

**ALABAMA PREPAID AFFORDABLE
COLLEGE TUITION PROGRAM**

SEPTEMBER 30, 2006

FINANCIAL STATEMENTS

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MONTGOMERY, ALABAMA

INDEX

	<u>PAGE</u>
Independent auditors' report	1
Management's discussion and analysis	2 - 4
Statement of fiduciary net assets	5
Statement of change in fiduciary net assets	6
Notes to financial statements	7 - 16



MONTGOMERY, ALABAMA

Dothan

Prattville

Wetumpka

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Alabama Prepaid Affordable College Tuition Program
Montgomery, Alabama

We have audited the accompanying statement of fiduciary net assets of the Alabama Prepaid Affordable College Tuition Program, a program of the Wallace-Folsom College Savings Investment Plan of the State of Alabama, as of September 30, 2006 and the related statement of change in fiduciary net assets for the year then ended. These financial statements are the responsibility of the management of the Alabama Prepaid Affordable College Tuition Program. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Alabama Prepaid Affordable College Tuition Program and are not intended to present fairly the financial position of the State of Alabama, and the results of its operations and the cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Alabama Prepaid Affordable College Tuition Program as of September 30, 2006 and the change in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Jackson Thornton & Co. PC

Montgomery, Alabama
January 26, 2007

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MONTGOMERY, ALABAMA

MANAGEMENT'S DISCUSSION & ANALYSIS
SEPTEMBER 30, 2006

The following is designed to provide an understanding of various factors related to the Alabama Prepaid Affordable College Tuition (PACT) Program's operations and financial condition. This information should be read in conjunction with the financial statements and related notes. The purpose of this information is to focus on significant changes in the financial condition during the fiscal year ended September 30, 2006, and highlight events that occurred during the year.

The PACT Program is classified as a fiduciary fund in the State of Alabama Comprehensive Annual Financial Report (CAFR).

The assets of the PACT Program include cash, receivables, investments and other assets. Assets were \$772,760,941 and \$676,253,221 as of September 30, 2006 and 2005, respectively. The increase of \$96,507,720 resulted from the purchase of the forward settling TBA (To Be Announced) mortgage backed securities and the change in net assets.

The composition of the Program's investment securities portfolio reflects the PACT Board's investment strategy of strategic asset allocation for an efficient, well diversified and manageable portfolio for the long term, while maintaining an appropriate level of liquidity to meet tuition benefit obligations. The Board reviews asset allocation annually. Based on the asset allocation adopted by the Board, the fund is comprised of 46% domestic equity, 20% developed foreign country equity and 28% fixed income securities. Asset rebalancing of the investment portfolios may occur as markets fluctuate. To diversify Program assets so as to minimize the risk associated with the dependence on the success of one enterprise, the Board has selected eight managers to invest plan assets. The Board has also contracted with an investment consultant to evaluate, monitor and report on the investment portfolio and investment manager returns, to provide risk/return assumptions on investments, to recommend diversification, and to monitor compliance with the adopted investment policy. During 2006, Request for Proposals were widely disseminated for an international equity manager, a large cap value domestic equity manager, and for trust fund consulting services. The proposal responses were reviewed, and all manager positions were filled by the Board with new providers. The Investment Consultant, Callan Associates, was retained. The Investment Policy and Manager Guidelines are reviewed, revised and approved by the Board annually.

