The proposed Substitute Beneficiary must have been born and be living and must be an Immediate Family member (as defined in the Rules) of the existing Contract Beneficiary. Immediate Family members with respect to a Contract Beneficiary are the Beneficiary's ancestors; a lineal descendent of the Beneficiary, the Beneficiary's spouse, or either of the Beneficiary's parents; or the spouse of any of the foregoing lineal descendants. A legally adopted child is a person's child for all purposes in determining Immediate Family members.

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. Generally, the proposed Substitute Beneficiary must also have a Projected College Entrance Date that is the same as or later than the Projected College Entrance Date of the original Contract Beneficiary. In no event shall any Contract payments, Administrative Fees, or other amounts be refunded to a Purchaser upon substitution of the Qualified Beneficiary. If the Purchaser requests special permission of the State Treasurer to transfer Contract benefits to a Substitute Beneficiary whose Projected College Entrance Date is earlier than such date of the original Contract Beneficiary, and the State Treasurer grants such permission, the Purchaser must pay any Actuarial Assessment calculated by the State Treasurer before the substituted Beneficiary will be entitled to any benefits under the Contract.

Transfer of Contract

A request to transfer a Contract must be submitted in writing, and signed by both the Purchaser 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. A $20 administrative fee must accompany the request to transfer the Contract. Except pursuant to a written request to transfer a Contract, neither the Contract nor any interest, right, or benefit in the Contract may be assigned or transferred. No known secondary market for resale of Contracts exists. Therefore, no representation is made or assurance given that a Purchaser will be able to transfer a Contract in any instance. As such, if a liquidity or other financial need arises, a Purchaser may not be able to liquidate his or her investment in the Contract in order to satisfy such financial need. See also **"SECURITIES CONSIDERATIONS."**

SECURITIES CONSIDERATIONS

The Board 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, 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.

FEDERAL TAX CONSIDERATIONS

Income Tax Consequences

Trust Fund. The Board of the Trust Fund has, since its inception, held the view that the Trust Fund is exempt from federal income taxation and, accordingly, the Trust Fund has not filed any federal tax returns for prior periods. Moreover, in computing Contract prices for the 1997 Enrollment Period, the Board and its actuarial consultant assumed that the Trust Fund's earnings are not subject to federal income taxation.

The federal income tax treatment of the Trust Fund is dependent upon whether the Trust Fund is considered a taxable or tax-exempt entity. If the Trust Fund is considered to be a tax- exempt entity, the Trust 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 has taken the position that the Trust Fund is tax-exempt is its relationship and position as an agency and instrumentality of the State of Alabama. That state agencies, in general, are not subject to income taxation is and has been a recognized principle of federal tax law.

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 such fund was a state agency. The IRS did not seek review of that decision. Attorneys for the Trust Fund have been advised by the IRS that no other federal tax litigation is pending anywhere concerning college prepaid tuition plans.

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

1996 Federal Legislation. On August 2, 1996, Congress passed the Small Business Job Protection Act of 1996 (the "1996 Act"). Section 1806 of the 1996 Act added Section 529 to the Internal Revenue Code of 1986 (the "Code"). Code Section 529 provides that a qualified state tuition program is exempt from all federal income taxation except that imposed by Code Section 511 relating to unrelated business income (which is unlikely to apply to the Trust Fund given its current investment policies because the Trust Fund's sources of revenue do not include unrelated business income). The term "qualified state tuition program" is defined generally in Code Section 529 as a program established and maintained by a state or agency and instrumentality thereof under which, among other things, a person may make cash contributions to an account established solely for meeting the qualified higher education expenses of the designated beneficiary of the account. The Alabama statutes which establish the Trust Fund (Sections 16-33C-1 to 16-33C-8, Code of Alabama (1975)) specify that it is a state "agency and instrumentality." To the extent necessary and applicable, the Trust Fund documents are being or have been amended to include the following qualification criteria required by Section 529: (i) that purchases or contributions may only be made in cash; (ii) a substantial penalty on refunds of earnings from an account which are not used for qualified higher education expenses of the Beneficiary or paid on account of the death or disability of, or receipt of a scholarship by, the Beneficiary; (iii) a separate accounting should be maintained for each Beneficiary; (iv) no Purchaser or Beneficiary may direct the investment of contributions; (v) no portion of the account may be used as security for a loan; and (vi) safeguards should be included to prevent contributions in excess of a Beneficiary's qualified higher education expenses.

