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Securities and Exchange CommissionWashington, D. C. 20549

Post-Effective
Amendment No. 10
to
Form S-6

For Registration under the Securities Act of 1933
of Securities of Unit Investment Trusts Registered
on Form N-8B-2

Kemper Tax-Exempt Income Trust Multi-State, Series 14

Name and executive office address of Depositor:

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Chicago, Illinois 60601

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(X) Check box if it is proposed that this filing will become effective at 2:00 p.m. on July 28, 1995 pursuant to paragraph (b) of Rule 485.

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KEMPER TAX-EXEMPT INCOME TRUST
MULTI-STATE SERIES

OHIO TAX-EXEMPT BOND TRUST
SERIES 1-10

KEMPER DEFINED FUNDS
(TAX-EXEMPT PORTFOLIO)

PART ONE

THE DATE OF THIS PART ONE IS THAT DATE
WHICH IS SET FORTH IN PART TWO
OF THE PROSPECTUS

Each State Trust of the Kemper Tax-Exempt Income Trust, Multi-State Series, Series 1-10 of the Ohio Tax-Exempt Bond Trust and Kemper Defined Funds (Tax-Exempt Portfolio) was formed for the purpose of gaining interest income free from Federal, State and, where applicable, local income taxes and/or property taxes while conserving capital and diversifying risks by investing in fixed portfolios of Municipal Bonds consisting of obligations issued primarily by or on behalf of the State for which such Trust is named or counties, municipalities, authorities or political subdivisions thereof.

Units of the Trust are not deposits or obligations of, or guaranteed by, any bank, and Units are not federally insured or otherwise protected by the Federal Deposit Insurance Corporation and involve investment risk including loss of principal.

This Prospectus is in two parts. Read and retain both parts for future reference.

SPONSOR: KEMPER UNIT INVESTMENT TRUSTS,
A SERVICE OF KEMPER SECURITIES, INC.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE

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* INFORMATION ON THESE ITEMS APPEARS IN PART TWO FOR THE APPROPRIATE STATE TRUST

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KEMPER TAX-EXEMPT INCOME TRUST
MULTI-STATE SERIES

OHIO TAX-EXEMPT BOND TRUST
SERIES 1-10

KEMPER DEFINED FUNDS
(TAX-EXEMPT PORTFOLIO)

SUMMARY

THE TRUST. Kemper Tax-Exempt Income Trust, Multi-State Series, Ohio Tax-Exempt Bond Trust, Series 1-10 and Kemper Defined Funds (Tax-Exempt Portfolio) (collectively, the "Trust") are each a unit investment trust consisting of a number of diversified portfolios designated as the State Trusts. Each State Trust consists of obligations ("Municipal Bonds",

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"Securities" or "Bonds") issued primarily by or on behalf of the State for which such State Trust is named or counties, municipalities, authorities or political subdivisions thereof.

Each State Trust's investment objective is interest income which is exempt from Federal, State and, where applicable, local income taxes and/or property taxes, while conserving capital and diversifying risks by investing in fixed portfolios of Municipal Bonds consisting of obligations issued primarily by or on behalf of the State for which such State Trust is named or counties, municipalities, authorities or political subdivisions thereof. There is, of course, no guarantee that the State Trusts' objective will be achieved.

All of the Municipal Bonds in the State Trust portfolios were rated in the category "BBB" or better by Standard & Poor's Corporation ("Standard & Poor's") or "Baa" or better by Moody's Investors Service, Inc. ("Moody's") on the Date of Deposit or were unrated. However, if any Municipal Bonds were unrated on the Date of Deposit, they must have had, in the opinion of the Sponsor, credit characteristics equivalent to Bonds rated at least "BBB" or "Baa." Municipal Bonds which are rated "BBB" or "Baa" are regarded as having an adequate capacity to pay interest and repay principal but may lack outstanding credit characteristics and, in fact, have speculative characteristics as well. Ratings of the Municipal Bonds may have changed since the Date of Deposit. See "Description of Securities Ratings" herein and the "Schedule of Investments" in Part Two.

The Units, each of which represents a pro rata undivided fractional interest in the principal amount of Municipal Bonds deposited in the appropriate Trust, are issued and outstanding Units which have been reacquired by the Sponsor either by purchase of Units tendered to the Trustee for redemption or by purchase in the open market. No offering is being made on behalf of a State Trust and any profit or loss realized on the sale of Units will accrue to the Sponsor and/or the firm reselling such Units. Offerees in the States of Indiana, Virginia and Washington may only purchase Units of an Indiana, Virginia or Washington Trust, respectively.

PUBLIC OFFERING PRICE. The Public Offering Price per Unit of each State Trust is equal to a pro rata share of the aggregate bid prices of the Municipal Bonds in such State Trust plus or minus a pro rata share of cash, if any, in the Principal Account, held or owned by the State Trust plus, in the case of Kemper Defined Funds Purchased Interest, plus a sales charge shown under "Public Offering of Units." In addition, there will be added to each transaction in a State Trust an amount equal to the accrued interest ("Daily Accrued Interest" in the case of Kemper Defined Funds) from the last Record Date of such State Trust to the date of settlement (five business days after order). The sales charge is reduced on a graduated scale as indicated under "Public Offering of Units-Public Offering Price."

INTEREST AND PRINCIPAL DISTRIBUTIONS. Distributions of the estimated annual interest income to be received by each State Trust, after deduction of estimated expenses, will be made monthly unless the Unitholder elects to receive such distributions quarterly or semi-annually. In the case of Kemper Defined Funds, distributions of the estimated annual interest income to be received by each State Trust will be made monthly. Distributions will be paid on the Distribution Dates to Unitholders of record of such State Trust on the Record Dates set forth for the applicable option. See "Essential Information" in Part Two. Only monthly distributions of estimated annual interest income will be available of Kemper Defined Funds Unitholders.

The distribution of funds, if any, in the Principal Account of each State Trust, will be made as provided in "Unitholders - Distribution to Unitholders."

REINVESTMENT. Each Unitholder of a Trust Fund offered herein may elect to have distributions of principal or interest or both automatically invested without charge in shares of certain mutual funds sponsored by Kemper Financial Services, Inc. See "Distribution Reinvestment."

ESTIMATED CURRENT RETURN AND ESTIMATED LONG-TERM RETURN. The Estimated Current Return is calculated by dividing the estimated net annual interest income per Unit by the Public Offering Price of such State Trust. The estimated net annual interest income per Unit will vary with changes in fees and expenses of such State Trust and with the principal prepayment, redemption, maturity, exchange or sale of Securities while the Public Offering Price will vary with changes in the bid price of the underlying Securities and with changes in Purchased Interest for Kemper Defined Funds; therefore, there is no assurance that the present Estimated Current Returns will be realized in the future. Estimated Long-Term Return is calculated using a formula which (1) takes into consideration, and determines and factors in the relative weightings

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of, the market values, yields (which takes into account the amortization of premiums and the accretion of discounts) and estimated retirements of all of the Securities in the State Trust and (2) takes into account the expenses and sales charge associated with each State Trust Unit. Since the market values and estimated retirements of the Securities and the expenses of the State Trust will change, there is no assurance that the present Estimated Long-Term Return will be realized in the future. Estimated Current Return and Estimated Long-Term Return are expected to differ because the calculation of Estimated Long-Term Return reflects the estimated date and amount of principal returned while Estimated Current Return calculations include only net annual interest income and Public Offering Price.

MARKET FOR UNITS. While under no obligation to do so, the Sponsor intends to and certain of the other Underwriters may, subject to change at any time, maintain a market for the Units of each State Trust and to continuously offer to repurchase such Units at prices which are based on the aggregate bid side evaluation of the Municipal Bonds in each State Trust plus accrued interest (which, in the case of Kemper Defined Funds, consists of Purchased Interest and Daily Accrued Interest). If such a market is not maintained and no other over-the-counter market is available, Unitholders will still be able to dispose of their Units through redemption by the Trustee at prices based upon the aggregate bid price of the Municipal Bonds in such State Trust. See "Redemption."

KEMPER TAX-EXEMPT INCOME TRUST
MULTI-STATE SERIES

OHIO TAX-EXEMPT BOND TRUST
SERIES 1-10

KEMPER DEFINED FUNDS
(TAX-EXEMPT PORTFOLIO)

THE TRUST

Each State Trust Fund is one of a series of unit investment trusts created by the Sponsor under the name Ohio Tax-Exempt Bond Trust, or under the name Kemper Tax-Exempt Income Trust, Multi-State Series or under the name Kemper Defined Funds (Tax-Exempt Portfolio), all of which are similar, and each of which was created under the laws of the State of Missouri pursuant to a Trust Agreement*1 (the "Agreement") (such "State Trusts" being collectively referred to herein as the "Trust"). Kemper Unit Investment Trusts, a service of Kemper Securities, Inc., acts as Sponsor and Evaluator and Investors Fiduciary Trust Company acts as Trustee. For information regarding the relationship of Kemper Unit Investment Trusts and Investors Fiduciary Trust Company, see "The Sponsor."

The State Trusts may be an appropriate investment vehicle for investors who desire to participate in a portfolio of tax-exempt, fixed income securities with greater diversification than they might be able to acquire individually. In addition, Municipal Bonds of the type deposited in the State Trusts are often not available in small amounts.

Each State Trust's investment objective is interest income which is exempt from Federal, State and, where applicable, local income and/or property taxes, while conserving capital and diversifying risks by investing in fixed portfolios of Municipal Bonds consisting of obligations issued primarily by or on behalf of the State for which such State Trust is named or counties, municipalities, authorities or political subdivisions thereof. There is, of course, no guarantee that the State Trusts' objective will be achieved.

All of the Municipal Bonds in the State Trust portfolios were rated in the category "BBB" or better by either Standard & Poor's Corporation ("Standard & Poor's") or "Baa" or better by Moody's Investors Service, Inc. ("Moody's") on the Date of Deposit or were unrated. However, if any Municipal Bonds were unrated on the Date of Deposit, they must have had, in the opinion of the Sponsor, credit characteristics equivalent to Municipal Bonds rated at least "BBB" or "Baa". Municipal Bonds which are rated "BBB" or

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* Reference is hereby made to said Trust Agreement, and any statements contained herein are qualified in their entirety by the provisions of said Trust Agreement.

"Baa" are regarded as having an adequate capacity to pay interest and repay principal but may lack outstanding credit characteristics and, in fact, have speculative characteristics as well. Ratings of the Municipal Bonds may have changed since the Date of Deposit. See "Description of Securities Ratings" herein and the "Schedule of Investments" in Part Two.

Proceeds of the maturity, redemption or sale of the Municipal Bonds in a State Trust, unless used to pay for Units tendered for redemption, will be distributed to Unitholders thereof and will not be utilized to purchase additional Municipal Bonds.

The Units, each of which represents a pro rata undivided fractional interest in the principal amount of Municipal Bonds deposited in the appropriate State Trust, are issued and outstanding Units which have been reacquired by the Sponsor either by purchase of Units tendered to the Trustee for redemption or by purchase in the open market. No offering is being made on behalf of the State Trusts and any profit or loss realized on the sale of Units will accrue to the Sponsor and/or the firm reselling such Units. To the extent that Units of any State Trust are redeemed, the principal amount of Municipal Bonds in such State Trust will be reduced and the undivided fractional interest represented by each outstanding Unit of such State Trust will increase. See "Redemption."

PORTFOLIOS

The selection of Municipal Bonds for each State Trust was based largely upon the experience and judgment of the Sponsor. In making such selections the Sponsor considered the following factors, among others, to be of primary importance: (a) Standard & Poor's or Moody's ratings of the Municipal Bonds; (b) the price of the Municipal Bonds relative to other issues of similar quality and maturity; (c) the diversification of the Municipal Bonds as to purpose of issue; (d) the income to the Unitholders of the State Trust; and (e) the dates of maturity of the Bonds. Subsequent to the Date of Deposit, a Municipal Bond may have ceased to be rated or its rating may have been reduced below the minimum required as of the Date of Deposit. Neither event requires the elimination of such investment from a State Trust, but may be considered in the Sponsor's determination to direct the Trustee to dispose of such investment. See "Investment Supervision" herein and the "Schedule of Investments" in Part Two.

The Sponsor may not alter the portfolio of a State Trust except that certain of the Municipal Bonds may be sold upon the happening of certain extraordinary circumstances described under "Investment Supervision." Certain of the Municipal Bonds in the State Trusts are subject to redemption prior to their stated maturity date, call or redemption pursuant to sinking fund provisions, call provisions or extraordinary optional or mandatory redemption provisions or otherwise. A sinking fund is a reserve fund accumulated over a period of time for retirement of debt. A callable debt obligation is one which is subject to redemption or refunding prior to maturity at the option of the issuer. A refunding is a method by which a debt obligation is redeemed, at or before maturity, by the proceeds of a new debt obligation. In general, call provisions are more likely to be exercised when the offering side valuation is at a premium over par than when it is at a

discount from par. Accordingly, any such call, redemption, sale or maturity will reduce the size and diversity of such Series, and the net annual interest income of the Series and may reduce the Estimated Long-Term Return and/or Estimated Current Return. See "Interest and Estimated Long-Term and Current Returns." Each Trust portfolio contains a listing of the sinking fund and call provisions, if any, with respect to each of the debt obligations. Extraordinary optional redemptions and mandatory redemptions result from the happening of certain events. Generally, events that may permit the extraordinary optional redemption of Municipal Bonds or may require the mandatory redemption of Municipal Bonds include, among others: a final determination that the interest on the Municipal Bonds is taxable; the substantial damage or destruction by fire or other casualty of the project for which the proceeds of the Municipal Bonds were used; an exercise by a local, State or Federal governmental unit of its power of eminent domain to take all or substantially all of the project for which the proceeds of the Municipal Bonds were used; changes in the economic availability of raw materials,

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operating supplies or facilities or technological or other changes which render the operation of the project for which the proceeds of the Municipal Bonds were used uneconomic; changes in law or an administrative or judicial decree which renders the performance of the agreement under which the proceeds of the Municipal Bonds were made available to finance the project impossible or which creates unreasonable burdens or which imposes excessive liabilities, such as taxes, not imposed on the date the Municipal Bonds are issued on the issuer of the Municipal Bonds or the user of the proceeds of the Municipal Bonds; an administrative or judicial decree which requires the cessation of a substantial part of the operations of the project financed with the proceeds of the Municipal Bonds; an overestimate of the costs of the project to be financed with the proceeds of the Municipal Bonds resulting in excess proceeds of the Municipal Bonds which may be applied to redeem Municipal Bonds; or an underestimate of a source of funds securing the Municipal Bonds resulting in excess funds which may be applied to redeem Municipal Bonds. The Sponsor is unable to predict all of the circumstances which may result in such redemption of an issue of Municipal Bonds.

The Sponsor and the Trustee shall not be liable in any way for any default, failure or defect in any Municipal Bond.

PORTFOLIO RISK INFORMATION. An investment in Units of a Series of the State Trusts should be made with an understanding of the risks which an investment in fixed rate debt obligations may entail, including the risk that the value of the portfolio and hence of the Units will decline with increases in interest rates. The value of the underlying Municipal Bonds will fluctuate inversely with changes in interest rates. The uncertain economic conditions of recent years, together with the fiscal measures adopted to attempt to deal with them, have resulted in wide fluctuations in interest rates and, thus, in the value of fixed rate debt obligations generally and long-term obligations in particular. The Sponsor cannot predict whether such fluctuations will continue in the future.

Certain of the Municipal Bonds in the State Trusts may be general obligations of a governmental entity that are backed by the taxing power of such entity. All other Municipal Bonds in the State Trusts are revenue bonds payable from the income of a specific project or authority and are not supported by the issuer's power to levy taxes. General obligation bonds are secured by the issuer's pledge of its faith, credit and taxing

power for the payment of principal and interest. Revenue bonds, on the other hand, are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise or other specific revenue source. There are, of course, variations in the security of the different Municipal Bonds in the State Trusts, both within a particular classification and between classifications, depending on numerous factors.

Certain Series of the State Trusts contain Municipal Bonds which are obligations of issuers whose revenues are derived from services provided by hospitals and other health care facilities, including nursing homes. In view of this an investment in such Series should be made with an understanding of the characteristics of such issuers and the risks that such an investment may entail. Ratings of bonds issued for health care facilities are often based on feasibility studies that contain projections of occupancy levels, revenues and expenses. A facility's gross receipts and net income available for debt service will be affected by future events and conditions including, among other things, demand for services and the ability of the facility to provide the services required, physicians' confidence in the facility, management capabilities, economic developments in the service area, competition, efforts by insurers and governmental agencies to limit rates, legislation establishing state rate-setting agencies, expenses, the cost and possible unavailability of malpractice insurance, the funding of Medicare, Medicaid and other similar third party payor programs, and government regulation. Federal legislation has been enacted which implemented a system of prospective Medicare reimbursement which may restrict the flow of revenues to hospitals and other facilities which are reimbursed for services provided under the Medicare program. Future legislation or changes in the areas noted above, among other things, would affect all hospitals to varying degrees and, accordingly, any adverse changes in these areas may adversely affect the ability of such issuers to make payment of principal and interest on Municipal Bonds held in such Series. Such adverse changes also may adversely affect the ratings of the Municipal Bonds held in such State Trusts. Hospitals and other health care facilities are subject to claims and legal actions by patients and others in the ordinary course of business. Although these claims are generally covered by insurance, there can be no assurance that a claim will not exceed the insurance coverage of a health care facility or that insurance coverage will be available to a facility. In addition, a substantial increase in the cost of insurance could adversely

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affect the results of operations of a hospital or other health care facility. Certain hospital bonds may provide for redemption at par at any time upon the sale by the issuer of the hospital facilities to a non-affiliated entity or in other circumstances. For example, certain hospitals may have the right to call bonds at par if the hospital may legally be required because of the bonds to perform procedures against specified religious principles. Certain FHA-insured bonds may provide that all or a portion of those bonds, otherwise callable at a premium, can be called at par in certain circumstances. If a hospital defaults upon a bond obligation, the realization of Medicare and Medicaid receivables may be uncertain and, if the bond obligation is secured by the hospital facilities, legal restrictions on the ability to foreclose upon the facilities and the limited alternative uses to which a hospital can be put may reduce severely its collateral value.

Certain of the Municipal Bonds in the State Trusts may be single family mortgage revenue bonds, which are issued for the purpose of acquiring from originating financial institutions notes secured by mortgages on residences located within the issuer's boundaries and owned by persons of low or moderate income. Mortgage loans are generally partially or completely prepaid prior to their final maturities as a result

of events such as sale of the mortgaged premises, default, condemnation or casualty loss. Because these Municipal Bonds are subject to extraordinary mandatory redemption in whole or in part from such prepayments of mortgage loans, a substantial portion of such Municipal Bonds will probably be redeemed prior to their scheduled maturities or even prior to their ordinary call dates. The redemption price of such issues may be more or less than the offering price of such Municipal Bonds. Extraordinary mandatory redemption without premium could also result from the failure of the originating financial institutions to make mortgage loans in sufficient amounts within a specified time period or, in some cases, from the sale by the Municipal Bond issuer of the mortgage loans. Failure of the originating financial institutions to make mortgage loans would be due principally to the interest rates on mortgage loans funded from other sources becoming competitive with the interest rates on the mortgage loans funded with the proceeds of the single family mortgage revenue bonds. Additionally, unusually high rates of default on the underlying mortgage loans may reduce revenues available for the payment of principal of or interest on such mortgage revenue bonds. Single family mortgage revenue bonds issued after December 31, 1980 were issued under Section 103A of the Internal Revenue Code, which Section contains certain ongoing requirements relating to the use of the proceeds of such Municipal Bonds in order for the interest on such Municipal Bonds to retain its tax-exempt status. In each case, the issuer of the Municipal Bonds has covenanted to comply with applicable ongoing requirements and bond counsel to such issuer has issued an opinion that the interest on the Municipal Bonds is exempt from Federal income tax under existing laws and regulations. There can be no assurances that the ongoing requirements will be met. The failure to meet these requirements could cause the interest on the Municipal Bonds to become taxable, possibly retroactively from the date of issuance.

Certain of the Municipal Bonds in the State Trusts may be obligations of issuers whose revenues are primarily derived from mortgage loans to housing projects for low to moderate income families. The ability of such issuers to make debt service payments will be affected by events and conditions affecting financed projects, including, among other things, the achievement and maintenance of sufficient occupancy levels and adequate rental income, increases in taxes, employment and income conditions prevailing in local labor markets, utility costs and other operating expenses, the managerial ability of project managers, changes in laws and governmental regulations, the appropriation of subsidies and social economic trends affecting the localities in which the projects are located. The occupancy of housing projects may be adversely affected by high rent levels and income limitations imposed under Federal and state programs. Like single family mortgage revenue bonds, multi-family mortgage revenue bonds are subject to redemption and call features, including extraordinary mandatory redemption features, upon prepayment, sale or non-origination of mortgage loans as well as upon the occurrence of other events. Certain issuers of single or multi-family housing bonds have considered various ways to redeem bonds they have issued prior to the stated first redemption dates for such bonds. In connection with the housing Municipal Bonds held by the State Trusts, the Sponsor has not had any direct communications with any of the issuers thereof, but at the initial Date of Deposit it was not aware that any of the respective issuers of such Municipal Bonds were actively considering the redemption of such Municipal Bonds prior to their respective stated initial call dates. However, there can be no assurance that an issuer of a Municipal Bond in the State Trusts will not attempt to so redeem a Municipal Bond in the State Trusts.

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Certain of the Municipal Bonds in the State Trusts may be obligations of issuers whose revenues are derived from the sale of water and/or sewerage services. Water and sewerage bonds are generally payable from user fees. Problems faced by such issuers include the ability to obtain timely and adequate rate increases, a decline in population resulting in decreased user fees, the difficulty of financing large construction programs, the limitations on operations and increased costs and delays attributable to environmental considerations, the increasing difficulty of obtaining or discovering new supplies of fresh water, the effect of conservation programs and the impact of "no-growth" zoning ordinances. Issuers may have experienced these problems in varying degrees. Because of the relatively short history of solid waste disposal bond financing, there may be technological risks involved in the satisfactory construction or operation of the projects exceeding those associated with most municipal enterprise projects. Increasing environmental regulation on the Federal, State and local level has a significant impact on waste disposal facilities. While regulation requires more waste producers to use waste disposal facilities, it also imposes significant costs on the facilities. These costs include compliance with frequently changing and complex regulatory requirements, the cost of obtaining construction and operating permits, the cost of conforming to prescribed and changing equipment standards and required methods of operation and the cost of disposing of the waste residue that remains after the disposal process in an environmentally safe manner. In addition, waste disposal facilities frequently face substantial opposition by environmental groups and officials to their location and operation, to the possible adverse effects upon the public health and the environment that may be caused by wastes disposed of at the facilities and to alleged improper operating procedures. Waste disposal facilities benefit from laws which require waste to be disposed of in a certain manner but any relaxation of these laws could cause a decline in demand for the facilities' services. Finally, waste disposal facilities are concerned with many of the same issues facing utilities insofar as they derive revenues from the sale of energy to local power utilities.

Certain of the Municipal Bonds in the State Trusts may be obligations of issuers whose revenues are primarily derived from the sale of electric energy or natural gas. Utilities are generally subject to extensive regulation by state utility commissions which, among other things, establish the rates which may be charged and the appropriate rate of return on an approved asset base. The problems faced by such issuers include the difficulty in obtaining approval for timely and adequate rate increases from the governing public utility commission, the difficulty in financing large construction programs, the limitations on operations and increased costs and delays attributable to environmental considerations, increased competition, recent reductions in estimates of future demand for electricity in certain areas of the country, the difficulty of the capital market in absorbing utility debt, the difficulty in obtaining fuel at reasonable prices and the effect of energy conservation. Issuers may have experienced these problems in varying degrees. In addition, Federal, State and municipal governmental authorities may from time to time review existing and impose additional regulations governing the licensing, construction and operation of nuclear power plants, which may adversely affect the ability of the issuers of such Municipal Bonds to make payments of principal and/or interest on such Municipal Bonds. The ability of State and local joint action power agencies to make payments on bonds they have issued is dependent in large part on payments made to them pursuant to power supply or similar agreements. Courts in Washington and Idaho have held that certain agreements between the Washington Public Power Supply System ("WPPSS") and the WPPSS participants are unenforceable because the participants did not have the authority to enter into the agreements. While these decisions are not specifically applicable to agreements entered into by public entities in other states, they may cause a reexamination of

the legal structure and economic viability of certain projects financed by joint action power agencies, which might exacerbate some of the problems referred to above and possibly lead to legal proceedings questioning the enforceability of agreements upon which payment of these bonds may depend.

Certain of the Municipal Bonds in the State Trusts may be industrial revenue bonds ("IRBs"), including pollution control revenue bonds, which are tax-exempt securities issued by states, municipalities, public authorities or similar entities to finance the cost of acquiring, constructing or improving various industrial projects. These projects are usually operated by corporate entities. Issuers are obligated only to pay amounts due on the IRBs to the

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extent that funds are available from the unexpended proceeds of the IRBs or receipts or revenues of the issuer under an arrangement between the issuer and the corporate operator of a project. The arrangement may be in the form of a lease, installment sale agreement, conditional sale agreement or loan agreement, but in each case the payments to the issuer are designed to be sufficient to meet the payments of amounts due on the IRBs. Regardless of the structure, payment of IRBs is solely dependent upon the creditworthiness of the corporate operator of the project or corporate guarantor. Corporate operators or guarantors may be affected by many factors which may have an adverse impact on the credit quality of the particular company or industry. These include cyclicality of revenues and earnings, regulatory and environmental restrictions, litigation resulting from accidents or environmentally-caused illnesses, extensive competition and financial deterioration resulting from leveraged buy-outs or takeovers. The IRBs in the State Trusts may be subject to special or extraordinary redemption provisions which may provide for redemption at par or, with respect to original issue discount bonds, at issue price plus the amount of original issue discount accreted to the redemption date plus, if applicable, a premium. The Sponsor cannot predict the causes or likelihood of the redemption of IRBs or other Municipal Bonds in the State Trusts prior to the stated maturity of such Municipal Bonds.

Certain of the Municipal Bonds in the State Trusts may be obligations which are payable from and secured by revenues derived from the ownership and operation of facilities such as airports, bridges, turnpikes, port authorities, convention centers and arenas. The major portion of an airport's gross operating income is generally derived from fees received from signatory airlines pursuant to use agreements which consist of annual payments for leases, occupancy of certain terminal space and service fees. Airport operating income may therefore be affected by the ability of the airlines to meet their obligations under the use agreements. The air transport industry is experiencing significant variations in earnings and traffic, due to increased competition, excess capacity, increased costs, deregulation, traffic constraints and other factors, and several airlines are experiencing severe financial difficulties. The Sponsor cannot predict what effect these industry conditions may have on airport revenues which are dependent for payment on the financial condition of the airlines and their usage of the particular airport facility. Similarly, payment on Municipal Bonds related to other facilities is dependent on revenues from the projects, such as user fees from ports, tolls on turnpikes and bridges and rents from buildings. Therefore, payment may be adversely affected by reduction in revenues due to such factors as increased cost of maintenance, decreased use of a facility, lower cost of alternative modes of transportation, scarcity of fuel and reduction or loss of rents.

Certain of the Municipal Bonds in the State Trusts may be obligations of issuers which are, or which govern the operation of, schools, colleges and universities and whose revenues are derived mainly from ad valorem taxes, or for higher education systems, from tuition, dormitory revenues, grants and endowments. General problems relating to school bonds include litigation contesting the state constitutionality of financing public education in part from ad valorem taxes, thereby creating a disparity in educational funds available to schools in wealthy areas and schools in poor areas. Litigation or legislation on this issue may affect the sources of funds available for the payment of school bonds in the Trusts. General problems relating to college and university obligations would include the prospect of a declining percentage of the population consisting of "college" age individuals, possible inability to raise tuition and fees sufficiently to cover increased operating costs, the uncertainty of continued receipt of Federal grants and state funding and new government legislation or regulations which may adversely affect the revenues or costs of such issuers. All of such issuers have been experiencing certain of these problems in varying degrees. In addition, the ability of universities and colleges to meet their obligations is dependent upon various factors, including the size and diversity of their sources of revenues, enrollment, reputation, management expertise, the availability and restrictions on the use of endowments and other funds, the quality and maintenance costs of campus facilities, and, in the case of public institutions, the financial condition of the relevant state or other governmental entity and its policies with respect to education. The institution's ability to maintain enrollment levels will depend on such factors as tuition costs, geographic location, geographic diversity and quality of student body, quality of the faculty and the diversity of program offerings.