Liabilities

Liabilities of the PACT Program consist of payables and accruals. Liabilities were \$58,504,951 and \$1,561,007 at September 30, 2006 and 2005, respectively. The increase in liabilities was primarily due to the \$55,828,571 in forward settling TBA mortgage-backed securities. The investment manager, on behalf of PACT, agrees to purchase a group of mortgages at an agreed upon price in the future. Since the manager has not paid for the security, the future cash payment owed is a liability. Market risk and counterparty risk are inherent in these securities.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MONTGOMERY, ALABAMA

MANAGEMENT'S DISCUSSION & ANALYSIS
SEPTEMBER 30, 2006

Expenditure payments are subject to the Fiscal Procedures of the State of Alabama. All expenditures are vouchered through the Comptroller's Office and paid by state warrant (or check). Amounts due to the State Treasury represent expenditures of the PACT Program paid by state warrants whereby the warrants have been cashed with Treasury funds and by which the PACT Program is obligated to reimburse the Treasury. The \$1,360,244 and \$127,514 in amounts due to the State Treasury on September 30, 2006 and 2005, respectively, are indicative of normal levels of reimbursement due. Warrants and accounts payable of \$1,220,518 and \$1,352,623 at fiscal year-end 2006 and 2005, respectively, represent warrants issued but outstanding as of September 30th. This amount fluctuates daily as warrants clear and is considered paid.

Additions

Additions totaled \$95,583,512 and \$100,922,096 for fiscal years ended September 30, 2006 and 2005, respectively. The largest addition for fiscal year 2006 was gain on investments, which was \$47,271,312 and \$47,914,728 for the fiscal year ended September 30, 2005. Interest and dividend income earned was \$19,523,252 and \$19,549,146 for the fiscal years ended September 30, 2006 and 2005, respectively.

The following table presents the Program's income earning assets and corresponding rates of return as of September 30, 2006.

ASSET CLASS	MARKET VALUE IN DOLLARS	PERCENT OF ASSETS	RATE OF RETURN
Cash/cash equivalents	\$ 43,100,230	6%	4.48%
Fixed income	213,131,123	28%	3.92%
Domestic equities	355,499,067	46%	10.80%
International equities	158,382,948	20%	15.60%
Totals	<u>\$770,113,368</u>	<u>100%</u>	<u>9.98%</u>

The following table represents the Program's income earning assets and corresponding rates of return as of September 30, 2005.

ASSET CLASS	MARKET VALUE IN DOLLARS	PERCENT OF ASSETS	RATE OF RETURN
Cash/cash equivalents	\$ 22,008,382	3%	2.63%
Domestic fixed income	172,234,949	26%	2.45%
Domestic equities	380,335,887	56%	12.71%
International equities	99,344,915	15%	21.56%
Totals	<u>\$673,924,133</u>	<u>100%</u>	<u>10.98%</u>

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MONTGOMERY, ALABAMA

MANAGEMENT'S DISCUSSION & ANALYSIS
SEPTEMBER 30, 2006

Contract payments received were \$28,034,790 for the fiscal year ended September 30, 2006 and \$32,719,918 for the fiscal year ended September 30, 2005. The decrease was due to the loss of incoming new payments at the end of the fiscal year when the enrollment period was changed from July through September 2005 to October through December 2006. Other income, consisting primarily of administrative fees for processing of contract payments, amounted to \$754,158 for the fiscal year ended September 30, 2006 and \$738,304 for the fiscal year ended September 30, 2005.

Deductions

Deductions totaled \$56,019,736 and \$46,800,414 for fiscal years ending September 30, 2006 and 2005, respectively. Deductions include salaries, professional services, contract cancellation refunds and benefits paid to colleges and universities. Previously, contract cancellation refunds were netted from current year contract payments. To more accurately reflect these refunds on the financial reports, they are now listed as a line item deduction. Contract cancellation refunds were \$3,714,390 for the fiscal year ending September 30, 2006, and primarily account for the increase in deductions over fiscal year ending September 30, 2005.

The largest deduction from the Program is the amount of monies paid to the colleges and universities for tuition and qualified fees. It is expected this amount will increase every year as the Program ages and college tuition increases. For fiscal year ending 2006 the Program paid \$48,590,708 to over 400 colleges and universities across the nation for approximately 12,400 beneficiaries, as compared to \$43,108,685 paid in fiscal year ending 2005. Salaries and other administrative expenses decreased by 1% from \$359,578 for the year ended September 30, 2005 to \$355,007 for the year ended September 30, 2006. Professional service expenses were \$3,714,390 for 2006 and \$3,332,151 for 2005. This slight increase was largely due to the increased fees paid to investment managers. These fees are based on market value of assets and the market value increased throughout the year.

