

**DISCLOSURE STATEMENT AND PROGRAM DESCRIPTION
OF THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM**

For the Enrollment Period Through September 30, 2004 This Disclosure Statement is dated as of June 1, 2004

**DISCLOSURE STATEMENT AND PROGRAM DESCRIPTION RELATING TO THE ALABAMA PREPAID
AFFORDABLE COLLEGE TUITION PROGRAM**

This disclosure statement and program description (The "Disclosure Statement") of the Alabama Prepaid Affordable College Tuition Program, an agency and instrumentality of the State of Alabama ("PACT") is provided in connection with the offering for purchase of Prepaid College Tuition Contracts by PACT. PACT consists of the PACT Trust Fund (The "Trust Fund") and the PACT Administrative Fund (The "Administrative Fund"). 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 PACT from time to time (the "Rules"). The offering and administration of Prepaid College Tuition Contracts by PACT 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 of the office thereof, shall mean and refer to the State Treasurer in her capacity as Chairperson of the Board of Directors of PACT and 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 PACT.

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

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 2004 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 PACT 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.

PACT 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 "PACT-Management of the Trust Fund." To fulfill the Trust Fund's purpose, the Board is empowered, for and on behalf of PACT, to enter into Prepaid College Tuition Contracts with qualifying Purchasers. See "PACT-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 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, PACT 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 the Redemption Value of the Contract. For additional information regarding these limitations and Redemption Value, see "TUITION PROGRAM – Use Of The Prepaid Tuition Contract and TUITION PROGRAM – Refunds."

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 PACT to the Beneficiary is the payment of tuition costs and Mandatory Fees over a specified number of academic hours.

PACT uses an independent accounting and consulting firm to perform actuarial services to estimate PACT'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 PACT under the Tuition Program. Moreover, the obligations of PACT 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, 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. See "TUITION PROGRAM – Refunds" and "TUITION PROGRAM – Beneficiary Substitution."

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 \$100 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." PACT has 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. 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—Taxation of Purchasers." Benefits paid to a Postsecondary Institution for tuition or mandatory fees ("Benefits Paid") under a Contract are exempt from Alabama state income taxation and from federal income taxes when tuition payments are made on behalf of the Beneficiary. As a separate matter, interest paid as part of a refund following cancellation of a contract ("Refund interest") is taxable to the Purchaser under state and federal law, unless used as a "rollover" to another qualified tuition program within 60 days of the refund. The amount taxable to the Purchaser generally will be in the

amount of the refund interest actually paid to the purchaser during the tax period. An additional 10% penalty is imposed on the refund interest, except refunds issued for death/disability of the beneficiary or receipt of scholarship. Payment of any tax liability hereunder is the responsibility of the Purchaser and not PACT. See "TAX CONSIDERATIONS – Taxation of Purchasers." 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 PACT 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 Board) 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 the Redemption Value of the Contract. See "USE OF THE PREPAID TUITION CONTRACT – Refunds." Any current or prospective Purchaser concerned with liquidity and return on investment 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 and return on investment. Any 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.

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 PACT 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. The Rules allow beneficiary substitution if certain requirements are met. 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 PACT 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 PACT or the tax treatment of interests of Purchasers or Beneficiaries therein. See "TAX CONSIDERATIONS – Federal Tax Law History-Trust Fund." 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 PACT 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 PACT's Contract obligations will be performed, but will not result in other direct or indirect benefit to Purchasers or Beneficiaries. Alabama law provides that all money held by the Trust Fund in excess of the current operational expenses of the program and the current amount of PACT's projected future liabilities must be retained in the Trust Fund for application against any future actuarial losses.

Actuarial Risks

Inherent uncertainty of actuarial projections. In fulfillment of PACT's purpose to provide tuition benefits to defray the costs of undergraduate college education, the Board 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 PACT's 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 PACT 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 PACT's future obligations. In the event that one or more of the underlying assumptions proves to be inaccurate, PACT may be unable to perform its obligations under the Contracts.

Limited ability to increase the price of future Contracts. To a limited degree, the Board 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 Board from offsetting future actuarial shortfalls (if any should occur) by increasing the price of new Contracts. 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 PACT's ability to satisfy its obligations under the Contracts is the attainment of a sufficient return on the Trust Fund's investments. The Board's current investment policies provide for a targeted total rate of return (currently 8.8% per annum) based on the actuarial determination that such rate of return is needed to enable PACT to meet its obligations given current Contract pricing. Although the average annual historic investment return achieved by the Board has exceeded this level, see "PACT – Selected Financial Information," there can be no assurance that future investment returns will equal or exceed this targeted 8.8% 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, PACT'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 70% of total Trust Fund

assets will be invested in equity securities. Although the Trust Fund's present investments include approximately 56% of total Trust Fund assets invested in domestic equity securities, and 15% 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 30% of total Trust Fund assets invested in debt securities. At present, approximately 27% of total Trust Fund assets are invested in domestic 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, international (foreign) debt instruments are not guaranteed by the U.S. Government or any state of the United States.