Certain of the Municipal Bonds in the State Trusts may be Urban Redevelopment Bonds ("URBs"). URBs have generally been issued under bond resolutions pursuant to which the revenues and receipts payable under the arrangements with the operator of a particular project have been assigned and pledged to purchasers. In some cases, a mortgage on the underlying project may have been granted as security for the URBs. Regardless of the structure, payment of the URBs is solely dependent upon the creditworthiness of the

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operator of the project.

Certain of the Municipal Bonds in the State Trusts may be lease revenue bonds whose revenues are derived from lease payments made by a municipality or other political subdivision which is leasing equipment or property for use in its operation. The risks associated with owning Municipal Bonds of this nature include the possibility that appropriation of funds for a particular project or equipment may be discontinued. The Sponsor cannot predict the likelihood of nonappropriation of funds for these types of lease revenue Municipal Bonds. Lease revenue Municipal Bonds may also be subject to the risk of abatement in many states -- rental obligations cease in the event that damage, destruction or condemnation of the project prevents its use by the lessee. (In these cases, insurance provisions designed to alleviate this risk become important credit factors.) In the event of default by the lessee government, there may be significant legal and/or practical difficulties involved in the re-letting or sale of the project. Some of these issues, particularly those for equipment purchase, contain the so-called "substitution safeguard", which bars the lessee government, in the event its defaults on its rental payments, from the purchase or use of similar equipment for a certain period of time. This safeguard is designed to insure that the lessee government will appropriate even though it is not legally obligated to do so, but its legality remains untested in most, if not all, states.

Certain of the Municipal Bonds in the State Trusts may be "zero coupon" bonds, i.e., an original issue discount bond that does not provide for the payment of current interest. Zero coupon bonds are purchased at a deep discount because the buyer receives only the right to receive a final payment at the maturity of the bond and does not receive any periodic interest payments. The effect of owning deep discount bonds which do not make current interest payments (such as the zero coupon bonds) is that a fixed yield is earned not only on the original investment but also, in effect, on all discount earned during the life of such obligation. This implicit reinvestment of earning at the same rate eliminates the risk of being unable to reinvest the income on such obligation at a rate as high as the implicit yield on the discount obligation, but at the same time eliminates the holder's ability to reinvest at higher rates in the future. For this reason, zero coupon bonds are subject to substantially greater price fluctuations during periods of changing market interest rates than are securities of comparable quality which pay interest currently. For the Federal tax consequences of original issue discount bonds such as the zero coupon bonds, see "Federal Tax Status of the State Trusts."

Investors should be aware that many of the Municipal Bonds in the State Trusts are subject to continuing requirements such as the actual use of Municipal Bond proceeds or manner of operation of the project financed from Municipal Bond proceeds that may affect the exemption of interest on such Municipal Bonds from Federal income taxation. Although at the time of issuance of each of the Municipal Bonds in the State Trusts an opinion of bond counsel was rendered as to the exemption of interest on such obligations from Federal income taxation, there can be no assurance that the respective issuers or other obligors on such obligations will fulfill the various continuing requirements established upon issuance of the Municipal Bonds. A failure to comply with such requirements may cause a determination that interest on such obligations is subject to Federal income taxation, perhaps even retroactively from the date of issuance of such Municipal Bonds, thereby reducing the value of the Municipal Bonds and subjecting Unitholders to unanticipated tax liabilities.

Federal bankruptcy statutes relating to the adjustment of debts of political subdivisions and authorities of states of the United States provide that, in certain circumstances, such subdivisions or authorities may be authorized to initiate bankruptcy proceedings without prior notice to or consent of creditors, which proceedings could result in material and adverse modification or alteration of the rights of holders of obligations issued by such subdivision or authorities.

Certain issues of the Municipal Bonds in the State Trusts represent "moral obligations" of a governmental entity. In the event that the issuer of the Municipal Bond defaults in the repayment thereof, the governmental entity lawfully may, but is not obligated to, discharge the obligation of the issuer to repay such Municipal Bond. If an issuer of moral obligation bonds is unable to meet its obligations, the repayment of such Municipal Bonds becomes a moral commitment but not a legal obligation of the State or municipality in question. Even though the State may be called on to restore any deficits in capital reserve funds of the agencies or authorities which issued the bonds, any restoration generally requires appropriation by the State legislature and accordingly does not constitute a legally enforceable obligation or debt of the State. The agencies or authorities generally have no taxing power.

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To the best of the Sponsor's knowledge, as of the date of this Prospectus, there is no litigation pending with respect to any Municipal Bond which might reasonably be expected to have a material adverse effect on the Trust or any State Trust. Although the Sponsor is unable to predict whether any other litigation may be instituted, or if instituted, whether such litigation might have a material adverse effect on the Trust, the Trust received copies of the opinions of bond counsel given to the issuing authorities at the time of original delivery of each of the Municipal Bonds to the effect that the Municipal Bonds had been validly issued and that the interest thereon is exempt from Federal income taxes.

DISTRIBUTION REINVESTMENT

Each Unitholder of a Trust Fund may elect to have distributions of principal (including capital gains, if any) or interest or both automatically invested without charge in shares of any mutual fund underwritten or advised by Kemper Financial Services, Inc., an affiliate of the Sponsor, (the "Kemper Funds") which are registered in the Unitholder's state of residence, other than those Kemper Funds sold with a contingent deferred sales charge. Since the portfolio securities and investment objectives of such Kemper Funds may differ significantly from that of the Trust, Unitholders should carefully consider the consequences, including the fact that distributions from such Kemper Funds may be taxable, before selecting such Kemper Funds for reinvestment. Detailed information with respect to the investment objectives and the management of the Kemper Funds is contained in their respective prospectuses, which can be obtained from the Sponsor upon request. An investor should read the appropriate prospectus prior to making the election to reinvest.

Unitholders who are receiving distributions in cash may elect to participate in distribution reinvestment by filing with the Program Agent an election to have such distributions reinvested without charge. Such election must be received by the Program Agent at least ten days prior to the Record Date applicable to any distribution in order to be in effect for such Record Date. Any such election shall remain in effect until a subsequent notice is received by the Program Agent. See "Unitholders - Distributions to Unitholders."

The Program Agent is Investors Fiduciary Trust Company. All inquiries concerning participation in distribution reinvestment should be directed to the Kemper Service Company, a service agent for the Program Agent at P.O. Box 419430, Kansas City, Missouri 64173-0216, telephone (800) 422-2848.

INTEREST, ESTIMATED LONG-TERM RETURN AND ESTIMATED CURRENT RETURN

As of the opening of business on the date indicated therein, the Estimated Current Returns and the Estimated Long-Term Returns for each State Trust were as set forth under "Essential Information" for the applicable State Trust in Part Two of this Prospectus. Estimated Current Returns are calculated by dividing the estimated net annual interest income per Unit by the Public Offering Price. The estimated net annual interest income per Unit will vary with changes in fees and expenses of the Trustee, the Sponsor and the Evaluator and with the principal prepayment, redemption, maturity, exchange or sale of Securities while the

Public Offering Price will vary with changes in the offering price of the underlying Securities and with the changes in Purchased Interest in the case of Kemper Defined Funds; therefore, there is no assurance that the present Estimated Current Returns will be realized in the future. Estimated Long-Term Returns are calculated using a formula which (1) takes into consideration, and determines and factors in the relative weightings of, the market values, yields (which takes into account the amortization of premiums and the accretion of discounts) and estimated retirements of all of the Securities in the State Trust and (2) takes into account the expenses and sales charge associated with each State Trust Unit. Since the market values and estimated retirements of the Securities and the expenses of the State Trust will change, there is no assurance that the present Estimated Long-Term Returns will be realized in the future. Estimated Current Returns and Estimated Long-Term Returns are expected to differ because the calculation of Estimated Long-Term Returns reflects the estimated date and amount of principal returned while Estimated Current Returns calculations include only net annual interest income and Public Offering Price.

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FEDERAL TAX STATUS OF THE STATE TRUSTS

All Municipal Bonds deposited in the State Trusts were accompanied by copies of opinions of bond counsel to the issuers thereof, given at the time of original delivery of the Municipal Bonds, to the effect that the interest thereon is excludable from gross income for Federal income tax purposes. In addition, bond counsel to the issuing authorities rendered opinions as to the exemption of interest on such Municipal Bonds, when held by residents of the State in which the issuers of such Municipal Bonds are located, from State income taxes and, where applicable, local income taxes. Gain realized on the sale or redemption of the Municipal Bonds by the Trustee or of a Unit by a Unitholder is, however, includable in gross income for Federal income tax purposes. Such gain does not include any amounts received in respect of accrued interest or earned original issue discount. It should be noted that under legislation described below that subjects accretion of market discount on tax-exempt bonds to taxation as ordinary income, gain realized on the sale or redemption of Municipal Bonds by the Trustee or of Units by a Unitholder that would have been treated as capital gain under prior law is treated as ordinary income to the extent it is attributable to accretion of market discount. Market discount can arise based on the price a Trust Fund pays for Municipal Bonds or the price a Unitholder pays for his or her Units.

In connection with the offering of Units of the State Trusts, neither the Sponsor, the Trustee, the Auditors nor their respective counsel have made any review of the proceedings relating to the issuance of the Municipal Bonds or the bases for such opinions.

At the time of the closing for each Trust, except with respect to the various series of Ohio Tax-Exempt Bond Trust, Chapman and Cutler, counsel for the Sponsor, rendered an opinion under then existing law substantially to the effect that:

Each State Trust is not an association taxable as a corporation for Federal income tax purposes and interest and accrued original issue discount on Bonds which is excludable from gross income under the

Internal Revenue Code of 1986 (the "Code") will retain its status when distributed to Unitholders, except to the extent such interest is subject to the alternative minimum tax, an additional tax on branches of foreign corporations and the environmental tax (the "Superfund Tax"), as noted below.

Each Unitholder is considered to be the owner of a pro rata portion of each asset of the respective State Trust in the proportion that the number of Units of such Trust held by him bears to the total number of Units outstanding of such State Trust under subpart E, subchapter J of chapter 1 of the Code and will have a taxable event when such State Trust disposes of a Bond, or when the Unitholder redeems or sells his Units. Unitholders must reduce the tax basis of their Units for their share of accrued interest received by a State Trust, if any, on Bonds delivered after the Unitholders pay for their Units to the extent that such interest accrued on such Bonds during the period from the Unitholder's settlement date to the date such Bonds are delivered to a State Trust and, consequently, such Unitholders may have an increase in taxable gain or reduction in capital loss upon the disposition of such Units. Gain or loss upon the sale or redemption of Units is measured by comparing the proceeds of such sale or redemption with the adjusted basis of the Units. If the Trustee disposes of Bonds (whether by sale, payment on maturity, redemption or otherwise), gain or loss is recognized to the Unitholder. The amount of any such gain or loss is measured by comparing the Unitholder's pro rata share of the total proceeds from such disposition with the Unitholder's basis for his or her fractional interest in the asset disposed of. In the case of a Unitholder who purchases Units, such basis (before adjustment for earned original issue discount and amortized bond premium, if any) is determined by apportioning the cost of the Units among each of the State Trust's assets ratably according to the value as of the date of acquisition of the Units. The tax cost reduction requirements of the Code relating to amortization of bond premium may, under some circumstances, result in the Unitholder realizing a taxable gain when his Units are sold or redeemed for an amount equal to his original cost.

Sections 1288 and 1272 of the Internal Revenue Code of 1986 (the "Code") provide a complex set of rules governing the accrual of original issue discount. These rules provide that original issue discount accrues either on the basis of a constant compound interest rate or ratably over the term of the Municipal Bond, depending on the date the Municipal Bond was issued. In addition, special rules apply if the purchase price of a Municipal Bond exceeds the original issue price plus the amount of original issue discount which would have previously accrued based upon its issue price (its "adjusted issue price"). The application of these rules will also vary depending on the value of the Municipal Bond on the date a Unitholder acquires his Units, and the

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price the Unitholder pays for his Units. Investors with questions regarding these Code sections should consult with their tax advisers.

"The Revenue Reconciliation Act of 1993" (the "Tax Act") subjects tax-exempt bonds to the market discount rules of the Code effective for bonds purchased after April 30, 1993. In general, market discount is the amount (if any) by which the stated redemption price at maturity exceeds an investor's purchase price (except to the extent that such difference, if any, is attributable to original issue discount not yet accrued). Under the Tax Act, accretion of market discount is taxable as ordinary income; under prior law the accretion had been treated as capital gain. Market discount that accretes while a Trust Fund holds a Municipal Bond would be recognized as ordinary income by the Unitholders when principal payments are received on the

Municipal Bond, upon sale or at redemption (including early redemption), or upon the sale or redemption of his or her Units, unless a Unitholder elects to include market discount in taxable income as it accrues. The market discount rules are complex and Unitholders should consult their tax advisers regarding these rules and their application.

In the case of certain corporations, the alternative minimum tax and the Superfund Tax depend upon the corporation's alternative minimum taxable income, which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the alternative minimum taxable income and the Superfund Tax of a corporation (other than an S Corporation, Regulated Investment Company, Real Estate Investment Trust, or REMIC) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its alternative minimum taxable income (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" includes all tax-exempt interest, including interest on all the Municipal Bonds in a State Trust. Unitholders are urged to consult their tax advisers with respect to the particular tax consequences to them including the corporate alternative minimum tax, the Superfund Tax and the branch profits tax imposed by Section 884 of the Code.

Counsel for the Sponsor has also advised that under Section 265 of the Code, interest on indebtedness incurred or continued to purchase or carry Units of a State Trust is not deductible for Federal income tax purposes. The Internal Revenue Service has taken the position that such indebtedness need not be directly traceable to the purchase or carrying of Units (however, these rules generally do not apply to interest paid on indebtedness incurred to purchase or improve a personal residence). Also, under Section 265 of the Code, certain financial institutions that acquire Units would generally not be able to deduct any of the interest expense attributable to ownership of such Units. Investors with questions regarding these issues should consult with their tax advisers.

In the case of certain Municipal Bonds in the State Trusts, the opinions of bond counsel indicate that interest on such securities received by a "substantial user" of the facilities being financed with the proceeds of these securities or persons related thereto, for periods while such securities are held by such a user or related person, will not be excludable from Federal gross income, although interest on such securities received by others would be excludable from Federal gross income. "Substantial user" and "related person" are defined under U.S. Treasury Regulations. Any person who believes that he or she may be a "substantial user" or a "related person" as so defined should contact his or her tax adviser.

With respect to the various series of Ohio Tax-Exempt Bond Trust, Squire, Sanders & Dempsey rendered an opinion at the time of each closing for each Ohio Trust which was substantially similar to the foregoing.

Under existing law, the State Trusts are not associations taxable as a corporation and the income of the Trust Funds will be treated as the income of the Unitholders under the income tax laws of the State of Missouri.

All statements of law in the Prospectus concerning exclusion from gross income for Federal, State or other tax purposes are the opinions of counsel and are to be so construed.

At the respective times of issuance of the Municipal Bonds, opinions

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relating to the validity thereof and to the exclusion of interest thereon from Federal gross income are rendered by bond counsel to the respective issuing authorities. Neither the Sponsor nor Chapman and Cutler has made any special review for the State Trusts of the proceedings relating to the issuance of the Municipal Bonds or of the basis for such opinions.

For taxpayers other than corporations, net capital gains are presently subject to a maximum marginal stated tax rate of 28 percent. However, it should be noted that legislative proposals are introduced from time to time that affect tax rates and could affect relative differences at which ordinary income and capital gains are taxed.

Under the Code, taxpayers must disclose to the Internal Revenue Service the amount of tax-exempt interest earned during the year.

Section 86 of the Code, in general, provides that fifty percent of Social Security benefits are includable in gross income to the extent that the sum of "modified adjusted gross income" plus fifty percent of the Social Security benefits received exceeds a "base amount." The base amount is $25,000 for unmarried taxpayers, $32,000 for married taxpayers filing a joint return and zero for married taxpayers who do not live apart at all times during the taxable year and who file separate returns. Modified adjusted gross income is adjusted gross income determined without regard to certain otherwise allowable deductions and exclusions from gross income and by including tax exempt interest. To the extent that Social Security benefits are includable in gross income, they will be treated as any other item of gross income.

In addition, under the Tax Act, for taxable years beginning after December 31, 1993, up to 85 percent of Social Security benefits are includable in gross income to the extent that the sum of "modified adjusted gross income" plus fifty percent of Social Security benefits received exceeds an "adjusted base amount." The adjusted base amount is $34,000 for married taxpayers, $44,000 for married taxpayers filing a joint return and zero for married taxpayers who do not live apart at all times during the taxable year and who file separate returns.

Although tax-exempt interest is included in modified adjusted gross income solely for the purpose of determining what portion, if any, of Social Security benefits will be included in gross income, no tax-exempt interest, including that received from the Trust Fund, will be subject to tax. A taxpayer whose adjusted gross income already exceeds the base amount or the adjusted base amount must include fifty percent or eighty-five percent, respectively of his Social Security benefits in gross income whether or not he receives

any tax-exempt interest. A taxpayer whose modified adjusted gross income (after inclusion of tax-exempt interest) does not exceed the base amount need not include any Social Security benefits in gross income.

For a discussion of the State tax status of income earned on Units of a State Trust, see the discussion of tax status for the applicable trust. Except as noted therein, the exemption of interest on State and local obligations for Federal income tax purposes discussed above does not necessarily result in exemption under the income or other tax laws of any state or city. The laws of the several states vary with respect to the taxation of such obligations.

All statements in the Prospectus concerning exemption from Federal, state or other taxes are the opinions of counsel and are to be so construed.

DESCRIPTION AND STATE TAX STATUS OF THE STATE TRUSTS

ARIZONA TRUSTS. General Economic Conditions. The following brief summary regarding the economy of Arizona is based upon information drawn from publicly available sources and is included for the purpose of providing the information about general economic conditions that may or may not affect issuers of the Arizona Municipal Obligations. The Sponsor has not independently verified any of the information contained in such publicly available documents. Arizona is the nation's sixth largest state in terms of area. Arizona's main economic sectors include services, tourism and manufacturing. Mining and agriculture are also significant, although they tend to be more capital than labor intensive. Services is the single largest economic sector. Many of these jobs are directly related to tourism.

According to the Arizona Department of Economic Security, 1992 unemployment figures show 7.4 percent of Arizona's population was unemployed, compared to a national level of 7.4 percent unemployment at the same time. Maricopa County reported 6.3 percent unemployment and Pima County reported 5.2

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percent unemployment. Significant employers in the state include the government, the service industry and the trade industry. Building permits in 1992 were up in both Maricopa County and Pima County.

In June 1991, America West Airlines filed a Chapter 11 reorganization petition in bankruptcy. America West is currently the fifth largest employer in Maricopa County, employing approximately 7,100 persons within the county. The effect of the America West bankruptcy on the state economy and, more particularly, the Phoenix economy, is uncertain.

In 1986, the value of Arizona real estate began a steady decline, reflecting a market which had been overbuilt in the previous decade with a resulting surplus of completed inventory. This decline adversely affected both the construction industry and those Arizona financial institutions which had aggressively pursued

many facets of real estate lending. In the neat future, Arizona's financial institutions are likely to continue to experience problems until the excess inventories of commercial and residential properties are absorbed. The problems of the financial institutions have adversely affected employment and economic activity. Longer prospects are brighter, since population growth is still strong by most standards, and Arizona's climate and tourist industry still continue to stimulate the state's economy. However, the previously robust pace of growth by financial institutions is not likely to be repeated over an extended period.

The State operates on a fiscal year beginning July 1 and ending June 30. Fiscal year 1993 refers to the year ending June 30, 1993.

Total General Fund revenues increased 10.8% from fiscal year 1992 to $3.77 billion during fiscal year 1993. Approximately 45% of this budgeted revenue comes from sales and uses taxes, 40% from income taxes (both individual and corporate) and 6% from property taxes and other taxes represented approximately 9%.

For fiscal year 1993 total general fund expenditures were $3.4 billion. These expenditures fell into the following major categories: education (54%), health and welfare (29%), protection and safety (9%), general government (6%), and inspection and regulation, natural resources and transportation (2.0%).

Most or all of the Bonds of the Arizona Trust are not obligations of the State of Arizona, and are not supported by the State's taxing powers. The particular source of payment and security for each of the Bonds is detailed in the instruments themselves and in related offering materials. There can be no assurances, however, with respect to whether the market value of marketability of any of the Bonds issued by an entity other than the State of Arizona will be affected by the financial or other condition of the State or of any entity located within the State. In addition, it should be noted that the State of Arizona, as well as counties, municipalities, political subdivisions and other public authorities of the state, are subject to limitations imposed by Arizona's constitution with respect to ad valorem taxation, bonded indebtedness and other matters. For example, the legislature cannot appropriate revenues in excess of 7% of the total personal income of the state in any fiscal year. These limitations may affect the ability of the issuers to generate revenues to satisfy their debt obligations.

The State of Arizona was recently sued by four named school districts with an additional fifty school districts within the state participating in the suit, claiming that the State's funding system for school buildings and equipment is unconstitutional. The lawsuit does not seek damages, but requests that the court order the State to create a new financing system that sets minimum standards for buildings and furnishings that apply on a statewide basis. The complaint alleges that some school districts have sufficient funds to build outdoor swimming pools, while others have classrooms that leak in the rain. It is unclear, at this time, what effect any judgment would have on state finances or school district budgets. The U.S. Department of Education recently determined that Arizona's educational funding system did not meet federal requirements of equity. This determination could mean a loss in federal funds of approximately $50 million.

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Certain other circumstances are relevant to the market value, marketability and payment of any hospital and health care revenue bonds in the Arizona Trust. The Arizona Legislature attempted unsuccessfully in its 1984 regular and special sessions to enact legislation designed to control health care costs, ultimately adopting three referenda measures placed on the November 1984 general election ballot which in various ways would have regulated hospital and health care facility expansions, rates and revenues. At the same time, a coalition of Arizona employers proposed two initiatives voted on in the November 1984 general election which would have created a State agency with power to regulate hospital and health care facility expansions and rates generally. All of these referenda and initiative propositions were rejected by the voters in the November 1984 general election. Pre-existing State certificate-of-need laws regulating hospital and health care facilities' expansions and services have expired, and a temporary moratorium prohibiting hospital bed Increases and new hospital construction projects and a temporary freeze on hospital rates and charges at June 1984 levels has also expired. Because of such expirations and increasing health care costs, it is expected that the Arizona Legislature will at future sessions continue to attempt to adopt legislation concerning these matters. The effect of any such legislation or of the continued absence of any legislation restricting hospital bed increases and limiting new hospital construction on the ability of Arizona hospitals and other health care providers to pay debt service on their revenue bonds cannot be determined at this time.

Arizona does not participate in the federally administered Medicaid program. Instead, the state administers an alternative program, AHCCCS, which provides health care to indigent persons meeting certain financial eligibility requirements, through managed care programs. In fiscal year 1992, AHCCCS will be financed approximately 52.7% by federal funds, 33.1% by state funds, and 13.6% by county funds.

Under state law, hospitals retain the authority to raise rates with notification and review by, but not approval from, the Department of Health Services. Hospitals in Arizona have experienced profitability problems along with those in other states. At least two Phoenix based hospitals have defaulted on or reported difficulties in meeting their bond obligations during the past three years.

Insofar as tax-exempt Arizona public utility pollution control revenue bonds are concerned, the issuance of such bonds and the periodic rate increases needed to cover operating costs and debt service are subject to regulation by the Arizona Corporation Commission, the only significant exception being the Salt River Project Agricultural Improvement and Power District which, as a Federal instrumentality, is exempt from rate regulation. On July 15, 1991, several creditors of Tucson Electric Power Company ("Tucson Electric") filed involuntary petitions under Chapter 11 of the U.S. Bankruptcy Code to force Tucson Power to reorganize under the supervision of the bankruptcy court. On December 31, 1991, the Bankruptcy Court approved the utility's motion to dismiss the July petition after five months of negotiations between Tucson Electric and its creditors to restructure the utility's debts and other obligations. In December 1992, Tucson Electric announced that it had completed its financial restructuring. In January 1993, Tucson Electric asked the Arizona Corporation Commission for a 9.6% average rate. Tucson Electric serves approximately 270,000 customers, primarily in the Tucson area. Inability of any regulated public utility to secure necessary rate increases could adversely affect, to an indeterminable extent, its ability to pay debt service on its pollution control revenue bonds.

Based on a recent U.S. Supreme Court ruling, the State has determined to refund $197 million, including statutory interest, in State income taxes previously collected from Federal retirees on their pensions. This payment will be made over a four-year period beginning with approximately $14.6 million in tax refunds in fiscal year 1993-94. A combination of tax refunds and tax credits will be used to satisfy this liability.

The assets of the Trust will consist of interest-bearing obligations issued: by or on behalf of the State of Arizona (the "State"), its political subdivisions and authorities (the "Arizona Bonds"), and by or on behalf of the government of Puerto Rico, the government of Guam, or the government of the Virgin Islands (collectively the "Possession Bonds") (collectively the Arizona Bonds and Possession Bonds shall be referred to herein as the "Bonds"), provided the interest on such Bonds is exempt from State income taxes.

At the time of the closing for each Arizona Trust, Special Counsel to the Fund for Arizona tax matters rendered an opinion under then existing Arizona income tax law applicable to taxpayers whose income is subject to Arizona income taxation substantially to the effect that:

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(1) For Arizona income tax purposes, each Unitholder will be treated as the owner of a pro rata portion of the Arizona Trust, and the income of the Trust therefore will be treated as the income of the Unitholder under State law;

(2) For Arizona income tax purposes, interest on the Bonds which is excludable from Federal gross income and which is exempt from Arizona income taxes when received by the Arizona Trust, and which would be excludable from Federal gross income and exempt from Arizona income taxes if received directly by a Unitholder, will retain its status as tax-exempt interest when received by the Arizona Trust and distributed to the Unitholders;

(3) To the extent that interest derived from the Arizona Trust by a Unitholder with respect to the Bonds is excludable from Federal gross income, such interest will not be subject to Arizona income taxes;

(4) Each Unitholder will receive taxable gain or loss for Arizona income tax purposes when Bonds held in the Arizona Trust are sold, exchanged, redeemed or paid at maturity, or when the Unitholder redeems or sells Units, at a price that differs from original cost as adjusted for amortization of Bond discount or premium and other basis adjustments, including any basis reduction that may be required to reflect a Unitholder's share of interest, if any, accruing on Bonds during the interval between the Unitholder's settlement date and the date such Bonds are delivered to the Arizona Trust, if later;

(5) Arizona law does not permit a deduction for interest paid or incurred on indebtedness incurred or continued to purchase or carry Units in the Arizona Trust, the interest on which is exempt from Arizona income taxes;

(6) Neither the Bonds nor the Units will be subject to Arizona property taxes, sales tax or use tax; and

(7) In the case of Trusts for which an insurance policy of policies with respect to the payment of principal and interest on the Arizona Bonds has been obtained by the Depositor, any proceeds paid under such policy or policies issued to the Trust, if any, with respect to the Bonds in the Trust which represent maturing interest on defaulted obligations held by the Trustee will be exempt from State income taxes if, and to the same extent as, such interest would have been so exempt if paid by the issuer of the defaulted obligations.

ARKANSAS TRUSTS. The Constitution of Arkansas specifically prohibits the creation of any State general obligation debt unless authorized in a Statewide general election. Although the State of Arkansas defaulted on some of its general obligation debt during the depression in the later 1930's, it has not failed to pay the principal and interest on any of its general obligations when due since that time.

Act 496 of 1981, as amended, the "Arkansas Water Resources Development Act of 1981" ("Act 496"), authorized the issuance of State Water Resources Development General Obligation Bonds by the State of Arkansas, acting by and through the Arkansas Soil and Water Conservation Commission. The issuance of bonds pursuant to Act 496 was approved by the electors of the State at the general election on November 2, 1982. The total principal amount of bonds issued during any fiscal biennium may not exceed $15,000,000, and the total principal of all bonds issued under Act 496 may not exceed $100,000,000. All Bonds to be issued under Act 496 shall be direct general obligations of the State, the principal and interest of which are payable from the general revenues of the State. Pursuant to Act 496, the State of Arkansas has issued and outstanding two series of bonds in the aggregate principal amount of $28,075,000 under Act 496.