Summary

For the fiscal year ending 2006, the PACT Program had assets of \$768,660,124, which included an actuarial present value of future contract payments of \$54,404,134, and an actuarial present value of future tuition benefit payments of \$829,196,136, resulting in an actuarial funded status of 92.7%. At the end of the 2005 fiscal year, the PACT Program had total assets of \$746,126,160, which included an actuarial present value of future contract payments of \$71,433,946 and an actuarial present value of future benefit payments of \$816,155,763, resulting in an actuarial funded status of 91.4%. The increase in the actuarial funded status results from better than expected investment performance and lower than expected tuition increases. Actuarial assumptions are reviewed and approved by the Board annually to reflect expected results believed to be realistic based on historical information, economic data and expert guidance. A discussion of the changes in assumptions can be found in the 2006 Actuarial Report available on the Treasurer's website.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MONTGOMERY, ALABAMA

STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2006

ASSETS:

Cash and cash equivalents	\$ 43,100,230
Interest and dividends receivable	1,966,481
Foreign taxes receivable	681,092
Investments	<u>727,013,138</u>
Total assets	<u>772,760,941</u>

LIABILITIES:

Amounts due to State Treasury	1,360,244
Warrants and accounts payable	1,220,518
Accrued liabilities	95,618
Other liabilities	<u>55,828,571</u>
Total liabilities	<u>58,504,951</u>

NET ASSETS:

Held in trust for tuition payments and other purposes	<u><u>\$ 714,255,990</u></u>
---	------------------------------

The accompanying notes are an integral part of these financial statements.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

ADDITIONS:	
Contract payments	<u>\$ 28,034,790</u>
Investment earnings:	
Interest and dividend income	19,523,252
Gain on investments	<u>47,271,312</u>
Net investment income	<u>66,794,564</u>
Other income	<u>754,158</u>
Total additions	<u>95,583,512</u>
DEDUCTIONS:	
Benefits	48,590,708
Salaries and other administrative expenses	355,007
Professional services	3,359,631
Cancellation refunds	<u>3,714,390</u>
Total deductions	<u>56,019,736</u>
CHANGE IN NET ASSETS	39,563,776
NET ASSETS AT BEGINNING OF YEAR	<u>674,692,214</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 714,255,990</u></u>

The accompanying notes are an integral part of these financial statements.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of Alabama Prepaid Affordable College Tuition Program (the PACT Program) - The PACT Program is a part of the Wallace-Folsom College Savings Investment Plan. The PACT Program includes the PACT Trust Fund and the PACT Administrative Fund. These financial statements do not include any other programs of the Wallace-Folsom College Savings Investment Plan.

The PACT Program operates under the provisions of the Code of Alabama 1975, Section 16-33C-1 through 9, as amended. The PACT Program is administratively located within the Alabama State Treasurer's office. The PACT Program's property, income and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The act and the contracts do not specify that the State, the Treasurer, or the Board is liable if the PACT Program becomes actuarially unsound.

The PACT Program is governed by a ten-member Board of Trustees consisting of the Treasurer of the State of Alabama, the Lieutenant Governor or designee, the executive director of the Alabama Commission on Higher Education or designee, the chancellor of the Alabama Department of Postsecondary Education or designee, each of whom shall serve ex officio; a representative of the Council of College and University Presidents; one person appointed by the Treasurer; one person appointed by the Speaker of the House of Representatives; one person appointed by the Lieutenant Governor; and two persons appointed by the Governor.