Securities Lending. PACT may at times lend securities through an institutional securities lending program. Such program may expose the Trust Fund to certain risks including credit risks and operational risks of the manager of the program.

PACT

The Alabama Legislature created the Trust Fund by enactment of the Wallace-Folsom Prepaid College Tuition Trust Fund Act on May 17, 1989, and has subsequently amended it (the "Act") Under the Act, PACT is an agency and instrumentality of the State of Alabama. The purpose of the Act is to advance and improve higher education by assisting qualified students in financing a portion of their costs of attending colleges and universities. The 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 PACT to pay a Contract Beneficiary's tuition costs and Mandatory Fees over a specified number of academic hours. PACT'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) or his/her designee; (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; (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 Board 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 PACT business. 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	EXPIRATION OF TERM
Kay Ivey, Chairman Treasurer of the State of Alabama Montgomery, Alabama	Ex Officio
Ricky Jones, Vice Chairman Vice President Andalusia Distributing Company, Inc. Andalusia, Alabama	July 19, 2007
Lucy Baxley Lieutenant Governor of the State of Alabama Montgomery, Alabama	Ex Officio
William H. Drinkard Drinkard Development, Inc. Cullman, Alabama	February 4, 2006
Willie Huff Chairman ABI Capital Management Birmingham, Alabama	December 8, 2005
Dr. Roy Johnson Chancellor of the Alabama Department of Postsecondary Education Montgomery, Alabama	Ex Officio
Dr. Michael E. Malone Director of the Alabama Commission On Higher Education Montgomery, Alabama	Ex Officio
Sarah H. Moore Executive Vice President, Colonial Bank Montgomery, Alabama	July 19, 2008
Ed Sherling President, Ed Sherling Ford Enterprise, Alabama	July 19, 2007
Dr. Joseph T. Sutton Former Executive Director of the Alabama Commission On Higher Education (retired in 1990) Wetumpka, Alabama	June 6, 2005

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 to meet PACT's 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 Board has engaged the accounting firm of Mellon Human Resources and Investor Solutions to render certain accounting and actuarial services. 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 "PACT - 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 authorize the use of gross earnings on PACT Trust Fund principal to satisfy investment costs of the PACT Trust Fund and supplement balances in the PACT Administrative Fund to cover outstanding administrative costs of the PACT Program.

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, 2003, and the related statements of revenues, expenses, and changes in retained earnings and statement of cash flows for the year ended September 30, 2003. Jackson, Thornton & Co., P.C. has issued its independent auditor's 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 available at the treasurer's website at www.treasury.state.al.us.

As of September 30, 2003, the Trust Fund had total assets of \$660,303,714 (including the actuarial value of future contract payments) and total future tuition benefit obligations of \$712,118,681 (actuarially determined) resulting in a deficit of \$51,814,967.

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%
1997	26.6%
1998	2.7%
1999	17.9%
2000	14.9%
2001	-13.5%
2002	-10.12%
2003	17.25%

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 projected amount of PACT's 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 Board 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 PACT 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 25, 2004, for the year ended September 30, 2003 (the "2003 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 2003 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 2003 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. This process has tended to confirm the reasonableness of the material assumptions.

To the extent data is available relating to assumptions contained in the 2003 Actuarial Report, such data 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 Policy

The Board is charged with the responsibility for investing the assets of the Trust Fund. Consistent with PACT'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 PACT to meet its obligations under the Contracts is dependent upon the investment return of the Trust Fund. The Board is authorized by law to employ professional investment advisors of its choosing to assist the Board in developing an investment program consistent with PACT's investment needs and goals (the "Investment Advisor").

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 Board's ability to diversify the Trust Fund's holdings between equity securities and other investment vehicles.

The investment strategy employed by the Board 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 from Trust Fund investments which the Board should seek to achieve in order to satisfy its 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 asset 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 Board'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"), and stocks of international corporations with the portfolio heavily weighing (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 71% of the targeted asset mix of the Trust Fund. 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 PACT'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 the 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, course specific fees, lab fees, books, room and board, transportation, 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 PACT. Upon entry into a Contract, the Purchaser is obligated to make advance payments as required in the Contract.

Beneficiary of a 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 three 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; and (3) the individual must not have completed the ninth grade as of the beginning of the applicable Enrollment Period. 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 the actuarial assistance in order to establish, maintain, and certify a fund sufficient to defray the obligations of the Trust Fund. This actual 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 anytime, 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 that 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 bought 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 canceled, 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 PACT are discussed in greater detail in various contract documents. The following is a summary of the fees charged by PACT 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 -- \$100. 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 \$75 for Contracts paid by a lump-sum. Each such fee is included as part of the regular payment and is non-refundable.
3. Cancellation Fee -- \$75. 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. Substitution of Beneficiary Fee -- \$55. This is the fee submitted to substitute a Beneficiary under the Contract. The fee is waived in cases involving death or disability of a Beneficiary, or receipt of a Scholarship award by a Beneficiary.
5. 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. The fee is waived in cases of the death of the Purchaser.
6. 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 a 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.
7. Late Payment Fee -- \$15. This amount is charged on Contract payments which are received more than 15 days past the payment due date.
8. Fee for Returned Items -- \$15. The fee will be charged for each returned item.
9. Fee for Document Replacement -- \$7 per document. This is the fee which accompanies a request for document replacement.
10. 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.