Deficit spending has been prohibited by statute in Arkansas since 1945. The Revenue Stabilization Law requires that before any State spending can take place, there must be an appropriation by the General Assembly and there must be funds available in the fund from which the appropriation has been made. The State is prohibited from borrowing money to put into any State fund from which appropriations can be paid.

Information regarding the financial condition of the State is included for the purpose of providing information about general economic conditions that may affect issuers of the Bonds in Arkansas. The Arkansas economy represents

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approximately 2.0% of the total United States' economy. Its small size causes the Arkansas economy to follow the national economy. Fluctuations in the national economy are often mirrored by coinciding or delayed fluctuations in the Arkansas economy.

Arkansas' economy is both agricultural and manufacturing based. Only five states generate a larger proportion of earnings from agriculture, and only 17 states generate a larger proportion of earnings from manufacturing. Similarly, only 10 states have a larger proportion of employment in agriculture and only 18 states have a larger proportion of employment in manufacturing. Thus, the State of Arkansas feels the full force of the business cycle and also sees the growth swing from positive to negative as conditions in agriculture change.

Agriculture has had a depressant effect on the Arkansas economy regardless of the phase the business cycle was in. In recent years, agricultural employment in Arkansas has been on the decline. In both 1987 and 1988, agricultural employment declined by 1.6%. Agriculture employment also declined in 1989 by 1.6% and should continue to decline according to State forecasters as labor intensive production is shifted to less labor intensive production.

Employment in Arkansas' construction industry decreased 2.3% in 1988. This followed a 5.6% decline in 1987. In 1989, State forecasters anticipated a decline in growth rate of 2.5%. A further decline of 0.7% is expected in 1990.

During the past two decades, Arkansas' economic base has shifted from agriculture to light manufacturing. In 1986, Arkansas ranked fifth in the United States with a 2.1% growth of new manufacturing jobs. The diversification of economic interests has lessened Arkansas' cyclical sensitivity to impact by any single sector. During 1988, total employment increased by 3.4% and total nonagricultural wage and salary employment increased by 2.8%. Total employment growth in Arkansas exceeded the growth rate of total employment in the United States. The average unemployment rate declined from 8.1% in 1987 to 7.7% in 1988. The increase in earnings along with the rise in employment generated a 6.9% increase in total personal income in 1988.

Counties and municipalities may issue general obligation bonds (pledging an ad valorem tax), special obligation bonds (pledging other specific tax revenues) and revenue bonds (pledging only specific revenues from sources other than tax revenues). School districts may issue general obligation bonds (pledging ad valorem taxes). Revenue bonds may also be issued by agencies and instrumentalities of counties, municipalities and the State of Arkansas but as in all cases of revenue bonds, neither the full faith and credit nor the taxing power of the State of Arkansas or any municipality or county thereof is pledged to the repayment of those bonds. Revenue bonds can be issued only for public purposes, including, but not limited to, industry, housing, health care facilities, airports, port facilities and water and sewer projects.

At the time of the closing for each Arkansas Trust Special Counsel to each Arkansas Trust for Arkansas tax matters rendered an opinion under then existing Arkansas income tax law applicable to taxpayers whose income is subject to Arkansas income taxation substantially to the effect that:

The opinion of Chapman and Cutler, counsel for the Sponsor, concludes that each Trust, including the Arkansas Trust, will be governed for Federal tax purposes by the provisions of Subchapter J of Chapter 1 of the Code. Although there are no Arkansas income tax statutes similar to Subchapter J of Chapter 1 of the Code, Arkansas statutory provisions operate to reach the same result that is reached under the Federal system. Arkansas law defines Arkansas gross income for residents similarly to the definition of Federal gross income, and that definition of Arkansas gross income specifically excludes interest on obligations of the State of Arkansas or any political subdivision thereof.

Based upon the foregoing and, in reliance upon the opinion of Chapman and Cutler, counsel to the Sponsor, and upon an examination of such other documents and an Investigation of such other matters of law as we have deemed necessary, it is our opinion that the application of existing Arkansas income tax law to Arkansas Unitholders would be as follows:

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The Arkansas Trust is not taxable as a corporation or otherwise for purposes of Arkansas income taxation;

Each Arkansas Unitholder will be treated as the owner of a pro rata portion of the Arkansas Trust for Arkansas income tax purposes, and the income of the Arkansas Trust will therefore be treated as the income of the Arkansas Unitholders under Arkansas law;

Interest on bonds, issued by the State of Arkansas, or by or on behalf of political subdivisions, agencies or Instrumentalities thereof, that would be exempt from Federal income taxation when paid directly to an Arkansas Unitholder will be exempt from Arkansas income taxation when received by the Arkansas Trust and attributed to such Arkansas Unitholder and when distributed to such Arkansas Unitholder; and

Distribution of Income to Arkansas Unitholders consisting of gains realized upon the sale or other disposition of obligations held by the Arkansas Trust will be subject to Arkansas income taxation to the extent that such income would be subject to Arkansas income taxation if the obligations were held or sold or otherwise disposed of directly by the Arkansas Unitholders.

CALIFORNIA TRUSTS. The Trust will invest substantially all of its assets in California Municipal Obligations. The Trust is therefore susceptible to political, economic or regulatory factors affecting issuers of California Municipal Obligations. These include the possible adverse effects of certain California constitutional amendments, legislative measures, voter initiatives and other matters that are described below. The following information provides only a brief summary of the complex factors affecting the financial situation in California (the "State") and is derived from sources that are generally available to investors and are believed to be accurate. No Independent verification has been made of the accuracy or completeness of any of the following information. It is based in part on information obtained from various State and local agencies in California or contained in official statements for various California Municipal Obligations.

There can be no assurance that future statewide or regional economic difficulties, and the resulting impact on State or local governmental finances generally, will not adversely affect the market value of California Municipal Obligations held in the portfolio of the Fund or the ability of particular obligors to make timely payments of debt service on (or relating to) those obligations.

California's economy is the largest among the 50 states and one of the largest in the world. The State's population of over 30 million represents 12% of the total United States population and grew by 27% in the 1980s. Total personal income in the State, at an estimated $630 billion in 1991, accounts for 13% of all personal income in the nation. Total employment is almost 14 million, the majority of which Is In the service, trade and manufacturing sectors.

Reports issued by the State Department of Finance and the Commission on State Finance (the "COSF") indicate that the State's economy is suffering its worst recession since the 1930s, with prospects for recovery slower than for the nation as a whole. The State has lost over 800,000 jobs since the start of the recession and additional significant job losses are expected before an upturn begins. The largest job losses have been in Southern California, led by declines in the aerospace and construction industries. Weaknesses statewide occurred in manufacturing, construction, services and trade. Unemployment was 7.5% for 1991 (compared to 6.7% nationally), and is expected to be higher than the national average in the near future. The State's economy is only expected to pull out of the recession slowly once the national recovery has begun. Delay In recovery will exacerbate shortfalls in State revenues.

Certain California municipal obligations may be obligations of issuers which rely in whole or in part, directly or indirectly, on ad valorem property taxes as a source of revenue. The taxing powers of California local governments and districts are limited by Article XIIIA of the California Constitution, enacted by the voters in 1978 and commonly known as "Proposition 13." Briefly, Article XIIIA limits to 1% of full cash value the rate of ad valorem property taxes on real property and generally restricts the reassessment of property to 2% per year, except upon new construction or change of ownership (subject to a number of exemptions). Taxing entities may, however, raise ad valorem taxes above the 1% limit to pay debt service on voter-approved bonded indebtedness.

Under Article XIIIA, the basic 1% ad valorem tax levy is applied against the assessed value of property as of the owner's date of acquisition (or as of

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March 1, 1975, if acquired earlier), subject to certain adjustments. This system has resulted in widely varying amounts of tax on similarly situated properties. Several lawsuits have been flied challenging the acquisition-based assessment system of Proposition 13 and on June 18, 1992 the U.S. Supreme Court announced a decision upholding Proposition 13.

Article XIIIA prohibits local governments from raising revenues through ad valorem property taxes above the 1% limit; it also requires voters of any governmental unit to give 2/3 approval to levy any "special tax." However, court decisions allowed non-voter approved levy of "general taxes" which were not dedicated to a specific use. In response to these decisions, the voters of the State in 1986 adopted an initiative statute which imposed significant new limits on the ability of local entities to raise or levy general taxes, except by receiving majority local voter approval. Significant elements of this initiative, "Proposition 62", have been overturned in recent court cases. An initiative proposed to reenact the provisions of Proposition 62 as a constitutional amendment was defeated by the voters in November 1990, but such a proposal may be renewed in the future.

The State and its local governments are subject to an annual "appropriations limit" imposed by Article XIIIB of the California Constitution, enacted by the voters in 1979 and significantly amended by Propositions 98 and 111 in 1988 and 1990, respectively. Article XIIIB prohibits the State or any covered local government from spending "appropriations subject to limitation" in excess of the appropriations limit imposed. "Appropriations subject to limitation" are authorizations to spend.proceeds of taxes," which consists of tax revenues and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed the cost of providing the product or service, but "proceeds of taxes" excludes most State subventions to local governments. No limit is imposed on appropriations or funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds, including bond proceeds.

Among the expenditures not included in the Article XIIIB appropriations limit are (1) the debt service cost of bonds issued or authorized prior to January 1, 1979, or subsequently authorized by the voters, (2) appropriations arising from certain emergencies declared by the Governor, (3) appropriations for certain capital outlay projects, (4) appropriations by the State of post-1989 increases in gasoline taxes and vehicle weight fees, and (5) appropriations made in certain cases of emergency.

The appropriations limit for each year is adjusted annually to reflect changes in cost of living and population, and any transfers of service responsibilities between government units. The definitions for such adjustments were liberalized in 1990 by Proposition 111 to more closely follow growth in California's economy.

"Excess" revenues are measured over a two-year cycle. Local governments must return any excess to taxpayers by rate reduction. The State must refund 50% of any excess, with the other 50% paid to schools and community colleges. With more liberal annual adjustment factors since 1988, and depressed revenues since 1990 because of the recession, few governments are currently operating near their spending limits, but this condition may change over time. Local governments may by voter approval exceed their spending limits for up to four years.

During fiscal year 1986-87, State receipts from proceeds of taxes exceeded its appropriations limit by $1.1 billion, which was returned to taxpayers. Appropriations subject to limitation were under the State limit by $1.2 billion, $259 million, $1.6 million, $7.5 billion and $5.2 billion for the five most recent fiscal years ending with 1991-92. State appropriations are expected to be $4.2 billion under the limit for Fiscal Year 1992-93.

Because of the complex nature of Articles XIIIA and XIIIB of the California Constitution (described briefly above), the ambiguities and possible inconsistencies in their terms, and the impossibility of predicting future appropriations or changes in population and cost of living, and the probability of continuing legal challenges, it is not currently possible to determine fully the impact of Article XIIIA or Article XIIIB on

California Municipal Obligations or on the ability of the State or local

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governments to pay debt service on such California Municipal Obligations. It is not presently possible to predict the outcome of any pending litigation with respect to the ultimate scope, impact or constitutionality of either Article XIIIA or Article XIIIB, or the impact of any such determinations upon State agencies or local governments, or upon their ability to pay debt service on their obligations. Future initiative or legislative changes in laws or the California Constitution may also affect the ability of the State or local issuers to repay their obligations.

As of July 1, 1993, California had approximately $17.6 billion of general obligation bonds outstanding, and $7.2 billion remained authorized but unissued. In addition, at June 30, 1993, the State had lease-purchase obligations, payable from the State's General Fund, of approximately $4.0 billion. In fiscal year 1992-93, debt service on general obligation bonds and lease-purchase debt was approximately 4.1% of General Fund revenues. The State has paid the principal of and interest on its general obligation bonds, lease-purchase debt and short-term obligations when due.

The principal sources of General Fund revenues are the California personal income tax (45% of total revenues), the sales tax (35%), bank and corporation taxes (12%), and the gross premium tax on insurance (3%). The State maintains a Special Fund for Economic Uncertainties (the "Economic Uncertainties Fund"), derived from General Fund revenues, as a reserve to meet cash needs of the General Fund, but which is required to be replenished as soon as sufficient revenues are available. Year-end balances in the Economic Uncertainties Fund are included for financial reporting purposes in the General Fund balance. In recent years, the State has budgeted to maintain the Economic Uncertainties Fund at around 3% of General Fund expenditures but essentially no reserve is budgeted in 1992-93.

Throughout the 1980s, State spending increased rapidly as the State population and economy also grew rapidly, including increased spending for many assistance programs to local governments, which were constrained by Proposition 13 and other laws. The largest State program is assistance to local public school districts. In 1988, an initiative (Proposition 98) was enacted which (subject to suspension by a two-thirds vote of the Legislature and the Governor) guarantees local school districts and community college districts a minimum share of State General Fund revenues (currently about 33%).

Since the start of 1990-91 Fiscal Year, the State has faced adverse economic, fiscal and budget conditions. The economic recession seriously affected State tax revenues. It also caused increased expenditures for health and welfare programs. The State is also facing a structural imbalance in its budget with the largest programs supported by the General Fund (K-14 education, health, welfare and corrections) growing at rates significantly higher than the growth rates for the principal revenue sources of the General Fund. As a result, the State entered a period of budget imbalance, with expenditures exceeding revenues for four of the last five fiscal years. Revenues declined in 1990-91 over 1989-90, the first time since the 1930s. By June 30, 1992, the State's General Fund had an accumulated deficit, on a budget basis, of approximately $2.2 billion.

As a consequence of the large budget imbalances built up over two consecutive years, the State used up all of its available cash resources. The State has to rely increasingly on a series of external borrowings to meet its cash flow requirements.

At the outset of the 1992-93 Fiscal Year, the State estimated that approximately $7.9 billion of budget actions would be required to end the fiscal year without a budget deficit. The difficulty of taking these actions delayed enactment of a budget for more than two months past the start of the 1992-93 Fiscal Year. With the failure to enact a budget by July 1, 1992, the State had no legal authority to pay many of its vendors until the budget was passed; nevertheless, certain obligations (such as debt service, school apportionments, welfare payments and employee salaries) were payable because of continuing or special appropriations or court orders. However, the State Controller did not have enough cash to pay all of these ongoing obligations as they came due, as well as valid obligations incurred in the prior fiscal year.

Because of the delay in enacting the budget, the State could not carry out its normal cash flow borrowing and, starting on July 1, 1992, the Controller was required to issue "registered warrants" in lieu of normal warrants backed by cash to pay many State obligations. Available cash was used to pay constitutionally mandated and priority obligations. Between July 1 and September 3, 1992, the Controller issued an aggregate of approximately $3.8 billion of registered warrants, all of which were called for redemption by September 4, 1992 following enactment of the 1992-93 Budget Act and issuance by the State of $3.3 billion of Interim Notes.

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The 1992-93 Budget Bill was signed by the Governor on September 2, 1992. The 1992-93 Budget Act provides for expenditures of $57.4 billion and consists of General Fund expenditures of $40.8 billion and Special Fund and Bond Fund expenditures of $16.6 billion. The Department of Finance estimated there would be a balance In the Special Fund for Economic Uncertainties of $28 million on June 30, 1993.

The $7.9 billion budget gap was closed through a combination of increased revenues and transfers and expenditure cuts. The principle reductions were in health and welfare, K-12 schools and community colleges, State aid to local governments, higher education (partially offset by increased student fees) and various other programs. In addition, funds were transferred from special funds, collections of State revenues were accelerated, and other adjustments were made.

As in the prior year, the economic and fiscal assumptions on which the 1992-93 Budget Act was based proved to be too optimistic. As the recession in the State entered its third year, with no real upturn predicted until 1994, State revenue again lagged behind projections. The Department of Finance projects current-year revenues will be about $2.4 billion below projections and expenditures $300 million higher. As a result, the Department predicts the General Fund will end at June 30, 1993 with a fund balance deficit of about $2.2 billion, almost unchanged from June 30, 1992. The projected negative balance of the Special Fund for Economic Uncertainties is $2.75 billion.

1993-94 Budget. The 1993-94 Budget represents the third consecutive year of extremely difficult budget choices for the State, in view of the continuing recession. The Budget Act, signed on June 30, 1993, provides for General Fund expenditures of $38.5 billion, a 6.3% decline from the prior year. Revenues are projected at $40.6 billion, about $400 million below the prior year. To bring the budget into balance, the Budget Act and related legislation provided for transfer of $2.6 billion of local property taxes to school districts, thus relieving State support obligations; reductions in health and wealth expenditures; reductions in support for higher education institutions; a two-year suspension of the renters' tax credit; and miscellaneous cuts in general government spending and certain one-time and accounting adjustments. There were no general state tax increases, but a 0.5% temporary state tax scheduled to expire on June 30 was extended for six months, and dedicated to support local government public safety costs.

As part of the 1993-94 Budget, the Governor implemented a plan to repay the accumulated $2.75 billion deficit in the Special Fund for Economic Uncertainties over 18 months, funding the deficit with external borrowing maturing not later than December 31, 1994. About $1.6 billion of the deficit is scheduled to be repaid by June 30, 1994, with the balance paid by December 31, 1994. Taking this borrowing into account, the Department of Finance projects the Special Fund for Economic Uncertainties would have a balance of about $600 million at June 30, 1994, and about $100 million at June 30, 1995.

The State's severe financial difficulties for the current and upcoming budget years will result in continued pressure upon various local governments, particularly school districts and counties which depend on State aid. Despite efforts in recent years to increase taxes and reduce governmental expenditures, there can be no assurance that the State will not face budget gaps in the future.

State general obligation bonds are currently rated "Aa" by Moody's and "A+" by S&F. Both of these ratings were recently reduced from "AAA" levels which the State held until late 1991. There can be no assurance that such ratings will be maintained in the future. It should be noted that the creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State of California, and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

The State is involved in certain legal proceedings (described in the State's recent financial statements) that, if decided against the State, may require the State to make significant future expenditures or may substantially impair revenues.

There are a number of State agencies, instrumentalities and political subdivisions of the State that issue Municipal Obligations, some of which may be conduit revenue obligations payable from payments from private borrowers. These entities are subject to various economic risks and uncertainties, and the credit quality of the securities issued by them may vary considerably from the credit quality of the obligations backed by the full faith and credit of the State.

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Property tax revenues received by local governments declined more than 50% following passage of Proposition 13. Subsequently, the California Legislature enacted measures to provide for the redistribution of the State's General Fund surplus to local agencies, the reallocation of certain State revenues to local agencies and the assumption of certain governmental functions by the State to assist municipal issuers to raise revenues. Through 1990-1991, local assistance (including public schools) accounted for around 75% of General Fund spending. To reduce State General Fund support school districts, the 1992-93 Budget Act caused local governments to transfer $1.3 billion of property tax revenues to school districts, representing loss of almost half the post-Proposition 13 "bail-out" aid. The 1993-94 Budget Act transfers about $2.6 billion of local property taxes to school districts, the largest share ($2 billion) coming from counties, and the balance from cities ($288 million), special districts ($244 million) and redevelopment agencies ($65 million). In order to make up this shortfall to cities and counties, the Legislature has dedicated 0.5% sales tax to local public safety purposes through December 31, 1993. Voters at a statewide election in November 1993 will vote on a permanent extension of this sales tax for local public safety. In addition, the Legislature has changed laws to relieve local governments of certain mandates, allowing them to reduce costs.

To the extent the State should be constrained by its Article XIIIB appropriations limit, or its obligation to conform to Proposition 98, or other fiscal considerations, the absolute level, or the rate of growth, of State assistance to local governments may be reduced. Any such reductions in State aid could compound the serious fiscal constraints already experienced by many local governments, particularly counties. At least one rural county (Butte) publicly announced that it might enter bankruptcy proceedings in August 1990, although such plans were apparently put off after the Governor approved legislation to provide additional funds for the county. Other counties have also indicated that their budgetary condition is extremely grave. The Richmond United School District (Contra Costa County) entered bankruptcy proceedings in May 1991, but the proceedings have been dismissed.

Municipal Obligations which are assessment bonds may be adversely affected by a general decline in real estate values or a slowdown in real estate sales activity. In many cases, such bonds are secured by land which is undeveloped at the time of issuance but anticipated to be developed within a few years after issuance. In the event of such reduction or slowdown, such development may not occur or may be delayed, thereby increasing the risk of a default on the bonds. Because the special assessments or taxes securing these bonds are not the personal liability of the owners of the property assessed, the lien on the property is the only security for the bonds. Moreover, in most cases the issuer of these bonds is not required to make payments on the bonds in the event of delinquency in the payment of assessments or taxes, except from amounts, if any, in a reserve fund established for the bonds.

Certain California long-term lease obligations, though typically payable from the general fund of the municipality, are subject to "abatement" in the event the facility being leased is unavailable for beneficial use and occupancy by the municipality during the term of the lease. Abatement is not a default, and there may be no remedies available to the holders of the certificates evidencing the lease obligation in the event abatement occurs. The most common causes of abatement are failure to complete construction of the facility before the end of the period during which lease payments have been capitalized and uninsured casualty losses

to the facility (e.g., due to earthquake). In the event abatement occurs with respect to a lease obligation, lease payments may be interrupted (if all available insurance proceeds and reserves are exhausted) and the certificates may not be paid when due.

Several years ago the Richmond United School District (the "District") entered into a lease transaction in which certain existing properties of the District were sold and leased back in order to obtain funds to cover operating deficits. Following a fiscal crisis in which the District's finances were taken over by a State receiver (including a brief period under bankruptcy court protection), the District failed to make rental payments on this lease, resulting in a lawsuit by the Trustee for the Certificate of Participation holders, in which the State was a named defendant (on the grounds that it

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controlled the District's finances). One of the defenses raised in answer to this lawsuit was the invalidity of the original lease transaction. The case is still in very preliminary stages, and it is not known how it will be resolved. If the case goes to trial, a judgment against the Trustee may have adverse implications for lease transactions of a similar nature by other California entities.

The repayment of Industrial Development Securities secured by real property may be affected by California laws limiting foreclosure rights of creditors. Securities backed by health care and hospital revenues may be affected by changes in State regulations governing cost reimbursements to health care providers under Medi-Cal (the State's Medicaid program), including risks related to the policy of awarding exclusive contracts to certain hospitals.

Limitations on ad valorem property taxes may particularly affect "tax allocation" bonds issued by California redevelopment agencies. Such bonds are secured solely by the increase in assessed valuation of a redevelopment project area after the start of redevelopment activity. In the event that assessed values in the redevelopment project decline (for example, because of a major natural disaster such as an earthquake), the tax increment revenue may be insufficient to make principal and interest payments on these bonds. Both Moody's and S&P suspended ratings on California tax allocation bonds after the enactment of Article XIIIA and Article XIIIB, and only resumed such ratings on a selective basis.

Proposition 87, approved by California voters in 1988, requires that all revenues produced by a tax rate increase go directly to the taxing entity which increased such tax rate to repay that entity's general obligation indebtedness. As a result, redevelopment agencies (which, typically, are the Issuers of Tax Allocation Securities) no longer receive an increase in tax increment when taxes on property in the project area are increased to repay voter-approved bonded indebtedness.

The effect of these various constitutional and statutory changes upon the ability of California municipal securities issuers to pay interest and principal on their obligations remains unclear. Furthermore, other measures affecting the taxing or spending authority of California or its political subdivisions may be approved or enacted in the future. Legislation has been or may be introduced which would modify existing taxes or

other revenue-raising measures or which either would further limit or, alternatively, would increase the abilities of state and local governments to impose new taxes or increase existing taxes. It is not presently possible to determine the impact of any such legislation on California Municipal Obligations in which the Fund may invest future allocations of state revenues to local governments or the abilities of state or local governments to pay the interest on, or repay the principal of, such California Municipal Obligations.

Substantially all of California is within an active geologic region subject to major seismic activity. Any California Municipal Obligation in the Portfolio could be affected by an interruption of revenues because of damaged facilities, or, consequently, income tax deductions for casualty losses or property tax assessment reductions. Compensatory financial assistance could be constrained by the inability of (i) an issuer to have obtained earthquake insurance coverage at reasonable rates; (ii) an insurer to perform on its contracts of insurance in the event of widespread losses; or (iii) the Federal or State government to appropriate sufficient funds within their respective budget limitations.

At the time of the closing for each California Trust, Special Counsel to each California Trust for California tax matters, rendered an opinion under then existing California income tax law applicable to taxpayers whose income is subject to California income taxation substantially to the effect that:

(1) The California Trust is not an association taxable as a corporation and the income of the California Trust will be treated as the income of the Unitholders under the Income tax laws of California;

(2) amounts treated as interest on the underlying Securities in the California Trust which are exempt from tax under California personal income tax and property tax laws when received by the California Trust will, under such laws, retain their status as tax-exempt interest when distributed to Unitholders. However, interest on the underlying Securities attributed to a Unitholder which is a corporation subject to the California franchise tax laws may be includable in its gross income for purposes of determining its California franchise tax. Further, certain interest which is

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attributable to a Unitholder subject to the California personal income tax and which is treated as an item of tax preference for purposes of the federal alternative minimum tax pursuant to Section 57(a)(5) of the Internal Revenue Code of 1986 may also be treated as an Item of tax preference that must be taken into account in computing such Unitholder's alternative minimum taxable income for purposes of the California alternative minimum tax enacted by 1987 California Statutes, chapter 1138. However, because of the provisions of the California Constitution exempting the interest on bonds issued by the State of California, or by local governments within the state, from taxes levied on income, the application of the new California alternative minimum tax to Interest otherwise exempt from the California personal income tax in some cases may be unclear;

(3) under California income tax law, each Unitholder in the California Trust will have a taxable event when the California Trust disposes of a Security (whether by sale, exchange, redemption, or payment at maturity) or when the Unitholder redeems or sells Units. Because of the requirement that tax cost basis be reduced to reflect amortization of bond premium, under some circumstances a Unitholder may realize taxable gains when Units are sold or redeemed for an amount equal to,

or less than, their original cost. The total cost of each Unit in the California Trust to a Unitholder is allocated among each of the Bond issues held in the California Trust (in accordance with the proportion of the California Trust comprised by each Bond issue) in order to determine his per Unit tax cost for each Bond issue; and the tax cost reduction requirements relating to amortization of bond premium will apply separately to the per Unit tax cost of each Bond issue. Unitholders' bases in their Units, and the bases for their fractional interest in each Trust asset, may have to be adjusted for their pro rata share of accrued interest received, if any, on Securities delivered after the Unitholders' respective settlement dates;

(4) under the California personal property tax laws, bonds (including the Securities in the California Trust) or any interest therein is exempt from such tax;

(5) any proceeds paid under the insurance policy issued to the California Trust with respect to the Securities which represent maturing interest on defaulted obligations held by the Trustee will be exempt from California personal income tax if, and to the same extent as, such interest would have been so exempt if paid by the issuer of the defaulted obligations; and

(6) under Section 17280(b)(2) of the California Revenue and Taxation Code, interest on indebtedness incurred or continued to purchase or carry Units of the California Trust is not deductible for the purposes of the California personal income tax. While there presently is no California authority interpreting this provision, Section 17280(b)(2) directs the California Franchise Tax Board to prescribe regulations determining the proper allocation and apportionment of Interest costs for this purpose. The Franchise Tax Board has not yet proposed or prescribed such regulations. In interpreting the generally similar Federal provision, the Internal Revenue Service has taken the position that such indebtedness need not be directly traceable to the purchase or carrying of Units (although the Service has not contended that a deduction for interest on indebtedness incurred to purchase or improve a personal residence or to purchase goods or services for personal consumption will be disallowed). In the absence of conflicting regulations or other California authority, the California Franchise Tax Board generally has interpreted California statutory tax provisions in accord with Internal Revenue Service interpretations of similar Federal provisions.

At the respective times of issuance of the Securities, opinions relating to the validity thereof and to the exemption of interest thereon from Federal income tax and California personal income tax are rendered by bond counsel to the respective issuing authorities. Except in certain instances in which Special Counsel acted as bond counsel to issuers of Securities, and as such made a review of proceedings relating to the issuance of certain Securities at the time of their issuance, Special Counsel has not made any special review for the California Trusts of the proceedings relating to the issuance of the Securities or of the basis for such opinions.