The PACT Program enters into a contract with a purchaser which provides that, in return for a specified actuarially determined payment, the PACT Program will provide a child's undergraduate tuition and qualified fees (up to 135 semester hours) at any Alabama public university or community college. For beneficiaries that choose to attend private or out-of-state institutions, the PACT Program will provide tuition payments at the current weighted average cost of tuition at Alabama public four-year institutions. The purchase amount is based on several factors, including tuition costs, the beneficiary's age and grade in school, anticipated investment earnings, and anticipated tuition rate increases.

Reporting entity - The PACT Program is a part of the State of Alabama's reporting entity and is reported as a fiduciary fund in the State of Alabama Comprehensive Annual Financial Report (CAFR). The notes accompanying these financial statements relate directly to the PACT Program.

Measurement focus and basis of accounting - The financial statements contained in this report are prepared using the economic resources measurement focus and the accrual basis of accounting.

Cash and cash equivalents - The PACT Program considers all highly liquid investments with a maturity of twelve months or less at the time of issue to be cash equivalents. Cash and cash equivalents consist of bank deposits, amounts invested in repurchase agreements, money market mutual funds and securities rated A-1 by Moody's, P1 by Standard & Poor's or better by a recognized credit rating service.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Investments - All plan investments are reported at fair value in the statement of fiduciary net assets, with all investment income, including changes in fair value, reported as additions in the statement of change in fiduciary net assets. Fair values for investment securities are based on quoted market prices, where available. Otherwise, fair values are based on quoted market prices of comparable instruments.

NOTE 2 - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents at September 30, 2006 consists of the following:

<u>Account Type</u>	<u>Fair Value</u>
Interest earning deposits	\$ 2,035,904
Money market mutual funds	31,937,556
Repurchase agreements	9,126,770
	<u>\$43,100,230</u>

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of September 30, 2006, the Program had eight money managers to invest plan assets. The Program also has an investment consultant who assists the Board of Directors in monitoring compliance with the Program's investment policy and monitoring performance of the money managers.

Deposits and investments are subject to certain types of risk including interest rate risk, custodial credit risk, and foreign currency risk. The following describes those risks.

Deposits - Custodial Credit Risk - The PACT Program's investment policy requires that bank deposits be fully insured by the Federal Deposit Insurance Corporation.

Investments - Interest Rate Risk - The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods.

Custodial credit risk - For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The PACT Program's custodian holds all investments of the PACT Program in the PACT Program's name, with the exception of repurchase agreements. The securities underlying repurchase agreements are held in trust for the PACT Program in the name of the trustee, not in the name of the PACT Program.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

Credit quality - Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Fixed-maturity investments may consist of domestic securities with an initial Moody's, Standard & Poor's, or Fitch's quality rating of Baa3, BBB-, or BBB-, respectively, at a minimum. Certain investment managers of the PACT Program are also permitted to invest in "below investment grade" quality bonds, non-U.S. dollar denominated bonds, and emerging market debt, provided that the amount invested in these securities is limited to 30% of the market value of the investment manager's portfolio. At September 30, 2006, 95.3% of the PACT Program's investments in fixed investment securities were rated as investment grade. The PACT Program's investment policy states that debt securities that are downgraded below the minimum level defined above should be sold within a six-month period of such downgrade. Cash and cash equivalents held by the custodian are required to be invested in money market mutual funds backed by securities of the U.S. Government and federal agencies or other securities rated A-1 by Moody's, P-1 by Standard & Poor's or better by a recognized rating service.

Foreign currency risk - For an investment, foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. In order for an international equity security to be eligible for purchases by the PACT Program, the issuing company must have an available operating history of at least three years, and have a market capitalization of at least \$100 million at the time of purchase.