Uses of the Prepaid Tuition Contract

Benefits under the Contract may be used at either in-state or Out-of-State Postsecondary 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 or professional 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 the Contract benefits are to be utilized. 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 presume the contract purchase amount unclaimed and abandoned property, and thereafter administered in accordance with the Alabama Uniform Disposition of Unclaimed Property Act Title 35 Chapter 2, Code of Alabama 1975, as amended.

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, PACT 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 or universities. If a Qualified Beneficiary attends either a Private In-State Postsecondary Institution, or any Out-of-State Postsecondary 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, or any out-of-state college or university will be responsible for payment of any and all tuition costs and Mandatory Fees in excess of 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, or out-of-state college or university 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 the Refund Principal Amount as defined below, plus interest at the Refund Rate of Interest as defined below, less a \$25 Cancellation Fee and any Benefits Paid as of the date the Contract is canceled or terminated. ("Redemption Value"). Interest will only be paid on refunds issued after September 30, 2000. If a Purchaser voluntarily cancels a Contract, the Cancellation Fee to be assessed will be \$75. At the discretion of the State Treasurer, any refund may be paid in installments. Interest will not be paid on such refund installment payments.

Canceled Contract Principal. Canceled Contract Principal is the remaining balance of total of payments by the Purchaser toward the purchase of a Contract, less any Administrative fees, as of the date of Cancellation or Termination of the Contract.

Canceled Contract Rate of Interest. The *Canceled Contract Rate of Interest* is the lesser of (1) the average of the passbook savings interest rates paid by the five largest banking institutions in the State of Alabama on September 30th of each year (The "Passbook Average"), or (2) 5%.

A Contract Purchaser may submit a written request for a refund. 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. (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 include, but are not necessarily limited to, the Beneficiary's ancestors, a lineal descendent of the Beneficiary, a first cousin 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.

Generally, the proposed Substitute Beneficiary must 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 Ownership

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, unless the Purchaser has died or is disabled. 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.

TAX CONSIDERATIONS

Federal Tax Law History – Trust Fund

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 has been amended in subsequent years. 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 or by one or more eligible educational institutions 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 and govern PACT (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, PACT documents and program rules 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 ten percent (10%) 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 is 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 are 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 PACT, 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

The taxation of a Purchaser is generally not dependent upon the tax status of the Trust Fund. The following summary discusses only the income tax consequences to a Contract Purchaser under federal law or the state law of Alabama. No representation is made as to the taxation of a Purchaser under the law of any state other than the State of Alabama. Moreover, the Board, State Treasurer, and office thereof cannot give private tax advice. Accordingly, current or potential Purchasers should seek the advice of their personal tax advisors concerning the impact of participation in the PACT program on their specific tax situations.

Income Taxation of Benefits Paid. Benefits Paid are exempt from Federal income taxation and income taxation by the State of Alabama. Some of the changes enacted by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), including federal tax-free treatment of withdrawals for qualified higher education expenses, are scheduled to expire on December 31, 2010, unless extended by Congress.

Income Taxation of Canceled Contract Interest. Canceled Contract Interest is generally considered subject to federal and Alabama income taxation to the Purchaser in the year paid. The only exception is when the total refund amount is a "Rollover" to another qualified tuition plan and the "Rollover" occurs within 60 days of receipt of the refund.

Penalty on Refund of Canceled Contract Interest to Purchaser Except when Refund is Issued for Death/Disability, Scholarship Receipt or Refund will be a "Rollover" to another Qualified 529 Tuition Plan. An additional 10% will be assessed to the Purchaser on the Canceled Contract Interest refunded. The penalty will not apply to cancellations based on death/disability, beneficiary's receipt of scholarship, or if the refund is a "Rollover" to another qualified tuition plan within 60 days of the receipt of the refund.

Estate and Gift Tax Implications

1997 Federal Legislation. In 1997, Congress passed the Taxpayer Relief Act of 1997 (the "1997 Act"). The 1997 Act modified the way in which estate and gift tax laws apply to contributions to and distributions from PACT Contracts. Contributions to PACT are treated as completed gifts for gift tax purposes. The contributor may prorate amounts contributed over the federal \$11,000-per-year gift tax exclusion. Transfer of a PACT Contract to a Substitute Beneficiary who is a family member in a younger generation than the original Beneficiary is treated as a second gift. With regard to federal estate taxes, an interest in a PACT Contract is generally not includable in a participant's gross estate for federal estate-tax purposes. An exception exists in the case of a contributor who elects to prorate excess contributions over the five-year period discussed above and who dies before the end of the fifth year. In that case, the amount of excess contribution remaining after death is includable in the contributor's estate. Participants should consult their professional tax advisors for further information concerning the effects of Code Section 529 on their individual tax situations.

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. 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 PACT 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 IN CONNECTION WITH ANY OBLIGATIONS ARISING OUT OF THE CONTRACTS.