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COLORADO TRUSTS. The State Constitution requires that expenditures for any fiscal year not exceed revenues for such fiscal year. By statute, the amount of General Fund revenues available for appropriation is based upon revenue estimates which, together with other available resources, must exceed annual appropriations by the amount of the unappropriated reserve (the "Unappropriated Reserve"). The

Unappropriated Reserve requirement for fiscal years 1991, 1992 and 1993 was set at 3% to enable it to respond to prison overcrowding. For fiscal year 1992 and thereafter, General Fund appropriations are also limited to an amount equal to the cost of performing certain required reappraisals of taxable property plus an amount equal to the lesser of (i) five percent of Colorado personal income or (ii) 106% of the total General Fund appropriations for the previous fiscal year. This restriction does not apply to any General Fund appropriations which are required as a result of a new federal law, a final state or federal court order or moneys derived from the increase in the rate or amount of any tax or fee approved by a majority of the registered electors of the State voting at any general election. In addition, the limit on the level of General Fund appropriations may be exceeded for a given fiscal year upon the declaration of a State fiscal emergency by the State General Assembly.

The 1991 fiscal year end fund balance was $16.3 million, which was $62.8 million below the 3% Unappropriated Reserve requirement. As of the end of the 1992 fiscal year, the fund balance was $133.3 million, which was $49.1 million over the 3% Unappropriated Reserve requirement. Based on June 20, 1993 estimates, the 1993 fiscal year ending fund balance is expected to be $218.8 million, or $189.7 million over the 3% required Unappropriated Reserve

On November 3, 1992 voters in Colorado approved a constitutional amendment (the "Amendment") which, in general, became effective December 31, 1992, and which could severely restrict the ability of the State and local governments to increase revenues and impose taxes. The Amendment applies to the State and all local governments, including home rule entities ("Districts"). Enterprises, defend as government-owned businesses authorized to issue revenue bonds and receiving under 10% of annual revenue in grants from all Colorado state and local governments combined, are excluded from the provisions of the Amendment.

The provisions of the Amendment are unclear and would probably require judicial interpretation. Among other provisions, beginning November 4, 1992, the Amendment requires voter approval prior to tax increases, creation of debt, or mill levy or valuation for assessment ratio increases. The Amendment also limits increases in government spending and property tax revenues to specified percentages. The Amendment requires that District property tax revenues yield no more than the prior year's revenues adjusted for inflation, voter approved changes and (except with regard to school districts) local growth in property values according to a formula set forth in the Amendment. School districts are allowed to adjust tax levies for changes in student enrollment. Pursuant to the Amendment, local government spending is to be limited by the same formula as the limitation for property tax revenues. The Amendment limits increases in expenditures from the State general fund and program revenues (cash funds) to the growth in inflation plus the percentage change in State population in the prior calendar year. The bases for initial spending and revenue limits are 1992 fiscal year spending and 1991 property taxes collected in 1992. The bases for spending and revenue limits for fiscal year 1994 and later years will be the prior fiscal year's spending and property taxes collected in the prior calendar year. Debt service changes, reductions and voter-approved revenue changes are excluded from the calculation bases. The Amendment also prohibits new or increased real property transfer tax rates, new State real property taxes and local District income taxes.

According to the Colorado Economic Perspective, Fourth Quarter, FY 1992-93, June 20, 1993 (the "Economic Report"), inflation for 1992 was 3.7% and population grew at the rate of 2.7% in Colorado. Accordingly, under the Amendment, increases in State expenditures during the 1994 fiscal year will be limited to 6.4% over expenditures during the 1993 fiscal year. The 1993 fiscal year is the base year for calculating the limitation for the 1994 fiscal year. For the 1993 fiscal year, the Office of the State Planning and Budgeting estimates that general fund revenues will total $3,341.7 million and that program revenues (cash funds) will total $1,753.4 million, or total estimated

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base revenues of $5,095.1 million. Expenditures for the 1994 fiscal year, therefore, cannot exceed $5,421.2 million. However, the 1994 fiscal year general fund and program revenues (cash funds) are projected to be only $5,220.4 million, or $200.8 million less than expenditures allowed under the spending limitation.

There is also a statutory restriction on the amount of annual increases in taxes that the various taxing jurisdictions in Colorado can levy without electoral approval. This restriction does not apply to taxes levied to pay general obligation debt.

As the State experienced revenue shortfalls in the mid-1980s, it adopted various measures, including impoundment of funds by the Governor, reduction of appropriations by the General Assembly, a temporary increase in the sales tax, deferral of certain tax reductions and inter-fund borrowings. On a GAAP basis, the State had unrestricted General Fund balances at June 30 of approximately $100.3 million in fiscal year 1988, $134.8 million in fiscal year 1989 $116.6 million in fiscal year 1990, $16.3 million in fiscal year 1991 and $133.3 million in fiscal year 1992. The fiscal year 1993 unrestricted general fund is currently estimated to be $281.8 million.

For fiscal year 1992, the following tax categories generated the following respective revenue percentages of the States's $2,995.8 million total gross receipts: individual taxes represented 53.7% of gross fiscal year 1992 receipts; excise taxes represented 33.4% of gross fiscal year 1992 receipts; and corporate income taxes represented 3.7% of gross fiscal year 1992 receipts. The final budget for fiscal year 1993 projects general fund revenues of approximately $3,341.7 million and appropriations of approximately $3,046.7 million. The percentages of general fund revenue generated by type of tax for fiscal year 1993 are not expected to be significantly different from fiscal year 1992 percentages.

Under its constitution, the State of Colorado is not permitted to issue general obligation bonds secured by the full faith and credit of the State. However, certain agencies and instrumentalities of the State are authorized to issue bonds secured by revenues from specific projects and activities. The State enters into certain lease transactions which are subject to annual renewal at the option of the State. In addition, the State is authorized to issue short-term revenue anticipation notes. Local governmental units in the State are also authorized to incur indebtedness. The major source of financing for such local government indebtedness is an ad valorem property tax. In addition, in order to finance public projects, local governments in the State can issue revenue bonds payable from the revenues of a utility or enterprise or from the proceeds of an excise tax, or assessment bonds payable from special assessments. Colorado local governments can also finance

public projects through leases which are subject to annual appropriation at the option of the local government. Local governments in Colorado also issue tax anticipation notes. The Amendment requires prior voter approval for the creation of any multiple fiscal year debt or other financial obligation whatsoever, except for refundings at a lower rate or obligations of an enterprise.

Based on data published by the State of Colorado, Office of State Planning and Budgeting as presented in the Economic Report, over 50% of non-agricultural employment in Colorado in 1992 was concentrated in the retail and wholesale trade and service sectors, reflecting the importance of tourism to the State's economy and of Denver as a regional economic and transportation hub. The government and manufacturing sectors followed as the fourth and fifth largest employment sectors in the State, representing approximately 18.3% and 11.5%, respectively, of non-agricultural employment in the State in 1992.

According to the Economic Report, during the first quarter of 1993, 45,900 net new jobs were generated in the Colorado economy, an increase of 24.4% over the first quarter of 1992. However, the unemployment rate rose from an average of 5.5% during the first quarter of 1992 to 5.8% during the first quarter of 1993. Total retail sales increased by 9.8% during the first quarter of 1993 as compared to the same period in 1992.

Personal income rose 6.6% in Colorado during 1992 and 5.5% in 1991. In 1992, Colorado was the twelfth fastest growing state in terms of personal income growth. However, because of heavy migration into the state and a large increase in low-paying retail sector jobs, per capita personal income in Colorado increased by only 3.8% in 1992, 0.1% below the increase in per capita personal income for the nation as a whole.

Economic conditions in the State may have continuing effects on other governmental units within the State (including issuers of the Bonds in the

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Colorado Trust), which, to varying degrees, have also experienced reduced revenues as a result of recessionary conditions and other factors.

At the time of the closing for each Colorado Trust, Special Counsel to the Fund for Colorado tax matters rendered an opinion under then existing Colorado income tax law applicable to taxpayers whose income is subject to Colorado income taxation substantially to the effect that:

With respect to Colorado Unitholders, in view of the relationship between Federal and Colorado tax computations described above:

(1) each Colorado Unitholder will be treated as owning a pro rata share of each asset of the Colorado Trust for Colorado income tax purposes in the proportion that the number of Units of such Trust held by the Unitholder bears to the total number of outstanding Units of the Colorado Trust, and the income of the Colorado Trust will therefore be treated as the income of each Colorado Unitholder under Colorado law in the proportion described;

(2) interest on Bonds that would not be includable in income for income tax purposes when paid directly to a Colorado Unitholder will be exempt from Colorado income taxation when received by the Colorado Trust and attributed to such Colorado Unitholder and when distributed to such Colorado Unitholder;

(3) to the extent that interest paid and original issue discount, if any, derived from the Colorado Trust by a Unitholder with respect to Possession Bonds is excludable from gross income for Federal income tax purposes pursuant to 48 U.S.C. Section 745, 48 U.S.C. Section 1423a, and 48 U.S.C. Section 1403, such interest paid and original issue discount, if any, will not be subject to the Colorado State Income Tax; however, no opinion is expressed herein regarding taxation of interest paid and original issue discount, if any, on the Possession Bonds received by the Colorado Trust and distributed to Unitholders under any other tax imposed pursuant to Colorado law;

(4) any proceeds paid under individual policies obtained by issuers of Bonds in the Colorado Trust which represent maturing interest on defaulted obligations held by the Trustee will not be includable in income for Colorado income tax purposes if, and to the same extent as, such interest would have been so excludable if paid in the normal course by the issuer of the defaulted obligations;

(5) each Colorado Unitholder will realize taxable gain or loss when the Colorado Trust disposes of a Bond (whether by sale, exchange, redemption, or payment at maturity) or when the Colorado Unitholder redeems or sells Units at a price that differs from original cost as adjusted for amortization of bond discount or premium and other basis adjustments (including any basis reduction that may be required to reflect a Colorado Unitholder's share of interest, if any, accruing on Bonds during the interval between the Colorado Unitholder's settlement date and the date such Bonds are delivered to the Colorado Trust, if later);

(6) tax cost reduction requirements relating to amortization of bond premium may, under some circumstances, result in Colorado Unitholders realizing taxable gain when their Units are sold or redeemed for an amount equal to or less than their original cost; and

(7) if interest on indebtedness incurred or continued by a Colorado Unitholder to purchase Units in the Colorado Trust is not deductible for Federal income tax purposes, it also will be nondeductible for Colorado income tax purposes.

Unitholders should be aware that all tax-exempt interest, including their share of interest on the Bonds paid to the Colorado Trust, is taken into account for purposes of determining eligibility for the Colorado Property Tax/Rent/Heat Rebate.

KANSAS TRUSTS. Since the Kansas Trust will invest substantially all of its assets in Kansas municipal securities, the Kansas Trust is susceptible to political and economic factors affecting issuers of Kansas municipal securities. As of 1991, 2,494,366 people lived in Kansas, representing a .69% increase in

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population since the 1990 census. Based on these numbers, Kansas ranked twenty-first in the nation in terms of per capita income. Historically, agriculture and mining constituted the principal industries in Kansas. Since the 1950s, however, manufacturing, governmental services and the services industry have steadily grown, and as of 1993 approximately 15.7% of Kansas workers were in the manufacturing sector, 20.8% in the government sector and 23.3% in the services sector (not including transportation, public utilities, trade, finance, insurance and real estate), while the farming and mining sectors combined for approximately 5.0% of the work force. The 1991 unemployment rate was 4.4%, and the seasonally adjusted rate for December 1992 was 4.2%. By constitutional mandate, Kansas must operate within a balanced budget and public debt may only be incurred for extraordinary purposes and then only to a maximum of $1 million. As of November 12, 1992, Kansas had no general obligation bonds outstanding.

At the time of the closing for each Kansas Trust, Special Counsel to each Kansas Trust for Kansas tax matters, rendered an opinion under then existing Kansas income tax law applicable to taxpayers whose income is subject to Kansas income taxation substantially to the effect that:

The Trust is not an association taxable as a corporation for Kansas income tax purposes;

Each Unitholder of the Trust will be treated as the owner of a pro rata portion of the Trust, and the income and deductions of the Trust will therefore be treated as income of the Unitholder under Kansas law;

Interest on Bonds issued after December 31, 1987 by the State of Kansas or any of its political subdivisions will be exempt from income taxation imposed on individuals, corporations and fiduciaries (other than insurance companies, banks, trust companies or savings and loan associations) however, interest on Bonds issued prior to January 1, 1988 by the State of Kansas or any of its political subdivisions will not be exempt from income taxation imposed on individuals, corporations and fiduciaries (other than insurance companies, banks, trust companies or savings and loan associations) unless the laws of the State of Kansas authorizing the issuance of such Bonds specifically exempt the interest on the Bonds from income taxation by the State of Kansas;

Interest on Bonds issued by the State of Kansas or any of its political subdivisions will be subject to the tax imposed on banks, trust companies and savings and loan associations under Article 11, Chapter 79 of the Kansas statutes;

Interest on Bonds issued by the State of Kansas or any of its political subdivisions will be subject to the tax imposed on insurance companies under Article 40, Chapter 28 of the Kansas statutes unless the laws of the State of Kansas authorizing the issuance of such Bonds specifically exempt the interest on the Bonds from income taxation by the State of Kansas; interest on the Bonds which is exempt from Kansas income taxation when received by the Trust will continue to be exempt when distributed to a Unitholder (other than a bank, trust company or savings and loan association);

Each Unitholder of the Trust will recognize gain or loss for Kansas income tax purposes if the Trustee disposes of a Bond (whether by sale, exchange, payment on maturity, retirement or otherwise) or if the Unitholder redeems or sells Units of the Trust to the extent that such transaction results in a recognized gain or loss for federal income tax purposes;

Interest received by the Trust on the Bonds is exempt from intangibles taxation imposed by any counties, cities and townships pursuant to present Kansas law; and

No opinion is expressed regarding whether the gross earnings derived from the Units is subject to intangibles taxation imposed by any counties, cities and townships pursuant to present Kansas law.

KENTUCKY TRUSTS. The Commonwealth of Kentucky leads the nation in total tonnage of coal produced and ranks among the top 10 states in the value of all minerals produced. Tobacco is the dominant agricultural crop and Kentucky ranks second among the states in the total cash value of tobacco raised. The manufacturing mix in the state reflects a significant diversification. In addition to the traditional concentration of tobacco processing plants and bourbon distilleries, there is considerable durable goods production, such as

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automobiles, heavy machinery, consumer appliances and office equipment. The State's parks system and the horse breeding and racing industry, symbolized by the Kentucky Derby, play an important role in an expanding tourist business in the state.

Current economic problems, including particularly the continuing high unemployment rate, have had varying effects on the differing geographic areas of the State and the political subdivisions located within such geographic areas. Although revenue obligations of the State or its political subdivisions may be payable from a specific source or project, there can be no assurance that further economic difficulties and the resulting impact on State and local governmental finances will not adversely affect the market value of the Bonds in a Kentucky Trust or the ability of the respective obligors to pay debt service of such Bonds.

At the time of the closing for each Kentucky Trust, Special Counsel to each Kentucky Trust for Kentucky tax matters rendered an opinion under then existing Kentucky income tax law applicable to taxpayers whose income is subject to Kentucky income taxation substantially to the effect that:

Because Kentucky income tax law is based upon the Federal law and in explicit reliance upon the opinion of Chapman and Cutler referred to above, and in further reliance on the determination letter to us of the Revenue Cabinet of Kentucky dated May 10, 1984, it is our opinion that the application of existing Kentucky income tax law would be as follows:

Each Kentucky Unitholder will be treated as the owner of a pro rata portion of the Kentucky Trust for Kentucky income tax purposes, and the income of the Kentucky Trust will therefore be treated as the income of the Kentucky Unitholders under Kentucky law;

Interest on Bonds that would be exempt from Federal income taxation when paid directly to a Kentucky Unitholder will be exempt from Kentucky income taxation when: (i) received by the Kentucky Trust and attributed to such Kentucky Unitholder; and (ii) when distributed to such Kentucky Unitholder;

Each Kentucky Unitholder will realize taxable gain or loss when the Kentucky Trust disposes of a Bond (whether by sale, exchange, redemption or payment of maturity) or when the Kentucky Unitholder redeems or sells Units at a price that differs from original cost as adjusted for amortization or accrual, as appropriate, of bond discount or premium and other basis adjustments (including any basis reduction that may be required to reflect a Kentucky Unitholder's share of interest, if any, accruing on Bonds during the interval between the Kentucky Unitholder's settlement date and the date such Bonds are delivered to the Kentucky Trust, if later);

Tax cost reduction requirements relating to amortization of bond premium may, under some circumstances, result in Kentucky Unitholders realizing taxable gain when their Units are sold or redeemed for an amount equal to or less than their original cost;

Units of the Kentucky Trust, to the extent the same represent an ownership in obligations issued by or on behalf of the Commonwealth of Kentucky or governmental units of the Commonwealth of Kentucky, the interest on which is exempt from Federal and Kentucky income taxation will not be subject to ad valorem taxation by the Commonwealth of Kentucky or any political subdivision thereof, and

If interest on indebtedness incurred or continued by a Kentucky Unitholder to purchase Units in the Kentucky Trust is not deductible for Federal income tax purposes, it also will be nondeductible for Kentucky income tax purposes.

MICHIGAN TRUSTS. Investors should be aware that the economy of the State of Michigan has, in the past, proven to be cyclical, due primarily to the fact that the leading sector of the State's economy is the manufacturing of durable goods. While the State's efforts to diversify its economy have proven successful, as reflected by the fact that the share of employment in the State in the durable goods sector has fallen from 33.1 percent in 1960 to 17.9 percent in 1990, durable goods manufacturing still represents a sizable portion of the State's economy. As a result, any substantial national economic downturn is likely to have an adverse effect on the economy of the State and on the revenues of the State and some of its local governmental units.

In May 1986, Moody's Investors Service raised the State's general obligation bond rating to "A1." In October 1989, Standard & Poor's Corporation raised its rating on the State's general obligation bonds to "AA".

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The State's economy could continue to be affected by changes in the auto industry, notably consolidation and plant closings resulting from competitive pressures and over-capacity. Such actions could adversely affect State revenues and the financial impact on the local units of government in the areas in which plants are closed could be more severe.

General Motors Corporation has announced the scheduled closing of several of its plants in Michigan in 1993 and 1994. The impact these closures will have on the State's revenues and expenditures is not currently known. The impact on the financial condition of the municipalities in which the plants are located may be more severe than the impact on the State itself.

In recent years, the State has reported its financial results in accordance with generally accepted accounting principles. For each of the five fiscal years ending with the fiscal year ended September 30, 1989, the State reported positive year-end General Fund balances and positive cash balances in the combined General Fund/School Aid Fund. For the fiscal years ending September 30 1990 and 1991, the State reported negative year-end General Fund Balances of $310.4 million and $169.4 million, respectively, negative year-end General Fund Balances of $310.4 million and $169.4 million, respectively, but ended the 1992 fiscal year with its general fund in balance. In the 1993 fiscal year, the State took actions to eliminate a projected year-end general fund deficit of $370 million, but the final financial reports for the 1993 fiscal year have not yet been released. A positive cash balance in the combined General Fund/School Aid Fund was recorded at September 30, 1990. Since 1991 the State has experienced deteriorating cash balances which have necessitated short term borrowing and the deferral of certain scheduled cash payments. The State borrowed $900 million for cash flow purposes in the 1992 fiscal year. The State's Budget Stabilization Fund was nearly depleted with a $168 million transfer to the General Fund for the 1992 State fiscal year.

The Michigan Constitution of 1963 limits the amount of total revenues of the State raised from taxes and certain other sources to a level for each fiscal year equal to a percentage of the State's personal income for the prior calendar year. In the event that the State's total revenues exceeds the limit by 1 percent or more, the Michigan Constitution of 1963 requires that the excess be refunded to taxpayers.

In the summer of 1993, the State adopted legislation which modifies the local ad valorem property tax system by exempting all property from school operating millage beginning December 31, 1993, changing the date on which property valuation is determined (which will have the effect of freezing assessed values on property for one year, with a one-year lag in assessment changes thereafter). The legislation contains no provisions replacing school operating revenues or tax increment revenues lost as a result of the elimination of school operating taxes, or to assure payment of bonds pledging those revenues. The ability of taxing units to levy millage to pay voted unlimited tax general obligation debt is not impaired by the legislation. While the impact of the legislation and the ultimate nature, extent and impact of any additional property tax reform measures cannot currently be predicted, investors should be alert to the potential effect of the movement for property tax and school finance reform in Michigan upon bonds issued by the State and local units for government in Michigan, and the security therefor.

Although all or most of the Bonds in each Michigan Trust are revenue obligations or general obligations of local governments or authorities rather than general obligations of the State of Michigan itself, there can be no assurance that any financial difficulties the State may experience will not adversely affect the market value or marketability of the Bonds or the ability of the respective obligors to pay interest on or principal of the Bonds, particularly in view of the dependency of local governments and other authorities upon State aid and reimbursement programs and, in the case of bonds issued by the State Building Authority, the dependency of the State Building Authority on the receipt of rental payments from the State to meet debt service requirements upon such bonds. In the 1991 fiscal year, the State deferred certain scheduled cash payments to municipalities, school districts, universities and community colleges. While such deferrals were made up at specified later dates, similar future deferrals could have an adverse impact on the cash position of some local governmental units. Additionally, the State reduced revenue sharing payments to municipalities below that level provided under formulas by $10.9 million in the 1991 fiscal year and $34.4 million in

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the 1992 fiscal year.

The Michigan Trust may contain general obligation bonds of local units of government pledging the full faith and credit of the local unit which are payable from the levy of ad valorem taxes on taxable property within the jurisdiction of the local unit. Such bonds issued prior to December 22, 1978, or issued after December 22, 1978 with the approval of the electors of the local unit, are payable from property taxes levied without limitation as to rate or amount. With respect to bonds issued after December 22, 1978, and which were not approved by the electors of the local unit, the tax levy of the local unit for debt service purposes is subject to constitutional, statutory and charter tax rate limitations. In addition, several major industrial corporations have instituted challenges of their ad valorem property tax assessments in a number of local municipal units in the State. If successful, such challenges could have an adverse impact on the ad valorem tax bases of such units which could adversely affect their ability to raise funds for operating and debt service requirements.

At the time of the closing for each Michigan Trust, Special Counsel to each Michigan Trust for Michigan tax matters rendered an opinion under then existing Michigan income tax law applicable to taxpayers whose income is subject to Michigan income taxation substantially to the effect that:

(1) A Michigan Trust and the owners of Units will be treated for purposes of the Michigan income tax laws and the Single Business Tax in substantially the same manner as they are for purposes of the Federal income tax laws, as currently enacted. Accordingly, we have relied upon the opinion of Chapman and Cutler as to the applicability of Federal income tax under the Internal Revenue Code of 1986 to a Michigan Trust and the Holders of Units;

(2) Under the income tax laws of the State of Michigan, a Michigan Trust is not an association taxable as a corporation; the income of a Michigan Trust will be treated as the income of the Unitholders and be deemed to have been received by them when received by a Michigan Trust. Interest on the underlying Bonds which is exempt from tax under these laws when received by a Michigan Trust will retain its status as tax exempt interest to the Unitholders;

(3) For purposes of the foregoing Michigan tax laws, each Unitholder will be considered to have received his pro rata share of Bond interest when it is received by a Michigan Trust and each Unitholder will have a taxable event when a Michigan Trust disposes of a Bond (whether by sale, exchange, redemption or payment at maturity) or when the Unitholder redeems or sells his Certificate to the extent the transaction constitutes a taxable event for Federal income tax purposes. The tax cost of each unit to a Unitholder will be established and allocated for purposes of these Michigan tax laws in the same manner as such cost is established and allocated for Federal income tax purposes;

(4) Under the Michigan Intangibles Tax, a Michigan Trust is not taxable and the pro rata ownership of the underlying Bonds, as well as the interest thereon, will be exempt to the Unitholders to the extent the Michigan Trust consists of obligations of the State of Michigan or its political subdivisions or municipalities, or of obligations of possessions of the United States;

(5) The Michigan Single Business Tax replaced the tax on corporate and financial institution income under the Michigan Income Tax, and the Intangible Tax with respect to those intangibles of persons subject to the Single Business Tax the income from which would be considered in computing the Single Business Tax. Persons are subject to the Single Business Tax only if they are engaged in "business activity", as defined in the Act. Under the Single Business Tax, both interest received by a Michigan Trust on the underlying Bonds and any amount distributed from a Michigan Trust to a Unitholder, if not included in determining taxable income for Federal income tax purposes, is also not included in the adjusted tax base upon which the Single Business Tax is computed, of either a Michigan Trust or the Unitholders. If a Michigan Trust or the Unitholders have a taxable event for Federal income tax purposes when a Michigan Trust disposes of a Bond (whether by sale, exchange, redemption or payment at maturity) or the Unitholder redeems or sells his Certificate, an amount equal to any gain realized from such taxable event which was included in the computation of taxable income for Federal income tax purposes (plus an amount equal to any capital gain of an individual realized in connection with such event but excluded in computing

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that individual's Federal taxable income) will be included in the tax base against which, after allocation, apportionment and other adjustments, the Single Business Tax is computed. The tax base will be reduced by an amount equal to any capital loss realized from such a taxable event, whether or not the capital loss was deducted in computing Federal taxable income in the year the loss occurred. Unitholders should consult their tax advisor as to their status under Michigan law;

(6) Any proceeds paid under an insurance policy issued to the Trustee of a Trust, or paid under individual policies obtained by issuers of Bonds, which, when received by the Unitholders, represent maturing interest on defaulted obligations held by the Trustee, will be excludable from the Michigan income tax laws and the Single Business Tax if, and to the same extent as, such interest would have been so excludable if paid by the issuer of the defaulted obligations. While treatment under the Michigan Intangibles Tax is not premised upon the characterization of such proceeds under the Internal Revenue Code, the Michigan Department of Treasury should adopt the same approach as under the Michigan income tax laws and the Single Business tax; and

(7) As the Tax Reform Act of 1986 eliminates the capital gain deduction for tax years beginning after December 31, 1986, the federal adjusted gross income, the computation base for the Michigan Income Tax, of a Unitholder will be increased accordingly to the extent such capital gains are realized when the Michigan Trust disposes of a Bond or when the Unitholder redeems or sells a Unit, to the extent such transaction constitutes a taxable event for Federal income tax purposes.

MINNESOTA TRUSTS. In the early 1980s, the State of Minnesota experienced financial difficulties due to a downturn in the State's economy resulting from the national recession. As a consequence, the State's revenues were significantly lower than anticipated in the July 1, 1979 to June 30, 1981 biennium and the July 1, 1981 to June 30, 1983 biennium.

In response to revenue shortfalls, the legislature broadened and increased the State sales tax, increased income taxes (by increasing rates and eliminating deductions) and reduced appropriations and deferred payment of State aid, Including appropriations for and aids to local governmental units. The State's fiscal problems affected other governmental units within the State, such as local government, school districts and state agencies, which, in varying degrees, also faced cash flow difficulties. In certain cases, revenues of local governmental units and agencies were reduced by the recession.

Because of the State's fiscal problems, Standard & Poor's Corporation reduced its rating on the State's outstanding general obligation bonds from AAA to AA+ in August 1981 and to AA in March 1982. Moody's Investors Service, Inc. lowered its rating on the State's outstanding general obligation bonds from Aaa to Aa in April 1982. The State's economy recovered in the July 1, 1983 to June 30, 1985 biennium, and substantial reductions in the individual Income tax were enacted in 1984 and 1985. Standard & Poor's raised its rating on the State's outstanding general obligation bonds to AA+ in January 1985. In 1986, 1987 and 1991, legislation was required to eliminate projected budget deficits by raising additional revenue, reducing expenditures, including aid to political subdivisions and higher education, and making other budgetary adjustments. A budget forecast released by the Minnesota Department of Finance on February 27, 1992 projected a $569 million budget shortfall, primarily attributable to reduced income tax receipts, for the biennium ending June 30, 1993. Planning estimates for the 1994-95 biennium projected a budget shortfall of $1.75 billion (less a $400 million reserve). The State responded by enacting legislation that made substantial accounting changes, reduced the budget reserve (cash flow account) by $160 million to $240 million, reduced appropriations for state agencies and higher education, imposed a sales tax on purchases by local governmental units and adopted other tax and spending changes. The 1993 legislature enacted further tax and spending changes. An end-of-legislative-session budget forecast released by the Department of Finance on June 15, 1993 projects a $297 million General Fund surplus as the end of the biennium ended on June 30, 1993, plus a $360 million cash flow account, against a total budget for the biennium of approximately $14.6 billion. The forecast for the biennium ending June 30, 1995 projects a General Fund surplus of $16 million at the end of the biennium, after applying the surplus from June 30, 1993 and after reserving $360 million for the cash flow account.