Concentration of credit risk - The investment policies limit the aggregate amount that can be invested in each class of investments and provides further limitations on investments by individual money managers. The policy limits are as follows:

- Domestic fixed income and cash
 - Limited to 28% of the market value of the aggregate portfolio, plus or minus 5%. With the exception of those situations involving reorganization of fund assets, debt investments should only be made in issues with an outstanding value of at least \$50 million, valued at par, at the time of purchase.
 - On an individual money manager basis, no more than 5% of the total market value of all debt investments should be invested in the debt obligations of any one issuer, with the exception of securities issued and collateralized by the United States Government, or its agencies, or collateralized by the U.S. Government, which may be held without limitation. Holdings of any individual issue must be 5% or less of the outstanding value of the total issue.
- Domestic Equity
 - Large/mid cap stocks - Limited to 42% of the market value of the aggregate portfolio, plus or minus 5%.
 - Small cap stocks - Limited to 9% of the market value of the aggregate portfolio, plus or minus 3%.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

- The PACT Program's investment policy states that equity holdings will be restricted to readily marketable securities of corporations that are actively traded on major exchanges including the NASDAQ in the U.S. Equity holdings may include American Depositary Receipts traded on U.S. exchanges. Preferred and convertible preferred stocks may be held. Publicly traded Real Estate Investment Trust (REITs) shares may be held and are considered part of the allocation to stocks. The policy is to invest in equity securities of issuers with an available operating history of at least three years, and a market capitalization of at least \$50 million at the time of purchase.
- On an individual money manager basis, no more than 5% of the total stock portfolio may be invested in the common stock of any one corporation at the time of purchase, and no more than 7% in any one corporation at fair market value. No more than 5% of the outstanding shares of any one company may be held. No more than the lesser of 3 times the sector weight in the index and 40% valued at market may be held in any one economic sector.
- International Equity
 - Limited to 21% of the market value of the aggregate portfolio, plus or minus 3%. Equity holdings may include American Depositary Receipts and Global Depositary Receipts traded on U.S. exchanges or major exchanges in countries outside the United States. Convertible and non-convertible preferred stocks may be held. The policy is to invest in equity securities of issuers with an available operating history of at least three years, and a market capitalization of at least \$100 million at the time of purchase.
 - On an individual money manager basis, no more than 5% of the total stock portfolio may be invested in the common stock of any one corporation at the time of purchase, and no more than 7% in any one corporation at fair market value. Furthermore, no more than 5% of the outstanding shares of any one company may be held. No more than the lesser of 2 times the sector weight in the index and 40% valued at market may be held in any one economic sector as defined by Morgan Stanley Capital International, Inc. Exposure to emerging markets securities shall be limited to 10% of the market value of the portfolio.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

The following table provides information as of September 30, 2006, concerning the fair value of investments, interest rate risk, and foreign currency risk:

INVESTMENTS

Type of Investment	Investment Maturities at Fair Value (in Years)				Total Fair Value	Cost
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
<i>Domestic</i>						
U.S. Government guaranteed	\$1,273,044	\$14,574,601	\$1,811,687	\$ 6,171,041	\$ 23,830,373	\$ 23,678,444
U.S. Agency Securities		22,200,941	4,452,867	388,261	27,042,069	27,187,678
Mortgage backed securities		1,693,614		56,908,422	58,602,036	59,854,989
Corporate bonds	4,674,335	16,389,961	11,061,141	9,194,118	41,319,555	41,252,155
<i>Derivative instruments:</i>						
TBA mortgage backed securities				55,828,571	55,828,571	55,617,778
Other derivative instruments	1,997,713				1,997,713	1,182,475
Total domestic fixed maturity	7,945,092	54,859,117	17,325,695	128,490,413	208,620,317	208,773,519
<i>International</i>						
Brazil				436,337	436,337	404,010
Canada		30,321	20,025	333,467	383,813	384,392
Cayman Islands				339,354	339,354	340,651
Columbia				161,450	161,450	157,413
Germany			557,528		557,528	549,608
Iceland		430,065			430,065	430,000
Luxembourg			240,286		240,286	229,140
Mexico			25,688	716,324	742,012	730,924
Panama				159,220	159,220	149,252
Russia				1,060,741	1,060,741	1,052,125
Total international fixed maturity		460,386	843,527	3,206,893	4,510,806	4,427,515
Total fixed maturity	7,945,092	55,319,503	18,169,222	131,697,306	213,131,123	213,201,034
<i>Equities</i>						
<i>Domestic</i>					355,499,067	315,022,824
<i>International</i>						
Australia - Australian dollar					7,074,227	6,402,501
Belgium - Euro					2,844,649	2,274,187
Denmark - Krone					1,386,848	1,117,856
France - Euro					22,899,823	19,150,687
Germany - Euro					13,753,375	11,488,187
Greece - Euro					1,727,175	1,322,098
Hong Kong - Hong Kong dollar					5,112,188	4,382,255
Italy - Euro					5,492,453	4,401,497
Japan - Yen					30,766,167	29,506,086
Netherlands - Euro					8,692,494	6,380,888
Norway - Krone					1,251,262	1,240,407
Singapore - Singaporean dollars					3,495,208	3,028,890
Spain - Euro					3,495,228	2,769,834
Sweden - Krona					1,960,866	1,786,035
Switzerland - Franc					13,908,509	10,292,220
United Kingdom - Pound sterling					34,522,476	30,693,605
Total international equities					158,382,948	136,237,233
Total equities					513,882,015	451,260,057
Total investments					\$727,013,138	\$664,461,091