In the judgment of the Board, the passage of Code Section 529 confirms that the Trust Fund, as an agency and instrumentality of the State of Alabama, should not be considered a taxable entity for federal income tax purposes. Accordingly, it is reasonable to assume that the passage of the 1996 Act now avoids the possible materially adverse tax consequences described in prior Disclosure Statements.

Taxation of Purchasers and Beneficiaries. The taxation of a Purchaser or Beneficiary is generally not dependent upon the tax status of the Trust Fund. The following summary discusses only the federal income tax consequences to a Contract Purchaser or Beneficiary. Due to the possibility that a Purchaser or Beneficiary could be taxed under the tax laws of a state other than the State of Alabama, no representation is made as to the taxation of a Purchaser or Beneficiary under any state law. To determine the non-Alabama tax incidents of a Contract to a Purchaser or Beneficiary, he or she should consult his or her professional tax advisor.

With respect to the federal income taxation of a Contract Beneficiary, the Board has, since its inception, taken the position that the Beneficiary is generally considered subject to income taxation only upon payment of an amount to or on behalf of the Beneficiary. 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 Purchaser's basis in the Contract (i.e., a prorated portion of the amounts paid in respect of the Contract by the Purchaser.) The Beneficiary will be taxed on such excess amount in the year the amount is paid on behalf of the Beneficiary.

In some limited circumstances, the Purchaser rather than the Beneficiary, may be taxed, for federal income tax purposes, on amounts received under the Contract. In such instances, amounts received in excess of any amounts paid under the Contract will be taxable in the year received.

No amount is includable in the gross income of a Purchaser or Beneficiary of the Trust Fund with respect to distributions or earnings until (i) amounts are actually distributed or educational benefits provided for Beneficiaries (as when the Beneficiary attends college), in which instance income is included in the Beneficiary's gross income under the annuity rules of Code Section 72 (unless otherwise excludable) to the extent that the amount, or value of the educational benefits, exceeds the contributions made on behalf of the Beneficiary and (ii) amounts distributed to a Purchaser (such as a refund) will be included in the Purchaser's gross income to the extent such amount exceeds the contributions made by that person.

As described in the Trust 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 maintains, the Trust Fund is a state-sponsored prepaid college tuition plan, the proposed Treasury Regulations should not apply to the Contracts.

Section 529 of the Code also specifically provides that the rules concerning taxation of contingent payment debt instruments do not apply to a qualified state tuition program. Because of timely amendments of the Trust Fund documentation to comply with Section 529, the contingent payment debt instrument rules should not apply to the Trust Fund.

Estate and Gift Tax Implications

As previously stated, because of the timely amendment of the Trust Fund documentation to comply with the requirements of Code Section 529, contributions to the Trust Fund should not be treated as gifts for federal gift tax purposes. No gift tax consequences will generally arise until a distribution is made from an account under the program. Amounts contributed to the Trust Fund, along with any earnings thereon, will be included in the Purchaser's estate for federal estate tax purposes in the event the Purchaser dies before such amounts are distributed. The payment of qualified higher education expenses for designated Beneficiaries to an educational institution will generally be treated as a qualified transfer under Code Section 2503(e) and thereby be excluded as a gift for federal gift tax purposes.

If a Purchaser is 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 such Purchaser 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. Such considerations may also preclude the Beneficiary from receiving more favorable interest rates or repayment options.

THE OBLIGATIONS OF THE TRUST FUND UNDER THE CONTRACTS ARE LIMITED OBLIGATIONS PAYABLE ONLY FROM MONEYS 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 OBLIGATIONS ARISING OUT OF THE CONTRACTS.