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State grants and aids represent a large percentage of the total revenues of cities, towns, counties and school districts in Minnesota. Even with respect to bonds that are revenue obligations and not general obligations of the State, there can be no assurance that the fiscal problems referred to above will not adversely affect the market value or marketability of the bonds or the ability of the respective obligors to pay interest on and principal of the bonds.

At the time of the closing for each Minnesota Trust, Special Counsel to each Minnesota Trust for Minnesota tax matters rendered an opinion under then existing Minnesota income tax law applicable to taxpayers whose income is subject to Minnesota income taxation substantially to the effect that:

> We understand that a Minnesota Trust will have no income other than (i) interest income on bonds issued by the State of Minnesota and its political and governmental subdivisions, municipalities and governmental agencies and instrumentalities and on bonds issued by possessions of the United States which would be exempt from Federal and Minnesota income taxation when paid directly to an individual, trust or estate (and the term "Bonds" as used herein refers only to such Bonds), (ii) gain on the disposition of such Bonds, and (iii) proceeds paid under certain insurance policies issued to the Trustee or to the issuers of the Bonds which represent maturing interest or principal payments on defaulted Bonds held by the Trustee.

"Taxable income" for Minnesota income tax purposes is the same as "taxable Income" for Federal income tax purposes with certain modifications that (with one exception) do not apply to the present circumstances. The exception is that corporations must add to Federal taxable income the amount of any interest received on the obligations of states and their agencies and instrumentalities, political and governmental subdivisions, and municipalities. The terms "trust" and "corporation" have the same meanings for Minnesota income tax purposes, as relevant to the Minnesota tax status of a Minnesota Trust, as for Federal income tax purposes.

In view of the relationship between Federal and Minnesota law described in the preceding paragraph and the opinion of Chapman and Cutler with respect to Federal tax treatment of a Minnesota Trust and its Unitholders: (1) a Minnesota Trust will be treated as a trust rather than a corporation for Minnesota income tax purposes and will not be deemed the recipient of any Minnesota taxable income; (2) each Unitholder of a Minnesota Trust will be treated as the owner of a pro rata portion of a Minnesota Trust for Minnesota income tax purposes and the income of a Minnesota Trust will therefore be treated as the income of the Unitholders under Minnesota law; (3) interest on the Bonds will be exempt from Minnesota income taxation of Unitholders who are individuals, trusts and estates when received by a Minnesota Trust and attributed to such Unitholders and when distributed to such Unitholders (except as hereinafter provided with respect to "industrial development bonds" and "private activity bonds" held by "substantial users"); (4) interest on the Bonds will be includible in the Minnesota taxable income (subject to allocation and apportionment) of Unitholders that are corporations; (5) each Unitholder will realize taxable gain or loss when a Minnesota Trust disposes of a Bond (whether by sale, exchange, redemption or payment at maturity) or when the Unitholder redeems or sells Units at a price which differs from original cost as adjusted for amortization of bond discount or premium and other basis adjustments (including any basis reduction that may be required to reflect a

Unitholder's share of interest, if any, accruing on Bonds during the interval between the Unitholder's settlement date and the date such Bonds are delivered to a Minnesota Trust, if later); (6) tax cost reduction requirements relating to amortization of bond premium may, under some circumstances, result in Unitholders realizing taxable gain when their Units are sold or redeemed for an amount equal to or less than their original cost; (7) any proceeds paid under the insurance policy issued to the Trustee with respect to the Bonds which represent maturing interest on defaulted obligations held by the Trustee will be excludible from Minnesota gross income if, and to the same extent as, such interest would have been so excludible if paid by the issuer of the defaulted obligations; (8) any proceeds paid under individual insurance policies obtained by issuers of Bonds which represent maturing interest on defaulted obligations held by the Trustee will be excludible from Minnesota gross income if, and to the same extent as, such interest would have been so excludible if paid in the normal course by the issuer of the defaulted obligations; (9) net capital gains of Unitholders attributable to the Bonds will be fully includible in the

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Minnesota taxable income of Unitholders (subject to allocation and apportionment In the case of corporate Unitholders); and (10) interest on Bonds includible in the computation of "alternative minimum taxable income" for Federal income tax purposes will also be includible in the computation of "alternative minimum taxable income" for Minnesota income tax purposes.

Interest income attributable to Bonds that are "industrial development bonds" or "private activity bonds," as those terms are defined in the Internal Revenue Code, will be taxable under Minnesota law to a Unitholder who is a "substantial user" of the facilities financed by the proceeds of such Bonds (or a "related person" to such a "substantial user") to the same extent as if such Bonds were held by such Unitholder.

MISSOURI TRUSTS. The following discussion regarding constitutional limitations and the economy of the State of Missouri is Included for the purpose of providing general information that may or may not affect Issuers of the Bonds In Missouri.

In November 1981, the voters of Missouri adopted a tax limitation amendment to the constitution of the State of Missouri (the "Amendment"). The Amendment prohibits increases in local taxes, licenses or fees by political subdivisions without approval of the voters of such political subdivision. The Amendment also limits the growth in revenues and expenditures of the State to the rate of growth in the total personal income of the citizens of Missouri. The limitation may be exceeded if the General Assembly declares an emergency by a two-thirds vote.

Although the June 1993 revenue estimate has been revised downward by $27.5 million, the State budget remains balanced due primarily to delayed spending for desegregation capital projects. The downward revision in revenues was considered necessary because of weak economic performances to date, and more importantly an economic outlook for the second half of the fiscal year which projects slower growth than was anticipated in June 1992.

The economy of Missouri is diverse and includes manufacturing, retail and wholesale trade, services, agriculture, tourism and mining. In recent years, growth in the wholesale and retail trade has offset the more slowly growing manufacturing and agricultural sectors of the economy. According to the United States Bureau of Labor Statistics, the 1991 unemployment rate in Missouri was 6.6%, the 1992 rate was 5.7% and the seasonally adjusted rate for March of 1993 was 6.7%. There can be no assurance that general economic conditions or the financial circumstances of Missouri or its political subdivisions will not adversely affect the market value of the Bonds or the ability of the obligor to pay debt service on such Bonds.

Currently, Moody's Investors Service rates Missouri general obligation bonds "Aaa" and Standard & Poor's Corporation rates Missouri general obligation bonds "AAA". Although these ratings indicate that the State of Missouri is in relatively good economic health, there can be, of course, no assurance that this will continue or that particular bond issues may not be adversely affected by changes in the State or local economic or political conditions.

The foregoing information constitutes only a brief summary of some of the general factors which may impact certain issuers of Bonds and does not purport to be a complete or exhaustive description of all adverse conditions to which the issuers of obligations held by the Missouri Trust are subject. Additionally, many factors including national economic, social and environmental policies and conditions, which are not within the control of the issuers of the Bonds, could affect or could have an adverse impact on the financial condition of the State and various agencies and political subdivisions located in the State. The Sponsor is unable to predict whether or to what extent such factors or other factors may affect the issuers of the Bonds, the market value or marketability of the Bonds or the ability of the respective issuers of the Bonds acquired by the Missouri Trust to pay interest on or principal of the Bonds.

The assets of the Missouri Trust will consist of debt obligations issued by or on behalf of the State of Missouri (the "State") or counties, municipalities, authorities or political subdivisions thereof (the "Missouri Bonds") or by the Commonwealth of Puerto Rico, Guam and the United States Virgin Islands (the "Possession Bonds") (collectively, the "Bonds").

Neither the Sponsor nor its counsel have independently examined the Bonds to be deposited in and held in the Missouri Trust. However, although no opinion is expressed herein regarding such matters, it is assumed that: (i) the Bonds were validly issued, (ii) the interest thereon is excludable from gross income for Federal income tax purposes and (iii) interest on the Missouri Bonds, if received directly by a Unitholder, would be exempt from the Missouri

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income tax applicable to individuals and corporations ("Missouri state income tax"). The opinion set forth below does not address the taxation of persons other than full time residents of Missouri. No opinion is expressed regarding whether the gross earnings derived from the Units is subject to intangible taxation imposed by counties, cities and townships pursuant to present Kansas law.

In the opinion of Chapman and Cutler, counsel to the Sponsor under existing law:

(1) The Missouri Trust is not an association taxable as a corporation for Missouri income tax purposes, and each Unitholder of the Missouri Trust will be treated as the owner of a pro rata portion of the Missouri Trust and the income of such portion of the Missouri Trust will be treated as the income of the Unitholder for Missouri state income tax purposes;

(2) Interest paid and original issue discount, if any, on the Bonds which would be exempt from the Missouri state income tax if received directly by a Unitholder will be exempt from the Missouri state income tax when received by the Missouri Trust and distributed to such Unitholder; however, no opinion is expressed herein regarding taxation of interest paid and original issue discount, if any, on the Bonds received by the Missouri Trust and distributed to Unitholders under any other tax imposed pursuant to Missouri law, including but not limited to the franchise tax imposed on financial institutions pursuant to Chapter 148 of the Missouri Statutes;

(3) To the extent that interest paid and original issue discount, if any, derived from the Missouri Trust by a Unitholder with respect to Possession Bonds is excludable from gross income for Federal income tax purposes pursuant to 48 U.S.C. Section 745, 48 U.S.C. Section 142 3a, and 48 U.S.C. Section 1403, such interest paid and original issue discount, if any, will not be subject to the Missouri state income tax; however, no opinion is expressed herein regarding taxation of interest paid and original issue discount, if any, on the Bonds received by the Missouri Trust and distributed to Unitholders under any other tax imposed pursuant to Missouri law, including but not limited to the franchise tax imposed on financial institutions pursuant to Chapter 148 of the Missouri Statutes;

(4) Each Unitholder of the Missouri Trust will recognize gain or loss for Missouri state income tax purposes if the Trustee disposes of a bond (whether by redemption, sale, or otherwise) or if the Unitholder redeems or sells Units of the Missouri Trust to the extent that such a transaction results in a recognized gain or loss to such Unitholder for Federal income tax purposes. Due to the amortization of bond premium and other basis adjustments required by the Internal Revenue Code, a Unitholder under some circumstances, may realize taxable gain when his or her Units are sold or redeemed for an amount equal to their original cost;

(5) Any insurance proceeds paid under policies which represent maturing interest on defaulted obligations which are excludable from gross income for Federal income tax purposes will be excludable from Missouri state income tax to the same extent as such interest would have been paid by the issuer of such Bonds held by the Missouri Trust; however, no opinion is expressed herein regarding taxation of interest paid and original issue discount, if any, on the Bonds received by the Missouri Trust and distributed to Unitholders under any other tax imposed pursuant to Missouri law, including but not limited to the franchise tax imposed on financial institutions pursuant to Chapter 148 of the Missouri Statutes;

(6) The Missouri state income tax does not permit a deduction of interest paid or incurred on indebtedness incurred or continued to purchase or carry Units in the Trust, the interest on which is exempt from such Tax; and

(7) The Missouri Trust will not be subject to the Kansas City, Missouri Earnings and Profits Tax and each Unitholder's share of income of

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the Bonds held by the Missouri Trust will not generally be subject to the Kansas City, Missouri Earnings and Profits Tax or the City of St Louis Earnings Tax (except in the case of certain Unitholders, including corporations, otherwise subject to the St. Louis City Earnings Tax).

NEW JERSEY TRUSTS. Each New Jersey Trust consists of a portfolio of Bonds. The Trust is therefore susceptible to political, economic or regulatory factors affecting issuers of the Bonds. The following information provides only a brief summary of some of the complex factors affecting the financial situation in New Jersey (the "State") and is derived from sources that are generally available to investors and is believed to be accurate. It is based in part on information obtained from various State and local agencies in New Jersey. No independent verification has been made of any of the following information.

New Jersey is the ninth largest state in population and the fifth smallest in land area. With an average of 1,050 people per square mile, it is the most densely populated of all the states. The state's economic base is diversified, consisting of a variety of manufacturing, construction and service industries, supplemented by rural areas with selective commercial agriculture. Historically, New Jersey's average per capita income has been well above the national average, and in 1991 the State ranked second among States in per capita personal income ($26,457).

The New Jersey Economic Policy Council, a statutory arm of the New Jersey Department of Commerce and Economic Development, has reported in New Jersey Economic Indicators, a monthly publication of the New Jersey Department of Labor, Division of Labor Market and Demographic Research, that in 1988 and 1989 employment in New Jersey's manufacturing sector failed to benefit from the export boom experienced by many Midwest states and the State's service sectors, which had fueled the State's prosperity since 1982, lost momentum. In the meantime, the prolonged fast growth in the State in the mid 1980s resulted in a tight labor market situation, which has led to relatively high wages and housing prices. This means that, while the incomes of New Jersey residents are relatively high, the State's business sector has become more vulnerable to competitive pressures.

The onset of the national recession (which officially began in July 1990 according to the National Bureau of Economic Research) caused an acceleration of New Jersey's job losses in construction and manufacturing. In addition, the national recession caused an employment downturn in such previously growing sectors as wholesale trade, retail trade, finance, utilities and trucking and warehousing. Reflecting the downturn, the rate of unemployment in the State rose from a low of 3.6% during the first quarter of 1989 to an estimated 6.2% in November 1993, which is below the national average of 6.4% in November 1993. Economic recovery is likely to be slow and uneven in New Jersey, with unemployment receding at a correspondingly slow pace, due to the fact that some sectors may lag due to continued excess capacity. In addition, employers even in rebounding sectors can be expected to remain cautious about hiring until they become convinced that improved business will be sustained. Also, certain firms will continue to merge or downsize to increase profitability.

Debt Service. The primary method for State financing of capital projects is through the sale of the general obligation bonds of the State. These bonds are backed by the full faith and credit of the State tax revenues and certain other fees are pledged to meet the principal and interest payments and if provided, redemption premium payments, if any, required to repay the bonds. As of June 30, 1993, there was a total authorized bond indebtedness of approximately $8.98 billion, of which $3.6 billion was issued and outstanding, $4.0 billion was retired (including bonds for which provision for payment has been made through the sale and issuance of refunding bonds) and $1.38 billion was unissued. The debt service obligation for such outstanding indebtedness is $119.9 million for fiscal year 1994.

New Jersey's Budget and Appropriation System. The State operates on a fiscal year beginning July 1 and ending June 30. At the end of fiscal year 1989, there was a surplus in the State's general fund (the fund into which all State revenues not otherwise restricted by statute are deposited and from which appropriations are made) of $411.2 million. At the end of fiscal year 1990, there was a surplus in the general fund of $1 million. At the end of fiscal year 1991, there was a surplus in the general fund of $1.4 million. New Jersey closed its fiscal year 1992 with a surplus of $760.8 million. It is estimated that New Jersey closed its fiscal year 1993 with a surplus of $361.3 million.

In order to provide additional revenues to balance future budgets, to redistribute school aid and to contain real property taxes, on June 27, 1990, and July 12, 1990, Governor Florio signed into law legislation which was

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estimated to raise approximately $2.8 billion in additional taxes (consisting of $1.5 billion in sales and use taxes and $1.3 billion in income taxes), the biggest tax hike in New Jersey history. There can be no assurance that receipts and collections of such taxes will meet such estimates.

The first part of the tax hike took effect on July 1, 1990, with the increase in the State's sales and use tax rate from 6% to 7% and the elimination of exemptions for certain products and services not previously subject to the tax, such as telephone calls, paper products (which has since been reinstated), soaps and detergents, janitorial services, alcoholic beverages and cigarettes. At the time of enactment, it was projected that these taxes would raise approximately $1.5 billion in additional revenue. Projections and estimates of receipts from sales and use taxes, however, have been subject to variance in recent fiscal years.

The second part of the tax hike took effect on January 1, 1991, in the form of an increased state income tax on individuals. At the time of enactment, it was projected that this increase would raise approximately $1.3 billion in additional income taxes to fund a new school aid formula, a new homestead rebate program and state assumption of welfare and social services costs. Projections and estimates of receipts from income taxes, however, have also been subject to variance in recent fiscal years. Under the legislation, income tax rates increased from their previous range of 2% to 3.5% to a new range of 2% to 7%, with the higher rates applying to married couples with incomes exceeding $70,000 who file joint returns, and to individuals filing single returns with incomes of more than $35,000.

The Florio administration has contended that the income tax package will help reduce local property tax increases by providing more state aid to municipalities. Under the income tax legislation the State will assume approximately $289 million in social services costs that previously were paid by counties and municipalities and funded by property taxes. In addition, under the new formula for funding school aid, an extra $1.1 billion is proposed to be sent by the State to school districts beginning in 1991, thus reducing the need for property tax increases to support education programs.

Effective July 1, 1992, the State's sales and use tax rate decreased from 7% to 6%.

On June 29, 1993, Governor Florio signed the New Jersey Legislature's $15.9 billion State budget for Fiscal Year 1994. The balanced budget does not rely on any new taxes, college tuition increases or any commuter fare increases, while providing a surplus of more than $400 million. Whether the State can achieve a balanced budget depends on its ability to enact and implement expenditure reductions and to collect the estimated tax revenues.

Litigation. The State is a party in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws. Included in the State's outstanding litigation are cases challenging the following: the formula relating to State aid to public schools, the method by which the State shares with its counties maintenance recoveries and costs for residents in State institutions, unreasonably low Medicaid payment rates for long-term facilities in New Jersey, the obligation of counties to maintain Medicaid or Medicare eligible residents of institutions and facilities for the developmentally disabled, taxes paid into the Spill Compensation Fund (a fund established to provide money for use by the State to remediate hazardous waste sites and to compensate other persons for damages incurred as a result of hazardous waste discharge) based on Federal preemption, various provisions, and the constitutionality of the Fair Automobile Insurance Reform Act of 1990, the State's method of funding the judicial system, certain provisions of New Jersey's hospital rate-setting system, the adequacy of Medicaid reimbursement for services rendered by doctors and dentists to Medicaid eligible children, the Commissioner of Health's calculation of the hospital assessment required by the Health Care Cost Reduction Act of 1991, refusal of the State to share with Camden County federal funding the State recently received for disproportionate share hospital payments made to county psychiatric facilities, and recently enacted legislation calling for a revaluation of several New Jersey public employee pension funds in order to provide additional revenues for the State's general fund. Adverse judgments in these and other matters could have the potential for either a significant loss of revenue or a significant unanticipated expenditure by the State.

At any given time, there are various numbers of claims and cases pending against the State, State agencies and employees seeking recovery of monetary damages that are primarily paid out of the fund created pursuant to the New

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Jersey Tort Claims Act. In addition, at any given time, there are various numbers of contract claims against the State and State agencies seeking recovery of monetary damages. The State is unable to estimate its exposure for these claims.

Debt Ratings. For many years, both Moody's Investors Service, Inc. and Standard and Poor's Corporation rated New Jersey general obligation bonds Aaa and "AAA", respectively. On July 3, 1991, however, Standard and Poor's Corporation downgraded New Jersey general obligation bonds to "AA+." On June 4, 1992, Standard and Poor's Corporation placed New Jersey general obligation bonds on CreditWatch with negative implications, citing as its principal reason for its caution the unexpected denial by the federal government of New Jersey's request for $450 million in retroactive Medicaid payments for psychiatric hospitals. These funds were critical to closing a $1 billion gap in the State's $15 billion budget for fiscal year 1992 which ended on June 30, 1992. Under New Jersey state law, the gap in the budget must be closed before the new budget year begins on July 1, 1992. Standard and Poor's suggested the State could close fiscal 1992's budget gap and help fill fiscal 1993's hole by a reversion of $700 million of pension contributions to its general fund under a proposal to change the way the State calculates its pension liability.

On July 6, 1992, Standard and Poor's Corporation reaffirmed its "AA+" rating for New Jersey general obligation bonds and removed the debt from its CreditWatch list, although it stated that New Jersey's long-term financial outlook was negative. Standard and Poor's Corporation was concerned that the State was entering fiscal 1993 with only a $26 million surplus and remained concerned about whether the sagging State economy would recover quickly enough to meet lawmakers' revenue projections. It also remained concerned about the recent federal ruling leaving in doubt how much the State was due in retroactive Medicaid reimbursements and a ruling by a federal judge, now on appeal, of the State's method for paying for uninsured hospital patients. There can be no assurance that these ratings will continue or that particular bond issues may not be adversely affected by changes in the State or local economic or political conditions.

On August 24, 1992, Moody's Investors Service, Inc. downgraded New Jersey general obligation bonds to "Aa1," stating that the reduction reflects a developing pattern of reliance on nonrecurring measures to achieve budgetary balance, four years of financial operations marked by revenue shortfalls and operating deficits, and the likelihood that serious financial pressures will persist.

Although New Jersey received $412 million in settlement of its $450 million dispute with the federal government for retroactive Medicaid reimbursements, neither Moody's nor Standard and Poor's has revised its rating for New Jersey general obligation bonds.

At the time of the closing for each New Jersey Trust Special Counsel to each New Jersey Trust for New Jersey tax matters rendered an opinion under then existing New Jersey income tax law applicable to taxpayers whose income is subject to New Jersey income taxation substantially to the effect that:

(1) Each New Jersey Trust will be recognized as a trust and not an association taxable as a corporation. Each New Jersey Trust will not be subject to the New Jersey Corporation Business Tax or the New Jersey Corporation Income Tax;

(2) With respect to the non-corporate Unitholders who are residents of New Jersey, the income of a New Jersey Trust will be treated as the income of such Unitholder under the New Jersey Gross Income Tax. Interest on the underlying Bonds which is exempt from tax under the New Jersey Gross Income Tax when directly received by the New Jersey Trust will retain its status as tax-exempt interest when distributed to the Unitholders. Any proceeds paid under the insurance policy issued to the Trustee of a New Jersey Trust with respect to the Bonds or under individual policies obtained by issuers of Bonds which represent maturing interest on defaulted obligations held by the Trustee will be exempt from New Jersey Gross Income Tax if, and to the same extent as, such interest would have been so exempt if paid by the issuer of the

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defaulted obligations;

(3) A non-corporate Unitholder will not be subject to the New Jersey Gross Income Tax on any gain realized either when a New Jersey Trust disposes of a Bond (whether by sale, exchange, redemption, or payment at maturity), when the Unitholder redeems or sells his Units or upon payment of any proceeds under an insurance policy issued to the Trustee of a New Jersey Trust with respect to the Bonds or under individual policies obtained by issuers of Bonds which represent maturing principal on defaulted obligations held by the Trustee. Any loss realized on such disposition may not be utilized to offset gains realized by such Unitholder on the disposition of assets the gain on which is subject to the New Jersey Gross Income Tax;

(4) Units of a New Jersey Trust may be taxable on the death of a Unitholder under the New Jersey Transfer Inheritance Tax Law or the New Jersey Estate Tax Law; and

(5) If a Unitholder is a corporation subject to the New Jersey Corporation Business Tax or New Jersey Corporation Income Tax, interest from the Bonds in a New Jersey Trust which is allocable to such corporation will be includable in its entire net income for purposes of the New Jersey Corporation Business Tax or New Jersey Corporation Income Tax, less any interest expense incurred to carry such investment to the extent such interest expense has not been deducted in computing Federal taxable income. Net gains derived by such corporation on the disposition of the Bonds by a New Jersey Trust or on the disposition of its Units will be included in its entire net income for purposes of the New Jersey Corporation Business Tax or New Jersey Corporation Income Tax. Any proceeds paid under an insurance policy issued to the Trustee of a New Jersey Trust with respect to the Bonds or under individual policies obtained by issuers of Bonds which represent maturing interest or maturing principal on defaulted obligations held by the Trustee will be included in its entire net income for purposes of the New Jersey Corporation Business Tax or New Jersey Corporation Income Tax if, and to the same extent as, such interest or proceeds would have been so included if paid by the issuer of the defaulted obligations.

NEW YORK TRUSTS. The portfolio of the New York Trust includes certain Bonds issued by New York State (the "State"), by its various public bodies (the "Agencies"), and/or by other entities located within the State, including the City of New York (the "City").

Some of the more significant events relating to the financial situation in New York are summarized below. This section provides only a brief summary of the complex factors affecting the financial situation in New York and is based in part on official statements issued by, and on other information reported by, the State, the City and the Agencies in connection with the issuance of their respective securities.

There can be no assurance that future statewide or regional economic difficulties, and the resulting impact on State or local government finances generally, will not adversely affect the market value of New York Municipal Obligations held in the portfolio of the New York Trust or the ability of particular obligors to make timely payments of debt service on (or relating to) those obligations.

The State has historically been one of the wealthiest states in the nation. For decades, however, the State economy has grown more slowly than that of the nation as a whole, gradually eroding the State's relative economic affluence. Statewide, urban centers have experienced significant changes involving migration of the more affluent to the suburbs and an influx of generally less affluent residents. Regionally, the older Northeast cities have suffered because of the relative success that the South and the West have had in attracting people and business. The City has also had to face greater competition as other major cities have developed financial and business capabilities which make them less dependent on the specialized services traditionally available almost exclusively in the City.

The State has for many years had a very high State and local tax burden relative to other states. The burden of State and local taxation, in combination with the many other causes of regional economic dislocation, has contributed to the decisions of some businesses and individuals to relocate outside, or not locate within, the State.

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A national recession commenced in mid-1990. The downturn continued throughout the State's 1990-91 fiscal year and was followed by a period of weak economic growth during the 1991 calendar year. For calendar year 1992, the national economy continued to recover, although at a rate below all post-war recoveries. For calendar year 1993, the economy is expected to grow faster than 1992, but still at a very moderate rate as compared to other recoveries. The national recession has been more severe in the State because of factors such as a significant retrenchment in the financial services industry, cutbacks in defense spending, and an overbuilt real estate market.

1993-94 Fiscal Year. On April 5, 1993, the State Legislature approval a $32.08 billion budget. Following enactment of the budget the 1993-94 State Financial Plan was formulated on April 16, 1993. This Plan projects General Fund receipts and transfers from other funds at $32.367 billion and disbursements and transfers to other funds at $32.300 billion. In comparison to the Governor's recommended Executive Budget for the 1993-94 fiscal year, as revised on February 18, 1993, the 1993-94 State Financial Plan reflects increases in both receipts and disbursements in the General Fund of $811 million.

While a portion of the increased receipts was the result of a $487 million increase in the States's 1992-93 positive year-end margin at March 31, 1993 to $671 million, the balance of such increased receipts is based upon (i) a projected $269 million increase in receipts resulting from improved 1992-93 results and the expectation of an improving economy, (ii) projected additional payments of $200 million from the Federal government as reimbursements for indigent medical care, (iii) the early payment of $50 million of personal tax returns in 1992-93 which otherwise would have been paid in 1993-94; offset by (iv) the State Legislature's failure to enact $195 million of additional revenue-raising recommendations proposed by the Governor. There can be no assurances that all of the projected receipts referred to above will be received.

Despite the $811 million increase in disbursements included in the 1993-94 State Financial Plan, a reduction in aid to some local government units can be expected. To offset a portion of such reductions, the 1993-94 State Financial Plan contains a package of mandate relief, cost containment and other proposals to reduce the costs of many programs for which local governments provide funding. There can be no assurance, however, that localities that suffer cuts will not be adversely affected, leading to further requests for State financial assistance.

There can be no assurance that the State will not face substantial potential budget gaps in the future resulting from a significant disparity between tax revenues projected from a lower recurring receipts base and the spending required to maintain State programs at current levels. To address any potential budgetary imbalance, the State may need to take significant actions to align recurring receipts and disbursements.

1992-93 Fiscal Year. Before giving effect to a 1992-93 year-end deposit to the refund reserve account of $671 million, General Fund receipts in 1992-93 would have been $716 million higher than originally projected. This year-end deposits effectively reduced 1992-93 receipts by $671 million and made those receipts available for 1993-94.

The State's favorable performance primarily resulted from income tax collections that were $700 million higher than projected which reflected both stronger economic activity and tax-induced one-time acceleration of income into 1992. In other areas larger than projected business tax collections and unbudgeted receipts offset the loss of $200 million of anticipated Federal reimbursement and losses of, or shortfalls in, other projected revenue sources.

Fiscal year 1992-93 was the first time in four years that the State did not incur a cash-basis operating deficit in the General Fund requiring the issuance of deficit notes or other bonds, spending cuts or other revenue raising measures.

Indebtedness. As of March 31, 1993, the total amount of long-term State general obligation debt authorized but unissued stood at $2.4 billion. As of the same date, the State had approximately $5.4 billion

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in general obligation bonds. The State issued $850 million in tax and revenue anticipation notes ("TRANS") on April 28, 1993. The State does not project the need to issue additional TRANS during the States's 1993-94 fiscal year.