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

The following table provides information as of September 30, 2006, concerning credit risk:

RATING OF FIXED MATURITY INVESTMENTS

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
Aaa	\$162,294,432	\$162,730,909	76.148%
AAA (SP)	5,388,383	5,384,780	2.528%
Aa1	2,965,031	2,998,057	1.391%
Aa2	3,163,008	3,142,827	1.484%
Aa3	1,145,189	1,140,040	0.537%
A1	5,086,011	5,072,477	2.386%
A2	1,451,879	1,434,849	0.681%
A3	684,584	691,237	0.321%
Baa1	3,457,926	3,435,221	1.622%
Baa2	9,482,894	9,394,557	4.449%
Baa3	7,884,557	7,925,689	3.699%
Ba1	3,007,621	2,933,213	1.411%
Ba2	2,578,807	2,570,851	1.210%
Ba3	471,200	481,769	0.221%
B1	2,122,624	2,084,363	0.996%
B2	1,150,376	1,126,896	0.540%
B3	310,028	303,933	0.145%
Caa1	321,563	308,256	0.151%
Not rated	165,010	41,110	0.080%
	<u>\$213,131,123</u>	<u>\$213,201,034</u>	<u>100.000%</u>

§ - Moody's ratings are used when available. Standard & Poor's rating is used when it is available and a Moody rating is not available. Standard & Poor's ratings are denoted by (SP). Securities not rated primarily consist of commitments to purchase futures contracts and forward contracts.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

Mortgage-backed securities - As of September 30, 2006, the PACT Program had investments in mortgage-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligees of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligees tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of mortgage-backed securities. Maturities may differ from contractual maturities (as shown in the table of investments) in mortgage-backed securities due to prepayment characteristics of these securities. Average life is an acceptable expected maturity.

At September 30, 2006, the PACT Program had investments in forward settling TBA mortgage-backed securities in the amount of \$55,828,571. Included in other liabilities on the Statement of Fiduciary Net Assets is a corresponding liability for the same amount. Generally, these securities are closed with a gain or loss prior to settlement. However, the PACT Program would be obligated for these amounts should the securities be delivered.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 4 - FUTURE TUITION BENEFIT PAYMENTS AND FUTURE CONTRACT PAYMENTS:
An actuary determines future tuition benefit payments and future contract payments. The standardized measurement is the actuarial present value of such payments. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and the present value of estimated contract payments that will be received from installment contract purchasers in future years. The significant actuarial assumptions used and results from the most recent valuation are as follows:

Date of latest actuarial valuation September 30, 2006

Assumptions:

Rate of return on investments	7.92% for the period 2006 - 2007 to 2010 - 2011; 8.50% thereafter
Future tuition increases	7.25%
Enrollment of beneficiaries	17.5% will attend a junior/community college first two years; 8% tuition bias for four-year universities; 3% tuition bias for two-year colleges
Contract cancellations	The actuarial valuation recognizes cancellations in accordance with the following schedule:

	<u>LUMP SUM</u>	<u>60 MONTHLY PAYMENTS</u>	<u>EXTENDED MONTHLY PAYMENTS</u>
Year of purchase	0.5%	5%	6%
Year of purchase +1	0.5%	2%	5%
Year of purchase +2	0.5%	1%	4%
Year of purchase +3	0.5%	1%	4%
Year of purchase +4	0.5%	1%	3%
Thereafter	0.5%	1%	2%

The assumptions shown above do not reflect the initial involuntary cancellations that result shortly after each enrollment period for contract purchasers who never make payments on their contracts.

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 4 - FUTURE TUITION BENEFIT PAYMENTS AND FUTURE CONTRACT PAYMENTS:
(continued)

Payment of tuition and mandatory fees	128 credit hours utilization	
	Semester	Assumptions
	Fall	45% of payments, November 1
	Spring	45% of payments, March 1
	Summer	10% of payments, August 1

Results:

Actuarial present value of future payments expected to be made for tuition, fees and contract cancellations for all contracts sold \$829,196,136

Actuarial present value of future payments expected to be received from installment contract purchasers 54,404,134

The significant actuarial assumptions used for the actuarial valuations for September 30, 2005 and 2004 are as follows:

Assumptions:

Rate of return on investments	7.88% for the period 2005-2006 to 2009-2010 and 8.5% thereafter for 2005; 9% for all years for 2004
Future tuition increases	7.25% for 2005 7.5% for 2004
Enrollment of beneficiaries	17.5% will attend a junior/community college for first two years for 2005; 15% will attend a junior/community college first two years for 2004; 5% tuition bias for four-year universities for 2005 and 2004
Contract cancellations	The actuarial valuation recognizes cancellations in accordance with the following schedules:

For 2005:

	<u>Lump Sum</u>	<u>60 Months</u>	<u>Extended</u>
Year of purchase	0.5%	5%	6%
Year of purchase +1	0.5%	2%	5%
Year of purchase +2	0.5%	1%	4%
Year of purchase +3	0.5%	1%	4%
Year of purchase +4	0.5%	1%	3%
Thereafter	0.5%	1%	2%

ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

For 2004:

Age 0 through 9 th grade	0% per year
10 th grade	1%
11 th grade	2%
12 th grade	3%

Payment of tuition and mandatory fees 128 credit hours utilization

For 2005:

Semester	Assumptions
Fall	45% of payments, November 1
Spring	45% of payments, March 1
Summer	10% of payments, August 1

For 2004:
Payments will occur twice annually

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the PACT Program is as follows:

	Net Assets Available for Benefits	Actuarial Value of Future Contract Payments	Total Assets	Actuarial Present Value of Future Tuition Benefit Payments	Assets in Excess (Deficit) of Tuition Benefit Payments	Assets as a Percentage of Tuition Benefit Payments
September 30, 2004	\$620,570,532	\$84,805,671	\$705,376,203	\$770,558,863	(\$65,182,660)	91.5%
September 30, 2005	674,692,214	71,433,946	746,126,160	816,155,763	(70,029,603)	91.4%
September 30, 2006	714,255,990	54,404,134	768,660,124	829,196,136	(60,536,012)	92.7%

NOTE 5 - TAX STATUS:

The Internal Revenue Code provides that state tuition plans that meet certain requirements are exempt from income taxation. The PACT Program's rules and regulations meet those requirements. Accordingly, no provision for income taxes has been made in these financial statements for accrual of income taxes for the year ended September 30, 2006, nor for prior years.