The State anticipates that its borrowings for capital purposes during the State's 1993-94 fiscal year will consist of $460 million in general obligation bonds and $140 million in new commercial paper issuances. In addition, the State expects to issue $140 million in bonds for the purpose of redeeming outstanding bond anticipation notes. The Legislature has authorized the issuance of up to $85 million in certificates of participation during the State's 1993-94 fiscal year for personal and real property acquisitions. The projection of the State regarding its borrowing for the 1993-94 fiscal year may change if actual receipts fall short of State projections or if other circumstances require.

In June, 1990, legislation was enacted creating the "New York Local Government Assistance Corporation" ("LGAC"), a public benefit corporation empowered to issue long-term obligations to fund certain payments to local governments traditionally funded through the State's annual seasonal borrowing. To date, LGAC has issued its bonds to provide net proceeds of $3.28 billion. LGAC has been authorized to issue additional bonds to provide net proceeds of $703 million during the State's 1993-94 fiscal year.

The $850 million in TRANS issued by the State in April 1993 were rated SP-1-Plus by S&P on April 26, 1993, and MIG-1 by Moody's on April 23, 1993, which represents the highest ratings given by such agencies and the first time the State's TRANS have received these ratings since its May 1989 TRANS issuance. Both agencies cited the State's improved fiscal position as a significant factor in the upgrading of the April 1993 TRANS.

Moody's rating of the State's general obligation bonds stood at a A on April 23, 1993, and S&P's rating stood at A- with a stable outlook on April 26, 1993, an improvement from S&P's negative outlook prior to April 1993. Previously, Moody's lowered its rating to A on June 6, 1990, its rating having been A1 since May 27, 1986. S&P lowered its rating from A to A- on January 13, 1992. S&P's previous ratings were A from March 1990 to January 1992, AA- from August 1987 to March 1990 and A+ from November 1982 to August 1987.

Moody's, in confirming its rating of the State's general obligation bonds, and S&P, in improving its outlook on such bonds from negative to stable, noted the State's improved fiscal condition and reasonable revenue assumptions contained in the 1993-94 State budget.

New York City accounts for approximately 41% of the State's population and personal income, and the City's financial health affects the State in numerous ways.

In February 1975, the New York State Urban Development Corporation ("UDC"), which had approximately $1 billion of outstanding debt, defaulted on certain of its short-term notes. Shortly after the UDC default, the City entered a period of financial crisis. Both the State Legislature and the United States enacted legislation in response to this crisis. During 1975, the State Legislature (i) created the Municipal Assistance Corporation ("MAC") to assist with long-term financing for the City's short-term debt and other cash requirements and (ii) created the State Financial Control Board (the "Control Board") to review and approve the City's budgets and City four-year financial plans (the financial plans also apply to certain City-related public agencies (the "Covered Organizations")).

Over the past three years, the rate of economic growth in the City has slowed substantially, and the City's economy is currently in recession. The City projects and its current four-year financial plan assumes a recovery early in the 1993 calendar year. The Mayor is responsible for preparing the City's four-year financial plan, including the City's current financial plan. The City Comptroller has issued reports concluding that the recession of the City's economy will be more severe and last longer than is assumed in the Financial Plan.

Fiscal Year 1993 and 1993-1996 Financial Plan. The City's 1993 fiscal year results are projected to be balanced in accordance with generally accepted accounting principles ("GAAP"). The City was required to close substantial budget gaps in its 1990, 1991 and 1992 fiscal years in order to maintain balanced operating results.

The City's modified 1993-1996 Financial Plan dated February 9, 1993 covering fiscal years 1993-1996 projects budget gaps for 1994 through 1996.

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The Office of the State Deputy Controller for the City of New York has estimated that under the modified Financial Plan budget gaps will be $102 million for fiscal year 1994, $196 million for fiscal year 1995 and $354 million for fiscal year 1996, primarily due to anticipated higher spending on labor costs.

However, the City's modified Plan is dependent upon a gap-closing program, certain elements of which the staff of Control Board identified on March 25, 1993 to be at risk due to projected levels of State and Federal aid and revenue and expenditures estimates which may not be achievable. The Control Board indicated that the City's modified Financial Plan does not make progress towards establishing a balanced budget process. The Control Board's report identified budget gap risks of $1.0 billion, $1.9 billion, $2.3 billion and $2.6 billion in fiscal years 1994 through 1997, respectively.

On June 3, 1993, the Mayor announced that State and federal aid for Fiscal Year 1993-94 would be $280 million less than projected and that in order to balance the City's budget $176 million of previously announced contingent budget cuts would be imposed. The Mayor indicated that further savings would entail serious reductions in services. The State Comptroller on June 14, 1993 criticized efforts by the Mayor and City Council to balance the City's budget which rely primarily on one-shot-revenues. The State Comptroller added that the City's budget should be based on "recurring revenues that fund recurring expenditures."

Given the foregoing factors, there can be no assurance that City will continue to maintain a balanced budget, or that it can maintain a balanced budget without additional tax or other revenue increases or reductions in City services, which could adversely affect the City's economic base.

Pursuant to State law, the City prepares a four-year annual financial plan which is reviewed and revised on a quarterly basis and which includes the City's capital, revenue and expense projections. The City is required to submit its financial plans to review bodies, including the Control Board. If the City were to experience certain adverse financial circumstances, including the occurrence or the substantial likelihood and imminence of the occurrence of an annual operating deficit of more than $100 million or the loss of access to the public credit markets to satisfy the City's capital and seasonal financing requirements, the Control Board would be required by State law to exercise certain powers, including prior approval of City financial plans, proposed borrowings and certain contracts.

The City depends on the State for State aid both to enable the City to balance its budget and to meet its cash requirements. As a result of the national and regional economic recession, the State's projections of tax revenues for its 1991 and 1992 fiscal years were substantially reduced. For its 1993 fiscal year, the State, before taking any remedial action reflected in the State budget enacted by the State Legislature on April 2, 1992 reported a potential budget deficit of $4.8 billion. If the State experiences revenue shortfalls or spending increases beyond its projections during its 1993 fiscal year or subsequent years, such developments could also result in reductions in projected State aid to the City. In addition, there can be no assurance that State budgets in future fiscal years will be adopted by the April 1 statutory deadline and that there will not be adverse effects on the City's cash flow and additional City expenditures as a result of such delays.

The City's projections set forth in the Financial Plan are based on various assumptions and contingencies which are uncertain and which may not materialize. Changes in major assumptions could significantly affect the City's ability to balance its budget as required by State law and to meet its annual cash flow and financing requirements. Such assumptions and contingencies include the timing of any regional and local economic recovery, the absence of wage increases in excess of the increases assumed in its financial plan, employment growth, provision of State and Federal aid and mandate relief, State legislative approval of future State budgets, levels of education expenditures as may be required by State law, adoption of future City budgets by the New York City Council, and approval by the Governor or the State Legislature and the cooperation of MAC, with respect to various other actions proposed in such financial plan.

The City's ability to maintain a balanced operating budget is dependent on whether it can implement necessary service and personnel reduction programs successfully. As discussed above, the City must identify additional expenditure reductions and revenue sources to achieve balanced operating budgets for fiscal years 1994 and thereafter. Any such proposed expenditure reductions will be difficult to implement because of their size and the substantial expenditure reductions already imposed on City operations in the past two years.

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Attaining a balanced budget is also dependent upon the City's ability to market its securities successfully in the public credit markets. The City's financing program for fiscal years 1993 through 1996 contemplates issuance of $15.7 billion of general obligation bonds primarily to reconstruct and rehabilitate the City's infrastructure and physical assets and to make capital investments. A significant portion of such bond financing is used to reimburse the City's general fund for capital expenditures already incurred. In addition, the City issues revenue and tax anticipation notes to finance its seasonal working capital requirements. The terms and success of projected public sales of City general obligation bonds and notes will be subject to prevailing market conditions at the time of the sale, and no assurance can be given that the credit markets will absorb the projected amounts of public bond and note sales. In addition, future developments concerning the City and public discussion of such developments, the City's future financial needs and other issues may affect the market for outstanding City general obligation bonds and notes. If the City were unable to sell its general obligation bonds and notes, it would be prevented from meeting its planned operating and capital expenditures.

The City Comptroller, the staff of the Control Board, the Office of the State Deputy Comptroller for the City of New York (the "OSDC") and other agencies and public officials have issued reports and made public statements which, among other things, state that projected revenues may be less and future expenditures may be greater than those forecast in the financial plan. In addition, the Control Board and other agencies have questioned whether the City has the capacity to generate sufficient revenues in the future to meet the costs of its expenditure increases and to provide necessary services. It is reasonable to expect that such reports and statements will continue to be issued and to engender public comment.

The City achieved balanced operating results as reported in accordance with GAAP for the 1992 fiscal year. During the 1990 and 1991 fiscal years, the City implemented various actions to offset a projected budget deficit of $3.2 billion for the 1991 fiscal year, which resulted from declines in City revenue sources and increased public assistance needs due to the recession. Such actions included $822 million of tax increases and substantial expenditure reductions.

The quarterly modification to the City's financial plan submitted to the Control Board on May 7, 1992 (the "1992 Modification") projected a balanced budget in accordance with GAAP for the 1992 fiscal year after taking into account a discretionary transfer of $455 million to the 1993 fiscal year as the result of a 1992 fiscal year surplus. In order to achieve a balanced budget for the 1992 fiscal year, during the 1991 fiscal year, the City proposed various actions for the 1992 fiscal year to close a projected gap of $3.3 billion in the 1992 fiscal year.

On November 19, 1992 the City submitted to the Control Board the Financial Plan for the 1993 through 1996 fiscal years, which is a modification to a financial plan submitted to the Control Board on June 11, 1992 (the "June Financial Plan"), and which relates to the City, the Board of Education ("BOE") and the City University of New York ("CUNY"). The 1993-1996 Financial Plan projects revenues and expenditures of $29.9 billion each for the 1993 fiscal year balanced in accordance with GAAP.

During the 1992 fiscal year, the City proposed various actions to close a previously projected gap of approximately $1.2 billion for the 1993 fiscal year. The gap-closing actions for the 1993 fiscal year proposed during the 1992 fiscal year and outlined in the City's June Financial Plan included $489 million of discretionary transfers from the 1992 fiscal year. The 1993-1996 City Financial Plan includes additional gap-closing actions to offset an additional potential $81 million budget gap.

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The 1993-1996 Financial Plan also sets forth projections and outlines a proposed gap-closing program for the 1994 through 1996 fiscal years to close projected budget gaps of $1.7 billion, $2.0 billion and $2.6 billion, respectively, in the 1994 through 1996 fiscal years. On February 9, 1993, the City issued a modification to the 1993-1996 Financial Plan (the "February Modification"). The February Modification projects budget gaps for the fiscal years 1994, 1995, and 1996 of $2.1 billion, $3.1 billion and $3.8 billion, respectively.

Various actions proposed in the 1993-1996 Financial Plan are subject to approval by the Governor and approval by the State Legislature, and the proposed increase in Federal aid is subject to approval by Congress and the President. The State Legislature has in the past failed to approve certain proposals similar to those that the 1993-1996 Financial Plan assumes will be approved by the State Legislature during the 1993 fiscal year. If these actions cannot be implemented, the City will be required to take other actions to decrease expenditures or increase revenues to maintain a balanced financial plan.

On March 9, 1993, OSDC issued a report on the February Modification. The report expressed concern that the budget gaps projected for fiscal years 1994 through 1996 are the largest the City has faced at this point in the financial planning cycle in at least a decade, and concluded that the February Modification represented a step backward in the City's efforts to bring recurring revenues into line with recurring expenditures.

The City is a defendant in a significant number of lawsuits. Such litigation includes, but is not limited to, actions commenced and claims asserted against the City arising out of alleged constitutional violations, torts, breaches of contracts and other violations of law and condemnation proceedings. While the ultimate outcome and fiscal impact, if any, on the proceedings and claims are not currently predictable, adverse determinations in certain of them might have a material adverse effect upon the City's ability to carry out its financial plan. As of June 30, 1992, legal claims in excess of $341 billion were outstanding against the City for which the City estimated its potential future liability to be $2.3 billion.

As of the date of this prospectus, Moody's rating of the City's general obligation bonds stood at Baa1 and S&P's rating stood at A-. On February 11, 1991, Moody's lowered its rating from A.

On June 30, 1993 in confirming the Baa1 rating, Moody's noted that:

> The recent trend of declining reliance on [one-shot revenues] is notable, and it is too early to predict the increased reliance on one-shots in the fiscal 1994 budget represents the beginning of a continuing upward movement in the use of one-shots. . . . Moody's recognized in February of 1991, when the [C]ity's rating was lowered from A to Baa1, that the [C]ity faced structural budgetary imbalances which were unlikely to be cured in the near term. Moody's continues to expect the [C]ity's progress toward achieving structural balance to be slow and uneven, but that the [C]ity will be diligent and prudent in closing each year's gap, factors which are consistent with the Baa1 rating level.

On March 30, 1993, S&P affirmed its rating with a negative outlook, stating that:

> The City's key credit factors are marked by a high and growing debt burden, and taxation levels that are relatively high, but stable. The City's economy is broad-based and diverse, but currently is in prolonged recession, with slow growth prospects for the foreseeable future.
>
> The rating outlook is negative, reflecting the continued fiscal pressure facing the City, driven by continued weakness in the local economy, rising spending pressures for education and labor costs of city employees, and increasing costs associated with rising debt for capital construction and repair.
>
> The current financial plan for the City assumes substantial

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increases in aid from national and state governments. Maintenance of the current rating, and stabilization of the rating outlook, will depend on the City's success in realizing budgetary aid from these governments, or replacing those revenues with ongoing revenue-raising measures or spending reductions under the City's control. However, increased reliance on non-recurring budget balancing measures that would support current spending, but defer budgetary gaps to future years, would be viewed by S&P as detrimental to New York City's single-'A-' rating.

Previously, Moody's had raised its rating to A in May 1988, to Baa1 in December 1985, to Baa in November 1983 and to Bal in November,1981. S&P had raised its rating to A- in November 1987, to BBB+ in July 1985 and to BBB in March 1981.

On May 9, 1990, Moody's revised downward its rating on outstanding City revenue anticipation notes from MIG-1 to MIG-2 and rated the $900 million Notes then being sold MIG-2. On April 30, 1991 Moody's confirmed its MIG-2 rating for the outstanding revenue anticipation notes and for the $1.25 billion in notes then being sold. On April 29, 1991, S&P revised downward its rating on City revenue anticipation notes from SP-1 to SP-2.

As of December 31, 1992, the City and MAC had, respectively, $20.3 billion and $4.7 billion of outstanding net long-term indebtedness.

Certain Agencies of the State have faced substantial financial difficulties which could adversely affect the ability of such Agencies to make payments of interest on, and principal amounts of, their respective bonds. The difficulties have in certain instances caused the State (under so-called "moral obligation" provisions which are non-binding statutory provisions for State appropriations to maintain various debt service reserve funds) to appropriate funds on behalf of the Agencies. Moreover, it is expected that the problems faced by these Agencies will continue and will require increasing amounts of State assistance in future years. Failure of the State to appropriate necessary amounts or to take other action to permit those Agencies having financial difficulties to meet their obligations could result in a default by one or more of the Agencies. Such default, if it were to occur, would be likely to have a significant adverse effect on investor confidence in, and therefore the market price of, obligations of the defaulting Agencies. In addition, any default in payment on any general obligation of any Agency whose bonds contain a moral obligation provision could constitute a failure of certain conditions that must be satisfied in connection with Federal guarantees of City and MAC obligations and could thus jeopardize the City's long-term financing plans.

As of September 30, 1992, the State reported that there were eighteen Agencies that each had outstanding debt of $100 million or more. These eighteen Agencies had an aggregate of $62.2 billion of outstanding debt, including refunding bonds, of which the State was obligated under lease-purchase, contractual obligation or moral obligation provisions on $25.3 billion.

The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws. Included in the State's outstanding litigation are a number of cases challenging the constitutionality or the adequacy and effectiveness of a variety of significant social welfare programs primarily involving the State's mental hygiene programs. Adverse judgments in these matters generally could result in injunctive relief coupled with prospective changes in patient care which could require substantial increased financing of the litigated programs in the future.

The State is also engaged in a variety of claims wherein significant monetary damages are sought. Actions commenced by several Indian nations claim that significant amounts of land were unconstitutionally taken from the Indians in violation of various treaties and agreements during the eighteenth and nineteenth centuries. The claimants seek recovery of approximately six million

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acres of land as well as compensatory and punitive damages.

The U.S. Supreme Court on March 30, 1993, referred to a Special Master for determination of damages on an action by the State of Delaware to recover certain unclaimed dividends, interest and other distributions made by issuers of securities held by New York-based brokers incorporated in Delaware. (State of Delaware v. State of New York.) The State had taken such unclaimed property under its Abandoned Property Law. The State expects that it may pay a significant amount in damages during fiscal year 1993-94 but it has indicated that it has sufficient funds on hand to pay any such award, including funds held in contingency reserves. The State's 1993-94 Financial Plan includes the establishment of a $100 million contingency reserve fund which would be available to fund such an award which some reports have estimated at $100-$800 million.

In Schulz v. State of New York, commenced May 24, 1993 ("Schulz 1993"), petitioners have challenged the constitutionality of mass transportation bonding programs of the New York State Thruway Authority and the Metropolitan Transportation Authority. On May 24, 1993, the Supreme Court, Albany County, temporarily enjoined the State from implementing those bonding programs. In previous actions Mr. Schulz and others have challenged on similar grounds bonding programs for the New York State Urban Development Corporation and the New York Local Government Assistance Corporation. While there have been no decisions on the merits in such previous actions, by an opinion dated May 11, 1993, the New York Court of Appeals held in a proceeding commenced on April 29, 1991 in the Supreme Court, Albany County (Schulz v. State of New York), that petitioners had standing as voters under the State Constitution to bring such action.

Petitioners in Schulz 1993 have asserted that issuance of bonds by the two Authorities is subject to approval by statewide referendum. At this time there can be no forecast of the likelihood of success on the merits by the petitioners, but a decision upholding this constitutional challenge could restrict and limit the ability of the State and its instrumentalities to borrow funds in the future. The State has not indicated that the temporary injunction issued by the Supreme Court in this action will have any immediate impact on its financial condition or interfere with projects requiring immediate action.

Adverse developments in the foregoing proceedings or new proceedings could adversely affect the financial condition of the State in the future.

Certain localities in addition to New York City could have financial problems leading to requests for additional State assistance. Both the Revised 1992-93 State Financial Plan and the recommended 1993-94 State Financial Plan include a significant reduction in State aid to localities in such programs as revenue sharing and aid to education from projected base-line growth in such programs. It is expected that such reductions will result in the need for localities to reduce their spending or increase their revenues. The potential impact on the State of such actions by localities is not included in projections of State revenues and expenditures in the State's 1993-94 fiscal year.

Fiscal difficulties experienced by the City of Yonkers ("Yonkers") resulted in the creation of the Financial Control Board for the City of Yonkers (the "Yonkers Board") by the State in 1984. The Yonkers Board is charged with oversight of the fiscal affairs of Yonkers. Future actions taken by the Governor or the State Legislature to assist Yonkers could result in allocation of State resources in amounts that cannot yet be determined.

Municipalities and school districts have engaged in substantial short-term and long-term borrowings. In 1991, the total indebtedness of all localities in the State was approximately $31.6 billion, of which $16.8 billion was debt of New York City (excluding $6.7 billion in MAC debt). State law requires the Comptroller to review and make recommendations concerning the budgets of those local government units other than New York City authorized by State law to issue debt to finance deficits during the period that such deficit

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financing is outstanding. Fifteen localities had outstanding indebtedness for State financing at the close of their fiscal year ending in 1991. In 1992, an unusually large number of local government units requested authorization for deficit financings. According to the Comptroller, ten local government units have been authorized to issue deficit financing in the aggregate amount of $131.1 million.

Certain proposed Federal expenditure reductions could reduce, or in some cases eliminate, Federal funding of some local programs and accordingly might impose substantial increased expenditure requirements on affected localities. If the State, New York City or any of the Agencies were to suffer serious financial difficulties jeopardizing their respective access to the public credit markets, the marketability of notes and bonds issued by localities within the State, including notes or bonds in the New York Trust, could be adversely affected. Localities also face anticipated and potential problems resulting from certain pending litigation, judicial decisions, and long-range economic trends. The longer-range potential problems of declining urban population, increasing expenditures, and other economic trends could adversely affect localities and require increasing State assistance in the future.

At the time of the closing for each New York Trust, Special Counsel to each New York Trust for New York tax matters rendered an opinion under then existing New York income tax law applicable to taxpayers whose income is subject to New York income taxation substantially to the effect that:

> Each New York Trust is not an association taxable as a corporation and the income of a New York Trust will be treated as the income of the Unitholders under the income tax laws of the State and the City of New York. Individuals who reside in New York State or City will not be subject to State and City tax on interest income which is exempt from Federal income tax under section 103 of the Internal Revenue Code of 1986 and derived from obligations of New York State or a political subdivision thereof, although they will be subject to New York State and City tax with respect to any gains realized when such obligations are sold, redeemed or paid at maturity or when any such Units are sold or redeemed.

NORTH CAROLINA TRUSTS. General obligations of a city, town or county in North Carolina are payable from the general revenues of the entity, including ad valorem tax revenues on property within the jurisdiction. Revenue bonds issued by North Carolina political subdivisions include (1) revenue bonds payable exclusively from revenue-producing governmental enterprises and (2) industrial revenue bonds, college and hospital revenue bonds and other "private activity bonds" which are essentially non-governmental debt issues and which are payable exclusively by private entities such as non-profit organizations and business concerns of all sizes. State and local governments have no obligation to provide for payment of such private activity bonds and in many cases would be legally prohibited from doing so. The value of such private activity bonds may be affected by a wide variety of factors relevant to particular localities or industries, including economic developments outside of North Carolina.

Section 23-48 of the North Carolina General Statutes appears to permit any city, town, school district, county or other taxing district to avail itself of the provisions of Chapter 9 of the United States Bankruptcy Code, but only with the consent of the Local Government Commission of the State and of the holders of such percentage or percentages of the indebtedness of the issuer as may be required by the Bankruptcy Code (if any such consent is required). Thus, although limitations apply, in certain circumstances political subdivisions might be able to seek the protection of the Bankruptcy Code.

State Budget and Revenues. The North Carolina State Constitution requires that the total expenditures of the State for the fiscal period covered by each budget not exceed the total of receipts during the fiscal period and the surplus remaining in the State Treasury at the beginning of the period. The State's fiscal year runs from July 1st through June 30th.

In 1990 and 1991, the State had difficulty meeting its budget projections. Lower than anticipated revenues coupled with increases in State spending requirements imposed by the federal government led to projected budget deficits for fiscal 1989-1990 and fiscal 1990-91. Consequently, the Governor ordered cuts in budgeted State expenditures for both fiscal years.

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When similar budget deficits were projected for the next two fiscal years, the General Assembly addressed the problem through a broad array of State spending reductions in existing programs or previously budgeted increases and tax increases. The taxes include a one-cent increase in the sales tax, a three-cent increase in the excise tax on cigarettes, an increase in the corporate tax rate (from 7 to 7.75 percent, as well as a four-year surtax, starting at 4% of the regular income tax for tax year 1991 and reducing by 1% for each of the following three years), an increase in the individual income tax rate for married couples with income of more than $100,000 and individuals with income over $60,000, and other taxes.

The effect of the budget reductions and tax increases resulted in a small budget surplus (approximately $160 million) for the 1991-1992 fiscal year (ended June 30, 1992). The State netted a larger budget surplus (approximately $342 million) for the 1992-1993 fiscal year (ended June 30, 1993). The $9 billion for 1993-1994 adopted by the General Assembly did not include any new tax measures. The 1993-1994 budget does include new spending cuts and estimated increased revenues totalling $30.6 million.

Both the nation and the State have experienced a modest economic recovery in recent months. However, it is unclear what effect these developments, as well as the reduction in government spending or increase in taxes may have on the value of the Debt Obligation in the North Carolina Trust. No clear upward trend has developed, and both the State and the national economies must be watched carefully.

The fiscal condition of the State might be affected adversely by litigation concerning the legality of certain State tax provisions following the decision of the United States Court in Davis v. Michigan Dept. of Treasury (decided March 28, 1989). In Davis, the United States Supreme Court held unconstitutional a Michigan statute exempting from state income taxation retirement benefits paid by the state of Michigan or its local governments, but not exempting retirement benefits paid by the federal government.

Subsequent to Davis, certain federal retirees and federal military personnel plaintiffs brought an action in North Carolina state court seeking refund of the illegal taxes. Swanson, et al. v. State of North Carolina, et al. (Wake County, North Carolina Superior Court, No. 90 CVS 3127) ("Swanson State").

The amount of refunds claimed by the federal retirees in the Swanson action has not been calculated. Plaintiffs have asserted that the plaintiff class contains about 100,000 taxpayers; the State has asserted that the claims would aggregate at least $140 million (which might not include interest).

In a 4-3 decision, the North Carolina Supreme Court found for the defendants, declaring the State would not be required to refund taxes illegally collected prior to the decision in Davis. Because of this determination, the Court did not need to decide what remedies would be available if Davis were held to apply retroactively. The Court reaffirmed its decision following reconsideration.

Plaintiffs in Swanson State applied for review by the U.S. Supreme Court. The U.S. Supreme Court vacated the judgement and remanded the case to the North Carolina Supreme Court for reconsideration in the light of the U.S. Supreme Court's holding in Harper v. Virginia Dept. of Taxation (No. 91-794) ("Harper"). In Harper, which also involved the disparate income tax treatment of retired state and federal employees and the question of retroactive application of the decision in Davis, the Supreme Court held that the Commonwealth of Virginia must provide "meaningful backward-looking relief" to the plaintiffs, if the Commonwealth did not have a predeprivation process adequate to satisfy due process requirements. The case was remanded to the Supreme Court of Virginia to determine whether a remedy was required and, if so, what form it would take.

The impact of Harper on the estimated $140 million of refund claims in Swanson State has yet to be determined. The North Carolina Supreme Court must determine whether North Carolina law provides an adequate predeprivation process, and, if not, what remedy should be fashioned to satisfy due process requirements.

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General. The population of the State has increased 13% from 1980, from 5,880,095 to 6,647,351 as reported by the 1990 federal census. Although North Carolina is the tenth largest state in population, it is primarily a rural state, having only five municipalities with populations in excess of 100,000.

The labor force has undergone significant change during recent years. The State has moved from an agricultural to a service and goods producing economy. Those persons displaced by farm mechanization and farm consolidations have, in large measure, sought and found employment in other pursuits. Due to wide dispersion of non-agricultural employment, the people have been able to maintain, to a large extent, their rural habitation practices. During the period 1980 to 1990, the State labor force grew about 19% (from 2,855,200 to 3,401.000), and per capita income grew from $7,999 to $16,203, an increase of 102.6%.

The current economic profile of the State consists of a combination of industry, agriculture and tourism. As of May 1991, the State was reported to rank tenth among the states in non-agricultural employment and eighth in manufacturing employment, Employment indicators have fluctuated somewhat in the annual periods since June of 1989.

The unemployment rate in June 1993 was 5.4% of the labor force, as compared with an unemployment rate of 7.0% nationwide.

The diversity of agriculture in North Carolina and a continuing push in marketing efforts have protected farm income from some of the wide variations that have been experienced in other states where most of the agricultural economy is dependent on a small number of agricultural commodities.

Gross agricultural income in 1991 was $4.98 billion, including approximately $4,924,071,000 income from commodities. As of 1991, the State was tenth in the nation in gross agricultural income. Tobacco production is a leading source of agricultural income in the State, accounting for 21.4% of gross agricultural income. Tobacco farming in North Carolina has been and is expected to continue to be affected by major Federal legislation and regulatory measures regarding tobacco production and marketing and by international competition. Measures adverse to tobacco farming could have negative effects on farm income and the North Carolina economy generally. Eggs and poultry products accounted for revenues of approximately $1.5 billion in 1991.

According to the State Commissioner of Agriculture, based on 1991 figures, the State ranked first in the nation in the production of flue-cured tobacco, total tobacco, turkeys and sweet potatoes; second in the production of cucumbers for pickles; third in the value of poultry products and trout; fourth in commercial broilers and peanuts; sixth in burley tobacco, greenhouse and nursery receipts, hogs and strawberries; and seventh in the number of chickens (excluding broilers), peaches and apples. The number of farms has been decreasing; in 1992 there were approximately 60,000 farms in the State (down from approximately 72,000

in 1987, a decrease of about 17% in five years). However, a strong agribusiness sector also supports farmers with farm inputs (fertilizer,insecticide, pesticide and farm machinery) and processing of commodities produced by farmers (vegetable canning and cigarette manufacturing).

The State Department of Commerce, Travel and Tourism Division, has reported that in 1991 approximately $7 billion was spent on tourism in the State with 1992 revenues from tourism expected to exceed $7.3 billion. In 1990, traveler expenditures directly generated more than 141,000 jobs within

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the State, 4.5 percent to total nonagricultural employment in that year.

Bond Ratings. Currently, Moody's rates North Carolina general obligation bonds as Aaa and Standard & Poor's rates such bonds as AAA. Standard & Poor's placed North Carolina general obligation bonds on "credit watch" in June of 1990 and continued to monitor the State's economy closely through 1990 and 1991.

In June of 1992 Standard & Poor's revised its outlook on the State's AAA-rated general obligation bonds to stable from negative. Among the reasons for the revision were the revenue spending measures adopted since 1991.

The rating agencies presumably will monitor the results of the legislative approach to the fiscal difficulties.

Thus, although both ratings agencies have reaffirmed the AAA rating of North Carolina's outstanding general obligation bonds for the present time, there can be no assurance that these ratings will continue, that local government bond ratings will not decline or that particular bond issues may not be adversely affected by changes in the economic, political or other conditions that do not affect the ratings.

The Sponsor believes the information summarized above describes some of the more significant events relating to the North Carolina Trust. The sources of this information are the official statements of issuers located in North Carolina, State agencies, publicly available documents, publications of ratings agencies and news reports of statements by State officials and employees and by rating agencies. The Sponsor and its counsel have not independently verified any of the information contained in the official statements and other sources and counsel have not expressed any opinion regarding the completeness or materiality of any contained in this Prospectus other than the tax opinions set forth below under North Carolina Taxes.

At the time of the closing for each North Carolina Trust, Special Counsel to the fund for North Carolina tax matters rendered an opinion under then existing North Carolina income tax law applicable to taxpayers whose income is subject to North Carolina income taxation substantially to the effect that:

Upon the establishing of the North Carolina Trust and the Units thereunder:

(1) The North Carolina Trust is not an "association" taxable as a corporation under North Carolina law with the result that income of the North Carolina Trust will be deemed to be income of the Unitholders.

(2) Interest on the Bonds that is exempt from North Carolina income tax when received by the North Carolina Trust will retain its tax-exempt status when received by the Unitholders.

(3) Unitholders will realize a taxable event when the North Carolina Trust disposes of a Bond (whether by sale, exchange, redemption or payment at maturity) or when a Unitholder redeems or sells his Units (or any of them), and taxable gains for Federal income tax purposes. However, when a Bond had been issued under an act of the North Carolina General Assembly that provides that all income from such Bond, including any profit made from the sale thereof, shall be free from all taxation by the State of North Carolina, any such profit received by the North Carolina Trust will retain its tax-exempt status in the hands of the Unitholders.

(4) Unitholders must authorize their proportionate share of any premium on a Bond. Amortization for each taxable year is accomplished by lowering the Unitholder's basis (as adjusted) in his Units with no deduction against gross income for the year.

(5) The Units are exempt from the North Carolina tax on intangible personal property so long as the corpus of the North Carolina Trust remains composed entirely of Bonds or, pending distribution, amounts received on the sale, redemption or

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maturity of the Bonds and the Trustee periodically supplies to the North Carolina Department of Revenue at such times required by the Department of Revenue a complete description of the North Carolina Trust and also the name, description and value of the obligations held in the corpus of the North Carolina Trust.

OHIO TRUSTS. The Ohio Trust will invest substantially all of its net assets in obligations issued by or on behalf of (or in certificates of participation in lease purchase obligations of) the State of Ohio, political subdivisions thereof, or agencies or instrumentalities of the State or its political subdivisions (Ohio Obligations). The Ohio Trust is therefore susceptible to general or particular political, economic or regulatory factors that may affect issuers of Ohio Obligations. The following information constitutes only a brief summary of some of the complex factors that may have an effect. This information does not apply to "conduit" obligations on which the public issuer itself has no financial responsibility. This information is derived from official statements of certain Ohio issuers published in connection with their issuance of securities of certain Ohio issuers and from other publicly available documents, and is believed to be accurate. No independent verification has been made of any of the following information.

The creditworthiness of Ohio Obligations of local issuers is generally unrelated to that of obligations issued by the State itself, and the State has no responsibility to make payments on those local obligations. There may be specific factors that at particular times apply in connection with investment in particular Ohio

Obligations or in those obligations of particular Ohio issuers. It is possible the investment will be in particular Ohio Obligations or in those Obligations of particular issuers as to which those factors apply. However, the information below is intended only as a general summary and is not intended as a discussion of any specific factors that may affect any particular issue or issuer.

Ohio is the seventh most populous state. Its 1990 Census count of 10,847,000 indicates a 0.5% population increase from 1980.

While diversifying more into the service and other non-manufacturing areas, the Ohio economy continues to rely in part on durable goods manufacturing largely concentrated in motor vehicles and equipment, steel, rubber products and household appliances. As a result, general economic activity, as in many other industrially-developed states, tends to be more cyclical than in some other states and in the nation as a whole. Agriculture also is an important segment of the economy, with over half the State's area devoted to farming and approximately 15% of total employment is in agribusiness.

The State's overall unemployment rate was commonly somewhat higher than the national figure. For example, the reported 1990 average monthly State rate was 5.7%, compared to the 5.5% national figure. However, for both 1991 and 1992 the State rates (6.4% and 7.4%) were below the national rates (6.7% and 7.4%). The unemployment rate, and its effects, vary among particular geographic areas of the State.

There can be no assurance that future national, regional or state-wide economic difficulties, and the resulting impact on State or local government finances generally, will not adversely affect the market value of Ohio Obligations held in the Ohio Trust portfolio or the ability of particular obligors to make timely payments of debt service on (or lease payments relating to) those obligations.

The State operates on the basis of a fiscal biennium for its appropriations and expenditures, and is precluded by law from ending its July 1 to June 30 fiscal year (FY) or fiscal biennium in a deficit position. Most State operations are financed through the General Revenue Fund (GRF), for which personal income and sales-use taxes are the major sources. Growth and depletion of GRF ending fund balances show a consistent pattern related to national economic conditions, with the FY-ending balance reduced during less favorable and increased during more favorable economic periods. The State has well-established procedures for, and has timely taken, necessary actions to

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ensure a resource/expenditure balances during less favorable economic periods. These include general and selected reductions in appropriations spending.

Key biennium ending fund balances at June 30, 1989 were $475.1 million in the GRF and $353 million in the Budget Stabilization Fund (BSF, a cash and budgetary management fund). In FYs 1990-91, necessary corrective steps were taken to respond to lower receipts and higher expenditures in certain categories than earlier estimated. Those steps included selected reductions in appropriations spending and

the transfer of $64 million from the BSF to the GRF. The State reported June 30, 1991 ending fund balances of $135.3 million (GRF) and $300 million (BSF).

To allow time to resolve certain Senate and House budget differences for the latest complete biennium that began July 1, 1991, an interim appropriations act was enacted, effective July 1, 1991; it included State debt service and lease rental GRF appropriations for the entire 1992-93 biennium, while continuing most other appropriations for a month. The general appropriations act for the entire biennium was passed on July 11, 1991 and signed by the Governor. Pursuant to it, $200 million was transferred from the BSF to the GRF in FY 1992.

Based on updated FY financial results and the economic forecast in the course of FY 1992, both in light of the continuing uncertain nationwide economic situation, there was projected and timely addressed, an FY 1992 imbalance in GRF resources and expenditures. GRF receipts significantly below original forecasts resulted primarily from lower collections of certain taxes, particularly sales and use taxes and personal income taxes. Higher expenditure levels resulted from higher spending in certain areas, particularly human services including Medicaid. As an initial action, the Governor ordered most State agencies to reduce GRF appropriations spending in the final six months of the FY 1992 by a total of approximately $184 million. As authorized by the General Assembly, the $100.4 million BSF balance and additional amounts from certain other funds were transferred late in the FY to the GRF, and adjustments in the timing of certain tax payments made. Other administrative revenue and spending actions resolved the remaining GRF imbalance.

A significant GRF shortfall (approximately $520 million) was then projected for FY 1993. It was addresses by appropriate legislative and administrative actions. As a first step the Governor ordered, effective July 1, 1992, $300 million in selected GRF spending reductions. Executive and legislative action in December 1992 (a combination of tax revisions and additional appropriations spending reductions) resulted in a balance of GRF resources and expenditures in the 1992-93 biennium. The State reported an ending GRF fund balance at June 30, 1993 of approximately $111 million, and, as a first step to BSF replenishment. OBM has deposited $21 million in the BSF.

No spending reductions were applied to appropriations needed for debt services or lease rentals on any State obligations.

The GRF appropriations act for the current 1994-95 biennium was passed and signed by the Governor on July 1, 1993. It includes all necessary GRF appropriations for biennial State debt services and lease rental payments.

The State's incurrence or assumption of debt without a vote of the people is, with limited exceptions, prohibited by current State Constitution provisions. The State may incur debt limited in amount to $750,000 to cover casual deficits or failures in revenues or to meet expenses not otherwise provided for. The

Constitution expressly precludes the State from assuming the debts of any local government or corporation. (An exception in both cases is for any debt incurred

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to repel invasion, suppress insurrection or defend the State in war.)

By 13 constitutional amendments, the last adopted in 1993, Ohio voters have authorized the incurrence of State debt to which taxes or excises were pledged. At January 31, 1994, $712.6 million (excluding certain highway bonds payable primarily from highway use charges) of this debt was outstanding or awaiting delivery. With the only such State debt then still authorized to be incurred are portions of the highway bonds, and the following: (a) up to $100 million of obligations for coal research and development may be outstanding at any one time ($43.1 million outstanding); (b) $1.2 billion of obligations authorized for local infrastructure improvements, no more than $120 million may be issued in any calendar year ($645.2 million outstanding or awaiting delivery, $480 million remaining to be issued); and (c) up to $200 million in general obligation bonds for parks and recreation purposes may be outstanding at any one time (no more than $50 million to be issued in any one year, and none have yet been issued).

The Constitution also authorizes the issuance of State obligations for certain purposes the owners of which do not have the right to have excises or taxes levied to pay debt service. Those special obligations include obligations issued by the Ohio Public Facilities Commission and the Ohio Building Authority, $4.28 billion of which were outstanding or awaiting delivery at January 31, 1994.

A 1990 constitutional amendment authorizes greater State and political subdivision participation (including financing) in the provision of housing. The General Assembly may for that purpose authorize the issuance of State obligations secured by a pledge of all or such portion as it authorizes of State revenues or receipts (but not by a pledge of the State's full faith and credit).

State and local agencies issue revenue obligations that are payable from revenues from or relating to certain facilities (but not from taxes). By judicial interpretation, these obligations are not "debt" within constitution provisions. In general, payment obligations under lease-purchase agreements of Ohio public agencies (in which certificates of participation may be issued) are limited in duration to the issuer's fiscal period, and are renewable only upon appropriations being made available for the subsequent fiscal period.

Local school districts in Ohio receive a major portion (on a state-wide basis, recently approximately 46%) of their operating moneys from State subsidies, but are dependent on local property taxes, and in 98 districts from voter-authorized income taxes, for significant portions of their budgets. Litigation, similar to that in other states, is pending questioning the constitutionality of Ohio's system of school funding. A small number of the State's 612 local school districts have in any year required special assistance to avoid year-end deficits. A current program provides for school district cash need borrowing directly from commercial lenders, with diversion of State subsidy distributions to repayment if needed; in FY 1991 under this program 26 districts borrowed a total of $41.8 million (including over $27 million by one district), and in FY 1992

borrowings totaled $61.9 million (including $46.6 million for one district). FY 1993 loans totaled $94.5 million for 43 districts (including $75 million for one district). FY 1994 loans totaled at January 31, 1994, $9.90 million for 16 districts.

Ohio's 943 incorporated cities and villages rely primarily on property and municipal income taxes for their operations, and, with other local governments, receive local government support and property tax relief moneys distributed by the State. For those few municipalities that on occasion have faced significant financial problems, there are statutory procedures for a joint State/local commission to monitor the municipality's fiscal affairs, and for development of a financial plan developed to eliminate deficits and cure any defaults. Since inception in 1979, these procedures have been applied to 23 cities and villages; in 16 of them the fiscal situation was resolved and the procedures terminated.

At present the State itself does not levy any ad valorem taxes on real

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or tangible personal property. Those taxes are levied by political subdivisions and other local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy (including a levy for unvoted general obligations) of property taxes by all overlapping subdivisions, without a vote of the electors or a municipal charter provision, to 1% of true value in money, and statutes limit the amount of that aggregate levy to 10 mills per $1 of assessed valuation (commonly referred to as the "ten-mill limitation"). Voted general obligations of subdivisions are payable from property taxes unlimited as to amount or rate.

Commencing in 1985 Ohio municipalities may be permitted under Ohio law to subject interest on certain of the obligations held by Insured Ohio Series 5 to income taxes imposed on their residents and entities doing business therein.

At the time of the closing for each Ohio Trust, Special Counsel to each Ohio Trust for Ohio tax matters rendered an opinion under then existing Ohio income tax law applicable to taxpayers whose income is subject to Ohio income taxation substantially to the effect that:

(1) An Ohio Trust is not taxable as a corporation or otherwise for purposes of the Ohio personal income tax, Ohio school district income taxes, the Ohio corporation franchise tax or the Ohio dealers in intangibles tax;

(2) Income of an Ohio Trust will be treated as the income of the Unitholders for purposes of the Ohio personal income tax, Ohio school district income taxes, Ohio municipal income taxes and the Ohio corporation franchise tax in proportion to the respective interest therein of each Unitholder;

(3) Interest on obligations issued by or on behalf of the State of Ohio, political subdivisions thereof, or agencies or instrumentalities thereof ("Ohio Obligations"), or by the governments of Puerto Rico, the Virgin Islands or Guam ("Territorial Obligations") held by the Trust is exempt from the Ohio personal income tax, Ohio municipal income tax and Ohio school district income taxes,

and is excluded from the net income base of the Ohio corporation franchise tax when distributed or deemed distributed to Unitholders;

(4) Proceeds paid to an Ohio Trust under insurance policies representing maturing interest on defaulted obligations held by the Ohio Trust will be exempt from Ohio income tax, Ohio school district income taxes, Ohio municipal income taxes and the net income base of the Ohio corporation franchise tax if, and to the same extent as, such interest would be exempt from such taxes if paid directly by the issuer of such obligations; and

(5) Gains and losses realized on the sale, exchange or other disposition by an Ohio Trust of Ohio Obligations are excluded in determining adjusted gross and taxable income for purposes of the Ohio personal income tax, Ohio municipal income taxes and Ohio school district income taxes, and are excluded from the net income base of the Ohio corporation franchise tax when distributed or deemed distributed to Unitholders.

SOUTH CAROLINA TRUSTS. Although all or most of the Bonds in the South Carolina Quality Trust are revenue obligations of local governments or authorities rather than general obligations of the State of South Carolina itself, there can be no assurance that any financial difficulties the State may experience will not adversely affect the market value or marketability of the Bonds or the ability of the respective obligors to pay interest on or principal of the Bonds. The information regarding the financial condition of the State is included for the purpose of providing information about general economic conditions that may affect issuers of the Bonds in South Carolina.

From the early 1920s to the present nine, the State's economy has been dominated by the textile industry with over one out of every three manufacturing workers directly or indirectly related to the textile industry. While the textile industry is still the major industrial employer in the State, since 1950 the State's economy has undergone a gradual transition. The

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economic base of the State has diversified as the trade and service sectors developed and with the added development of the durable goods manufacturing industries, South Carolina's economy now resembles more closely that of the United States.

Personal income in the State increased by 4.2% in the fiscal year ended June 30, 1992, while that of the U.S. increased by 4.0%. For this same fiscal year, unemployment in South Carolina was 6.1%, compared with the national rate of 7.1%.

The State Constitution requires the General Assembly to provide a balanced budget and requires that if there be a deficit, such deficit shall be provided for in the succeeding fiscal year. The State Constitution also provides that the State Budget and Control Board may, if a deficit appears likely, effect such reductions in appropriations as may be necessary to prevent a deficit. At the November 6, 1984 general election there was approved a constitutional amendment providing that annual increases in State appropriations may not exceed the average growth rate of the economy of the State and that the annual increase in the number of

State employees may not exceed the average growth of population of the State. The State Constitution also establishes a Reserve Fund to be maintained in an amount equal to 4% of General Fund revenue for the latest fiscal year. Despite the efforts of the State Budget and Control Board, deficits were experienced in each of the fiscal years ended June 30, 1981, June 30, 1982, June 30, 1985 and June 30, 1986. All deficits have been funded out of the Reserve Fund. For the fiscal years ending June 30, 1983 and 1984, the State had cash surpluses. As of June 30, 1985 the General Fund reserve was $89,100,000.

At its July 1985 meeting the State Budget and Control Board, acting upon advice that a shortfall in General Fund revenues for the fiscal year ending June 30, 1985 might develop, froze all supplemental appropriations pending the final accounting of the General Fund for fiscal year 1985. On August 8, 1985, the Office of the Comptroller General advised the State Budget and Control Board that General Fund expenditures for the fiscal year ended June 30, 1985 did exceed General Fund revenues by $11,936,636. Obedient to the constitutional mandate that a casual deficit shall be provided for in the succeeding fiscal year, the State Budget and Control Board delayed certain hiring and capital improvements scheduled to be made in fiscal year 1986 in an amount sufficient to meet the fiscal year 1985 budget shortfall. In January of the fiscal year ended June 30, 1986 the State Budget and Control Board was advised of a possible shortfall of $46,346,968. The Board immediately reduced State agency appropriations by the amount of the anticipated shortfall. Notwithstanding this action, at the end of fiscal year 1986, it became apparent that a shortfall would result. In August of 1986, the State Budget and Control Board voted to fund the deficit by transferring $37,353,272 from the Reserve Fund to the General Fund, bringing the balance in the Reserve Fund to $51.8 million.

At the November 5, 1986 meeting of the Budget and Control Board, the Board of Economic Advisors advised that it had reduced its revenue estimate for the current fiscal year by $87,434,452. As required by the provisions of the Capital Expenditure Fund, the Board applied $27,714,661 budgeted for this fund to the anticipated shortfall. This action left a remaining shortfall of $59,719,791 which the Budget and Control Board funded by imposing a 2.6% cut in expenditures. In a February 1987 meeting of the Board, a further cut in expenditures of 0.8% was ordered.

After net downward revisions of $122 million in estimated revenues during the year, the actual revenue collections exceeded the final estimate by $37 million, resulting in a surplus for the fiscal year ending June 30, 1987, of $20.5 million. The General Reserve Fund received $6.6 million during the year in accordance with the Appropriation Act, and $17 million of the year-end surplus was transferred to the General Reserve Fund, bringing the balance in the General Reserve Fund to $75.4 million at June 30, 1987.

On August 5, 1988, it was announced that for the fiscal year ending June 30, 1988, the Budgetary General Fund had a surplus of $107.5 million. The surplus resulted from a $117.3 million excess of revenues over expenditures. The State will use $52.6 million of the surplus to fund supplemental appropriations, $28.3 million to fund the Capital Reserve, and $20.5 million

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for an early buy-out of a school bus lease agreement The General Assembly will decide how the State will spend the remaining $6.1 million.

The General Reserve Fund received $25.1 million during the 1987-88 fiscal year in accordance with the Appropriation Act During the year, the General Assembly reduced the required funding of the General Reserve Fund from 4% to 3% of the latest completed fiscal year's actual revenue. The General Assembly used $14.4 million of the resulting excess to fund the 1987-1988 Supplemental Appropriation Act, leaving $86.1 million in the General Reserve Fund at June 30, 1988. The full-funding amount at that date, however, was only $80.8 million. In accordance with the 1988-1989 Appropriation Act, the excess of $5.3 million will help fund 1988-1989 appropriations.

At the November 8, 1988 general election there was approved a constitutional amendment reducing from 4% to 3% the amount of General Fund revenue which must be kept in the General Reserve Fund, and removing the provisions requiring a special vote to adjust this percentage. The amendment also created a Capital Reserve Fund equal to 2% of General Fund revenue. Before March 1 of each year, the Capital Reserve Fund must be used to offset mid-year budget reductions before mandating cuts in operating appropriations, and after March 1, the Capital Reserve Fund may be appropriated by a special vote in separate legislation by the General Assembly to finance in cash previously authorized capital improvement bond projects, retire bond principal or interest on bonds previously issued, and for capital improvements or other nonrecurring purposes which must be ranked in order of priority of expenditure. Monies in the Capital Reserve Fund not appropriated or any appropriation for a particular project or item which has been reduced due to application of the monies to year-end deficit must go back to the General Fund.

For the fiscal year ended June 30, 1989, the State had a surplus of $129,788,135. At June 30, 1989, the balance in the General Reserve Fund was $87,999,428.

Because of anticipated revenue shortfalls for the fiscal year 1989-1990, the State Budget and Control Board committed $42.4 million of the $58.7 million Capital Reserve Fund in April, 1990. Lack of sufficient funding at year end resulted in an additional use of $4.5 million from the Capital Reserve Fund. After the above reductions, the State had a fiscal year 1989-1990 surplus of $13,159,892 which was used to fund supplemental appropriations of $1,325,000 and the Capital Reserve Fund at $11,834,892. At June 30, 1990, the balance in the General Reserve Fund was $94,114,351.

During 1990-91 fiscal year, the State Budget and Control Board has approved mid-year budget changes in November of 1990 and again in February of 1991, to offset lower revenue estimates. Those changes included committing the Capital Reserve Fund appropriation ($62,742,901) and reducing agency appropriations in an additional amount necessary to offset (together with automatic expenditure reductions that are tied to revenue levels) what would otherwise be a projected deficit of approximately $132.6 million. On May 14 and May 21, 1991, the Budget and Control Board, responding to April revenue figures and unofficial estimates indicating an additional shortfall of $30 to $50 million, ordered an immediate freeze on all personnel activities, from hiring to promotions; a freeze on purchasing, with limited exceptions; and an indefinite halt to new contracts and contract renewals. The Board also asked the General Assembly for the power to furlough government workers periodically during the next fiscal year.

In the past the State's budgetary accounting principles allowed revenue to be recorded only when the State received the related cash. On July 30, 1991, the Budget and Control Board approved a change in this principle for sales tax revenue beginning with the fiscal year ended June 30, 1991. The Board's resolution requires that sales taxes collected by merchants in June and received by the State in July be reported as revenue in June rather than in July. This change resulted in a $5.2 million decrease in reported 1990-91 sales tax revenue and a one-time $83.1 million addition to fund balance. The one-time adjustment increases the fund balance to the level it would be if the new principle had been in effect in years before 1990-91. Following such action, the year-end balance in the General Reserve Fund was $33.4 million.

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At its July 30, 1991, meeting the Budget and Control Board also took action with respect to the current fiscal year. On July 26, 1991, the Board of Economic Advisors advised the Budget and Control Board that it projected a revenue shortfall of $148 million for the fiscal year 1991-92 budget of $3.581 billion. In response, the Budget and Control Board eliminated the two percent (2%) Capital Reserve Fund appropriation of $65.9 million and reduced other expenditures across the board by three percent (3%). On February 10, 1992, the Board of Economic Advisers advised the Budget and Control Board that it had revised its estimate of revenues for the current fiscal year downward by an additional $55 million. At its February 11, 1992 meeting, the Budget and Control Board responded by imposing an addition one percent (1%) across-the-board reduction of expenditures (except with respect to approximately $10 million for certain agencies). At its February 13, 1992 meeting, the Budget and Control Board restored a portion of the one percent (1%) reduction to four (4) education-related agencies totalling approximately $5.7 million. These expenditure reduction measures, when coupled with revenue increases projected by the Budget and Control Board, resulted in an estimated balance of approximately $1.4 million in the General Fund for the fiscal year 1991-92. Subsequently, the Budget and Control Board announced that the State had incurred a $54 million deficit for fiscal year 1991-92. This deficit will be offset by the General Reserve Fund and a small amount saved by state agencies and local government, leaving the State with an estimated $7.5 million balance for the 1991-92 fiscal year.

Responding to these recurrent operating deficits, Standard & Poor's Corp. has placed the State's AAA-rated general obligation debt on its CreditWatch, and on January 29, 1993, this rating was reduced to AA+.

On August 22, 1992, the Budget and Control Board adopted a plan to reduce appropriations under the 1992 Appropriations Act because of revenue shortfall projections of approximately $200 million for the 1992-93 fiscal year. These reductions were based on the rate of growth in each agency's budget over the past year. On September 15, 1992, the Supreme Court of South Carolina enjoined the Budget and Control Board from implementing its proposed plan for budget reductions on the grounds that the Board had authority to make budget reductions only across-the-board based on total appropriations. In response to this decision, the Board instituted a 4% across the board reduction which, together with funds from the Capital Reserve Fund, was sufficient to balance the budget for the current fiscal year.

Prospective investors should study with care the portfolio of Bonds in the South Carolina Trust and should consult with their investment advisers as to the merits of particular issues in the portfolio.

At the time of the closing for each South Carolina Trust, Special Counsel for each South Carolina Trust for South Carolina tax matters rendered an opinion under then existing South Carolina income tax law applicable to taxpayers whose income is subject to South Carolina income taxation substantially to the effect that:

By the provision of paragraph (j) of Section 3 of Article 10 of the South Carolina Constitution (revised 1977) intangible personal property is specifically exempted from any and all ad valorem taxation.

Pursuant to the provisions of Section 12-1-60 the interest of all bonds, notes or certificates of indebtedness issued by or on behalf of the State of South Carolina and any authority, agency, department or institution of the State and all counties, school districts, municipalities, divisions and subdivisions of the State and all agencies thereof are exempt from income taxes and that the exemption so granted extends to all recipients of interest paid thereon through the Trust. (This opinion does not extend to so-called 63-20 obligations.) The income of the Trust would be treated as income to each Unitholder of the Trust in the proportion that the number of Units of the Trust held by the Unitholder bears to the total number of Units of the Trust outstanding. For this reason, interest derived by the Trust that would not be includable in income for South Carolina income tax purposes when paid directly to a South Carolina Unitholder will be exempt from South Carolina income taxation when received by the Trust and attributed to such South Carolina Unitholder.

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Each Unitholder will recognize gain or loss for South Carolina state income tax purposes if the Trustee disposes of a Bond (whether by sale, payment on maturity, retirement or otherwise) or if the Unitholder redeems or sells his Unit. The Trust would be regarded, under South Carolina law, as a common trust fund and therefore not subject to taxation under any income tax law of South Carolina.

The above described opinion of Special Counsel has been concurred in by an informal ruling of the South Carolina Tax Commission pursuant to Section 12-3-170 of the South Carolina Code.

VIRGINIA TRUSTS. The Commonwealth's financial condition is supported by a broad-based economy, including manufacturing, tourism, agriculture, ports, mining and fisheries. Manufacturing continues to be a major source of employment, ranking behind only services, wholesale and retail trade, and government (Federal, state and local). The federal government is a major employer in Virginia, due to the heavy concentration of federal employees in the metropolitan Washington, D.C. segment of Northern Virginia and the military employment in the Hampton Roads area, which houses the nation's largest concentration of military installations. However, the expected retrenchment of the military sector as a consequence of the end of the Cold War remains a cloud on the economic horizon.

In recent years per capita personal income in Virginia has consistently been above the national average. However, while total personal income has continued to rise during the current recession, it has not always kept pace with both inflation and the population, either nationally or in Virginia. Real personal income in Virginia fell for seven consecutive quarters, ending with the last quarter of 1991, with a slow recovery being evidenced in 1992. The annualized rate of growth in real personal income in Virginia for the second quarter of 1992 was 0.5 percent compared to a national rate of 0.3 percent. Virginia's real per capita income has exceeded that for both the nation and the southeast region since the early 1980s, although the differentials have decreased since 1989. Virginia's nonagricultural employment figures mirror the national economy although the recent recession has hit Virginia harder than the nation as a whole with employment declining at an average annual rate of 1.6 percent since 1990 in Virginia, compared to 0.7 percent nationally. With respect of unemployment, Virginia's unemployment rate has consistently been below that of the nation. For the decade of 1980 to 1990, the differential has been two percentage points, although it decreased to below one percentage point in 1991 and the first six months of 1992.

Employment trends in Virginia have varied from sector to sector and from region to region. For example, manufacturing and trade sectors in 1980 each employed more workers than the service sector. Now the service sector is the largest employer in Virginia and mining and manufacturing are now at lower levels than in 1980. Highest rates of employment are concentrated in southwest Virginia where mining jobs have been lost and the lowest unemployment rates are seen in Northern Virginia where much federally related employment is concentrated. Not surprisingly, there is great overlap between areas of lowest unemployment and those highest per capita income. Economic recovery from the recent recession is expected to be long and slow in Virginia, although in the long term, a growing and more diversified export sector holds promise that should mitigate current concerns.

The Commonwealth of Virginia has historically operated on a fiscally conservative basis and is required by its Constitution to have a balanced biennial budget. At the end of the June 30, 1992, fiscal year, the General Fund had an ending fund balance computed on a budgetary cash basis of $195.2 million, of which $15 million was in required reserve; $142.3 million thereof was designated for expenditure during the next fiscal year, leaving an undesignated, unreserved fund balance of $52.8 million, the first such undesignated fund balance since 1988. Computed on a modified accrual basis in accordance with generally accepted accounting principles, the General Fund balance at the end of the fiscal year ended June 30, 1992, was minus $121.8 million, compared with a General Fund balance at the end of the fiscal year ended June 30, 1991, of minus $265.1 million. Contributing to the reduction were $256.4 million in deferred credits, representing estimated tax refunds associated with income taxes withheld for the period January through June, 1992, and an accrual for estimated Medicaid claims of $155.8 million.

As of June 30, 1992, Outstanding general obligation debt backed by the full faith and credit of the Commonwealth was $582.7 million at June 30, 1992. Of that amount, $544.4 million was also secured by revenue producing capital

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projects. Debt service on the balance equaled 0.2% of total General Fund expenditures in fiscal year 1992.

The Virginia Constitution contains limits on the amount of general obligation bonds which the Commonwealth can issue. These limits are substantially in excess of current levels of outstanding bonds, and at June 30, 1992 would permit an additional total of approximately $5.00 billion of bonds secured by revenue-producing projects and approximately $5.50 billion of unsecured general obligation bonds, with not more than approximately $1.39 billion of the latter to be issued in any four-year period. Bonds which are not secured by revenue-producing projects must be approved in a state-wide election.

In November of 1992 the Constitution of Virginia was amended to establish a permanent Revenue Stabilization Fund. This Fund will go into effect in the 1994-96 biennium. In anticipation of the first required deposit ($40.5 million) to the fund, the Governor included, and the General Assembly approved, a $30.0 million down payment.

The current biennium started on July 1, 1992 and will end on June 30, 1994. The amended biennial budget appropriated a total of $29,090.6 million: $6,416.0 million in general funds and $7,907.1 million in nongeneral funds in fiscal 1993, and $6,852.1 million in general funds and $7,915.3 million in nongeneral funds in fiscal 1994.

The amended Appropriations Act assumed that general fund revenues would increase by 7.1 percent in fiscal 1993 and 6.0 percent in fiscal 1994. Currently, year-to-date general fund growth for the 11 months of fiscal 1993 is 9.7 percent. When general fund revenues are adjusted for one-time corporate payments, the year-to-date growth declined to 7.9 percent.

The Commonwealth of Virginia has consistently maintained ratings of AAA by Standard & Poor's and Aaa by Moody's on its general obligation indebtedness, reflecting in part its sound fiscal management, diversified economic base and low debt ratios. There can be no assurance that these conditions will continue. Nor are these same conditions necessarily applicable to securities which are not general obligations of the Commonwealth. Securities issued by specific municipalities, governmental authorities or similar issuers may be subject to economic risks or uncertainties peculiar to the issuers of such securities or the sources from which they are to be paid.

At the time of the closing for each Virginia Trust, Special Counsel to each Virginia Trust for Virginia tax matters rendered an opinion under then existing Virginia income tax law applicable to taxpayers whose income is subject to Virginia income taxation substantially to the effect that:

(1) The Virginia Trust is not an association taxable as a corporation for purposes of the Virginia Income Tax and each Unitholder of the Trust will be treated as the owner of a pro rata portion of the assets held by the Trust and the income of such portion of the Virginia Trust will be treated as income of the Unitholder for purposes of the Virginia Income Tax.

(2) Income on the Bonds which is exempt from Virginia Income Tax when received by the Virginia Trust and which would be exempt from Virginia Income Tax if received directly by a Unitholder, will retain its status as exempt from such tax when received by the Trust and distributed to such Unitholder.

(3) Each Unitholder will recognize gain or loss for purposes of the Virginia Income Tax if the Trustee disposes of a bond (whether by redemption, sale or otherwise) or if the Unitholder redeems or sells Units of the Trust to the extent that such a transaction results in a recognized gain or loss to such Unitholder for federal income tax purposes, except as described in this paragraph. Virginia has by law provided that all income from certain tax-exempt obligations issued

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under the laws of Virginia, including any profits made from the sale of such Bonds, shall be exempt from all taxation by Virginia. Although we express no opinion, the Virginia Department of Taxation has indicated that the gain on the sale of such tax-exempt obligations, recognized for federal income tax purposes, would not be subject to Virginia income taxation. Accordingly, any such gain relating to the disposition of any Bond that would not be subject to Virginia Income Tax if the Bond was held directly by a Unitholder will retain its tax-exempt status for purposes of the Virginia Income Tax when the Bond is disposed of by the Virginia Trust or when the Unitholder is deemed to have disposed of his pro rata portion of such Bond upon the disposition of his Unit provided that such gain can be determined with reasonable certainty and substantiated.

(4) The Virginia Income Tax does not permit a deduction of interest paid on indebtedness incurred or continued to purchase or carry Units in the Virginia Trust to the extent that interest income related to the ownership of Units is exempt from the Virginia Income Tax.

In the case of Unitholders subject to the Virginia Bank Franchise Tax, the income derived by such a Unitholder from his pro rata portion of the Bonds held by the Virginia Trust may affect the determination of such Unitholders' Bank Franchise Tax. Prospective investors subject to the Virginia Bank Franchise Tax should consult their tax advisors.

PUBLIC OFFERING OF UNITS

PUBLIC OFFERING PRICE. Units of each State Trust are offered at the Public Offering Price thereof. The Public Offering Price per Unit is equal to the aggregate bid side evaluation of the Municipal Bonds in the State Trust's portfolio (as determined pursuant to the terms of a contract with the Evaluator, by Muller Data Corporation, a non-affiliated firm regularly engaged in the business of evaluating, quoting or appraising comparable securities), plus or minus cash, if any, in the Principal Account, held or owned by the State Trust, divided by the number of outstanding Units of the State Trust plus accrued interest to the date of settlement (which in the case of Kemper Defined Funds, consists of Purchased Interest and Daily Accrued Interest), plus the sales charge applicable to a Unit of such State Trust.

The sales charge is based upon the dollar weighted average maturity of the State Trust and is determined in accordance with the table set forth below. For purposes of this computation, Municipal Bonds will be deemed to mature on their expressed maturity dates unless: (a) the Municipal Bonds have been called for redemption or funds or securities have been placed in escrow to redeem them on an earlier call date, in which case such call date will be deemed to be the date upon which they mature; or (b) such Municipal Bonds are subject to a "mandatory tender", in which case such mandatory tender will be deemed to be the date upon which they mature. The effect of this method of sales charge computation will be that different sales charge rates will be applied to the State Trust based upon the dollar weighted average maturity of such State Trust's portfolio, in accordance with the following schedule:

<TABLE>
<CAPTION>

DOLLAR WEIGHTED AVERAGE YEARS TO MATURITY	PERCENT OF PUBLIC OFFERING PRICE	PERCENT OF NET AMOUNT INVESTED
<S>	<C>	<C>
0 to .99 years.	0.00%	0.000%
1 to 3.99 years	2.00	2.041
4 to 7.99 years	3.50	3.627
8 to 14.99 years	4.50	4.712
15 or more years	5.50	5.820

</TABLE>

The sales charge per Unit will be reduced as set forth below:

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	DOLLAR WEIGHTED AVERAGE YEARS TO MATURITY*2		
	4 TO 7.99	8 TO 14.99	15 OR MORE

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AMOUNT OF INVESTMENT	SALES CHARGE (% OF PUBLIC OFFERING PRICE)		
$1 to $99,999	3.50%	4.50%	5.50%
$100,000 to $499,999	3.25	4.25	5.00
$500,000 to $999,999	3.00	4.00	4.50
$1,000,000 or more	2.75	3.75	4.00

The reduced sales charges as shown on the preceding charts will apply to all purchases of Units on any one day by the same purchaser from the same firm and for this purpose, purchases of Units of a Series of the Trust will be aggregated with concurrent purchases of Units of any other unit investment trust that may be offered by the Sponsor. Additionally, Units purchased in the name of a spouse or child (under 21) of such purchaser will be deemed to be additional purchases by such purchaser. The reduced sales charges will also be applicable to a trust or other fiduciary purchasing for a single trust estate or single fiduciary account.

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* If the dollar weighted average maturity of a State Trust is from 1 to 3.99 years, the sales charge is 2% and 1.5% of the Public Offering Price for purchases of $1 to $249,999 and $250,000 or more, respectively.

The Sponsor intends to permit officers, directors and employees of the Sponsor and Evaluator and in the sole direction of the Sponsor, registered representatives of selling firms to purchase Units of the Trust without a sales charge, although a transaction processing fee may be imposed on such trades.

The Public Offering Price per Unit of a State Trust on the date shown on the cover page of Part Two of the Prospectus or on any subsequent date will vary from the amounts stated under "Essential Information" in Part Two in accordance with fluctuations in the prices of the underlying Municipal Bonds and the amount of accrued interest on the Units. The aggregate bid side evaluation of the Municipal Bonds shall be determined (a) on the basis of current bid prices of the Municipal Bonds, (b) if bid prices are not available for any particular Municipal Bond, on the basis of current bid prices for comparable bonds, (c) by determining the value of the Municipal Bonds on the bid side of the market by appraisal, or (d) by any combination of the above.

The foregoing evaluations and computations shall be made as of the Evaluation Time stated under "Essential Information" in Part Two, on each business day effective for all sales made during the preceding 24-hour period, and for purposes of resales and repurchases of Units.

The interest on the Municipal Bonds in each State Trust, less the related estimated fees and expenses, is estimated to accrue in the annual amounts per Unit set forth under "Essential Information" in Part Two. The amount of net interest income which accrues per Unit may change as Municipal Bonds mature or are redeemed, exchanged or sold, or as the expenses of a State Trust change or as the number of outstanding Units of such State Trust changes.

Payment for Units must be made on or before the fifth business day following the order for purchase (the "settlement date"). A purchaser becomes the owner of Units on the settlement date. Cash, if any, made available to the Sponsor prior to the date of settlement for the purchase of Units may be used in the Sponsor's business and may be deemed to be a benefit to the Sponsor, subject to the limitations of the Securities Exchange Act of 1934. If a Unitholder desires to have certificates representing Units purchased, such certificates will be delivered as soon as possible following a written request therefor, or shortly thereafter. For information with respect to redemption of Units purchased, but as to which certificates requested have not been received, see "Redemption" below.

The following section entitled "Accrued Interest" applies only to series of Kemper Tax-Exempt Income Trust, Multi-State Series and Ohio Tax-Exempt Bond Trust, Series 1-10.

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ACCRUED INTEREST. Accrued interest consists of two elements. The first element arises as a result of accrued interest which is the accumulation of unpaid interest on a bond from the last day on which interest thereon was paid. Interest on Bonds in the State Trusts is actually paid either monthly or semi-annually to

the State Trust. However, interest on the Bonds in the State Trusts is accounted for daily on an accrual basis. Because of this, a State Trust always has an amount of interest earned but not yet collected by the Trustee because of coupons that are not yet due. For this reason, the Public Offering Price of Units will have added to it the proportionate share of accrued and undistributed interest to the date of settlement.

The Trustee advanced the amount of accrued interest as of the First Settlement Date (which is five business days following the Date of Deposit) and the same was distributed to the Sponsor. Such advance was repaid to the Trustee through the first receipts of interest received on the Municipal Bonds. Consequently, the amount of accrued interest added to the Public Offering Price of Units included only accrued interest arising after the First Settlement Date of a State Trust, less any distributions from the Interest Account subsequent to this First Settlement Date. Since the First Settlement Date was the date of settlement for anyone who ordered Units on the Date of Deposit, no accrued interest was added to the Public Offering Price of Units ordered on the Date of Deposit.

The second element of accrued interest arises because of the structure of the Interest Account. The Trustee has no cash for distribution to Unitholders until it receives interest payments on the Bonds in a State Trust. The Trustee is obligated to provide its own funds, at times, in order to advanced interest distributions. The Trustee will recover these advancements when such interest is received. Interest Account balances are established so that it will not be necessary on a regular basis for the Trustee to advance its own funds in connection with such interest distributions. The Interest Account balances are also structured so that there will generally be positive cash balances and since the funds held by the Trustee will be used by it to earn interest thereon, it benefits thereby (see "Expenses of the Trust").

Accrued interest is computed as of the initial Record Date of the State Trusts. On the date of the first distribution of interest to Unitholders after the First Settlement Date the interest collected by the Trustee will be sufficient to repay its advances, to allow for accrued interest under the monthly, quarterly and semi-annual plans of distribution and to generate enough cash to commerce distributions to Unitholders. If a Unitholder sells or redeems all or a portion of his Units or if the Bonds in a State Trust are sold or otherwise removed or if a State Trust is liquidated, he will receive at that time his proportionate share of the accrued interest computed to the settlement date in the case of sale or liquidation and to the date of tender in the case of redemption in such State Trust.

The following section entitled "Purchased and Daily Accrued Interest" applies only to series of Kemper Defined Funds (Tax-Exempt Portfolio).

PURCHASED AND DAILY ACCRUED INTEREST. Accrued interest consists of two elements. The first element arises as a result of accrued interest which is the accumulation of unpaid interest on a bond from the later of the last day on which interest thereon was paid or the date of original issuance of the bond. Interest on the coupon Bonds in the State Trust is paid semi-annually to the Trust. In the case of series of Kemper Defined Funds, a portion of the aggregate amount of such accrued interest on the Bonds in the Trust to the

First Settlement Date of the Trust is referred to herein as "Purchased Interest." Included in the Public Offering Price of the Trust Units in any series of Kemper Defined Funds is the Purchased Interest. In an effort to reduce the amount of Purchased Interest which would otherwise have to be paid by Unitholders, the Trustee may advance a portion of the accrued interest to the Sponsor as the Unitholder of record as the First Settlement Date. The

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second element of accrued interest arises because the estimated net interest on the Units in the State Trust is accounted for daily on an accrual basis (herein referred to as "Daily Accrued Interest in connection with Kemper Defined Funds"). Because of this, the Units always have an amount of interest earned but not yet paid or reserved for payment. For this reason, the Public Offering Price of Units in any series of Kemper Defined Funds will include the proportionate share of Daily Accrued Interest to the date of settlement.

If a Unitholder in any series of Kemper Defined Funds sells or redeems all or a portion of his Units or if the Bonds are sold or otherwise removed or if the State Trust is liquidated, he will receive at that time his proportionate share of the Purchased Interest and Daily Accrued Interest computed to the settlement date in the case of sale or liquidation and to the date of tender in the case of redemption in the State Trust.

PUBLIC DISTRIBUTION OF UNITS. The Sponsor has qualified Units of each State Trust for ale in the State for which such State Trust is named. Units will be sold through dealers who are members of the National Association of Securities Dealers, Inc. and through others. Sales may be made to or through dealers at prices which represent discounts from the Public Offering Price as set forth in the table below. Certain commercial banks are making Units of the Trust available to their customers on an agency basis. A portion of the sales charge paid by their customers is retained by or remitted to the banks, in the amounts in the table below. Under the Glass-Steagall Act, banks are prohibited from underwriting Trust Units; however, the Glass-Steagall Act does permit certain agency transactions and the banking regulators have indicated that these particular agency transactions are permitted under such Act. In addition, state securities laws on this issue may differ from the interpretations of Federal law expressed herein and banks and financial institutions may be required to register as dealers pursuant to state law.

<TABLE>
<CAPTION>

	DOLLAR WEIGHTED AVERAGE YEARS TO MATURITY*3		
	4 TO 7.99	8 TO 14.99	15 OR MORE
AMOUNT OF INVESTMENT	DISCOUNT PER UNIT (% OF PUBLIC OFFERING PRICE)		
<S>	<C>	<C>	<C>
$1 to $99,999	2.00%	3.00%	4.00%
$100,000 to $499,999	1.75	2.75	3.50
$500,000 to $999,999	1.50	2.50	3.00
$1,000,000 or more	1.25	2.25	2.50

</TABLE>

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* If the dollar weighted average maturity of a Trust is from 1 to 3.99 years, the concession or agency commission is 1.00% of the Public Offering Price.

In addition to such discounts, the Sponsor may, from time to time, pay or allow an additional discount, in the form of cash or other compensation, to dealers employing registered representatives who sell, during a specified time period, a minimum dollar amount of Units of the Trust and other unit investment trusts underwritten by the Sponsor.

The Sponsor reserves the right to change the levels of discounts at any time. The difference between the discount allowed to firms and the sales charge will be retained by the Sponsor and the Underwriters.

The Sponsor reserves the right to reject, in whole or in part, any order for the purchase of Units.

PROFITS OF SPONSOR. The Sponsor will retain a portion of the sales charge on each Unit sold from its inventory, representing the difference between the Public Offering Price of the Units, calculated as stated under "Public Offering Price," and the discounts allowed to firms selling such Units. The Sponsor may realize additional profit or loss as a result of the possible change in the daily evaluation of the Municipal Bonds in the State Trusts from its inventory.

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MARKET FOR UNITS

While not obligated to do so, the Sponsor intends to, and certain of the Underwriters may, subject to change at any time, maintain a market for Units of the State Trust offered hereby and to offer to purchase said Units at prices, as determined by the Evaluator, based on the aggregate bid prices of the underlying Municipal Bonds in such State Trusts, together with accrued interest to the expected date of settlement (which, in the case of Kemper Defined Funds, consists of Purchased Interest and Daily Accrued Interest). Accordingly, Unitholders who wish to dispose of their Units should inquire of their broker or bank as to the current market prices in order to determine whether there is in existence any price in excess of the Redemption Price and, if so, the amount thereof.

The offering price of any Units resold by the Sponsor or Underwriters will be in accord with that described in the currently effective Prospectus describing such Units. Any profits or loss resulting from the resale of such Units will belong to the Sponsor and/or the Underwriters. The Sponsor and/or the Underwriters may suspend of discontinue purchases of Units of any Trust Fund if the supply of Units exceeds demand, or for other business reasons.

REDEMPTION

A Unitholder who does not dispose of Units in the secondary market described above may cause their Units to be redeemed by the Trustee by making a written request to the Trustee, Investors Fiduciary Trust Company, P.O. Box 419430, Kansas City, Missouri 64173-0216 and, in the case of Units evidenced by a

certificate, by tendering such certificate to the Trustee, properly endorsed or accompanied by a written instrument or instruments of transfer in form satisfactory to the Trustee. Unitholders must sign such written request, and such certificate or transfer instrument, exactly as their names appear on the records of the Trustee and on any certificate representing the Units to be redeemed. If the amount of the redemption is $25,000 or less and the proceeds are payable to the Unitholder of record at the address of record, no signature guarantee is necessary for redemptions by individual account owners (including joint owners). Additional documentation may be requested, and a signature guarantee is always required, from corporations, executors, administrators, trustees, guardians or associations. The signatures must be guaranteed by a participant in the Securities Transfer Agents Medallion Program ("STAMP") or such other signature guarantee program in addition to, or in substitution for, STAMP, as may be accepted by the Trustee . A certificate should only be sent by registered or certified mail for the protection of the Unitholder. Since tender of the certificate is required for redemption when one has been issued, Units represented by a certificate cannot be redeemed until the certificate representing such Units has been received by the purchasers.

Redemption shall be made by the Trustee on the seventh calendar day following the day on which a tender for redemption is received, or if the seventh calendar day is not a business day, on the first business day prior thereto (the "Redemption Date"), by payment of cash equivalent to the Redemption Price for such State Trust, determined as set forth below under "Computation of Redemption Price," as of the Evaluation Time stated under "Essential Information" in Part Two, next following such tender, multiplied by the number of Units being redeemed. The price received upon redemption might be more or less than the amount paid by the Unitholder depending on the value of the Municipal Bonds in the State Trust's portfolio at the time of redemption. Any Units redeemed shall be cancelled and any undivided fractional interest in the State Trust will be extinguished.

Under regulations issued by the Internal Revenue Service, the Trustee is required to withhold a specified percentage of the principal amount of a Unit redemption if the Trustee has not been furnished the redeeming Unitholder's tax identification number in the manner required by such regulations. Any amount so withheld is transmitted to the Internal Revenue Service and may be recovered by the Unitholder only when filing a tax return. Under normal circumstances the Trustee obtains the Unitholder's tax identification number from the selling broker. However, any time a Unitholder elects to tender Units for redemption, such Unitholder should make sure that the Trustee has been provided a certified tax identification number in order to avoid this possible "back-up withholding." In the event the Trustee has not

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been previously provided such number, one must be provided at the time redemption is requested.

Any amounts paid on redemption representing interest shall be withdrawn from the Interest Account for such State Trust to the extent that funds are available for such purpose. All other amounts paid on redemption shall be withdrawn from the Principal Account for such State Trust. The Trustee is empowered to sell Municipal Bonds for such State Trust in order to make funds available for the redemption of Units of such State Trust. Such sale may be required when Municipal Bonds would not otherwise be sold and might result in lower prices then might otherwise be realized. To the extent Municipal Bonds are sold, the size and diversity of such State Trust will be reduced.

The Trustee is irrevocably authorized in its discretion, if the Sponsor does not elect to purchase any Units tendered for redemption, in lieu of redeeming such Units, to sell such Units in over-the-counter market for the account of tendering Unitholders at prices which will return to such Unitholders amounts in cash, net after brokerage commissions, transfer taxes and other charges, equal to or in excess of the Redemption Price for such Units. In the event of any such sale, the Trustee shall pay the net proceeds thereof to the Unitholders on the day they would otherwise be entitled to receive payment of the Redemption Price.

The right of redemption may be suspended and payment postponed (1) for any period during which the New York Stock Exchange is closed, other than customary weekend and holiday closings, or during which (as determined by the Securities and Exchange Commission) trading on the New York Stock Exchange is restricted; (2) for any period during which an emergency exists as a result of which disposal by the Trustee of Municipal Bonds is not reasonably practicable or it is not reasonably practicable fairly to determine the value of the underlying Municipal Bonds in accordance with the Agreement; or (3) for such other period as the Securities and Exchange Commission may by order permit. The Trustee is not liable to any person or in any way for any loss or damage which may result from any such suspension or postponement.

COMPUTATION OF REDEMPTION PRICE. The Redemption Price for Units of each State Trust is computed by the Evaluator as of the Evaluation Time stated under "Essential Information" in Part Two next occurring after the tendering of a Unit for redemption and on any other business day desired by it, by

A. adding (1) the principal cash on hand held or owed by the State Trust other than cash deposited in the Trust Fund to purchase Municipal Bonds not applied to the purchase of such Bonds; (2) the aggregate value of the Municipal Bonds held in the State Trust, as determined by the Evaluator on the basis of bid prices therefor; and (3) interest accrued and unpaid on the Municipal Bonds in the State Trust as of the date of computation; and

B. deducting therefrom (1) amounts representing any applicable taxes or governmental charges payable out of the State Trust and for which no deductions have been previously made for the purpose of additions to the Reserve Account described under "Expenses of the Trust"; (2) amounts representing estimated accrued expenses of the State Trust including, but not limited to, unpaid fees and expenses of the Trustee (including legal and auditing fees and any insurance costs), the Evaluator, the Sponsor and bond counsel, if any; (3) cash held for distribution to Unitholders of record as of the business day prior to the evaluation being made; and (4) other liabilities incurred by the State Trust; and

C. finally, dividing the results of such computation by the number of Units of the State Trust outstanding as of the date thereof.

UNITHOLDERS

OWNERSHIP OF UNITS. Ownership of Units of any State Trust will not be evidenced by a certificate unless a Unitholder or the Unitholder's registered broker/dealer or the clearing agent for such broker/dealer

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makes a written request to the Trustee. Certificates, if issued, will be so noted on the confirmation statement sent to the Underwriter and broker. Non-receipt of such certificate(s) must be reported to the Trustee within one year; otherwise, a 2% surety bond fee will be required for replacement.

Units are transferable by making a written request to the Trustee and, in the case of Units evidenced by a certificate, by presenting and surrendering such certificate to the Trustee properly endorsed or accompanied by a written instrument or instruments of transfer which should be sent registered or certified mail for the protection of Unitholders. Unitholders must sign such written request, and such certificate or transfer instrument, exactly as their names appear on the records of the Trustee and on any certificate representing the Units to be transferred. Such signatures must be guaranteed by a participant in the Securities Transfer Agents Medallion Program ("STAMP") or such other signature guaranty program in addition to, or in substitution for, STAMP, as may be accepted by the Trustee.

Units may be purchased and certificates, if requested, will be issued in denominations of one Unit or any multiple thereof subject to any minimum investment requirement established by the Sponsor from time to time. Any certificate issued will be numbered serially for identification, issued in fully registered form and will be transferable only on the books of the trustee. The Trustee may require a Unitholder to pay a fee for each certificate re-issued or transferred, and to pay any governmental charge that may be imposed in connection with each such transfer or interchange. The Trustee at the present time does not intend to charge for the normal transfer or interchange of certificates. Destroyed, stolen, mutilated or lost certificates will be replaced upon delivery to the Trustee of satisfactory indemnity (generally amounting to 3% of the market value of the Units), affidavit of loss, evidence of ownership and payment of expenses incurred.

DISTRIBUTIONS TO UNITHOLDERS. Interest Distributions: Interest received by each State Trust, including any portion of the proceeds from a disposition of Municipal Bonds which represents accrued interest, is credited by the Trustee to the Interest Account for such State Trust. All other receipts are credited by the Trustee to a separate Principal Account for the State Trust. The Trustee normally has no cash for distribution to Unitholders until it received interest payments on the Bonds in the State Trust. Since municipal interest usually is paid semi-annually, during the initial months of the Trust, the Interest Account of each State Trust, consisting of accrued but uncollected interest and collected interest (cash), will be predominantly the uncollected accrued interest that is not available for distribution.

Thereafter, assuming the State Trust retains its original size and composition, after deduction of the fees and expenses of the Trustee, the Sponsor and Evaluator and reimbursements (without interest) to the Trustee for any amount advanced to a State Trust, the Trustee will normally distribute on each Interest Distribution Date (the fifteenth of the month) of shortly thereafter to Unitholders of record of such State Trust on the preceding Record Date. Unitholders of the State Trusts will receive an amount substantially equal to one-twelfth, one-fourth or one-half (depending on the distribution option selected) of such holders' pro rata share of the estimated net annual interest income to the Interest Account of such State Trust. However, interest earned at any point in time will be greater than the amount actually received by the Trustee and distributed to the Unitholders. Therefore, there will always remain an item of accrued interest that is added to the daily

value of the Units. If Unitholders of a State Trust sell or redeem all or a portion of their Units, they will be paid their proportionate share of the accrued interest of such State Trust to, but not including, the fifth business day after the date of a sale or to the date of tender in the case of a redemption.

In order to equalize distributions and keep the undistributed interest income of the Trusts at a low level, all Unitholders of record in such State Trust on the first Record Date received and interest distribution on the first Interest Distribution Date. Because the period of time between the first Interest Distribution Date and the regular distribution dates may not have been a full period, the first regular distributions amy have been partial distributions.

Persons who purchase Units between a Record Date and a

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Distribution Date will receive their first distribution on the second Distribution Date following their purchase of Units. Since interest on Municipal Bonds in the State Trusts is payable at varying intervals, usually in semi-annual installments, and distributions of income are made to Unitholders at different intervals from receipt of interest, the interest accruing to a State Trust may not be equal to the amount of money received and available for distribution from the Interest Account. Therefore, on each Distribution Date the amount of interest actually deposited in the Interest Account of a State Trust and available for distribution may be slightly more or less than the interest distribution made. In order to eliminate fluctuations in interest distributions resulting from variances, the Trustee is authorized by the Trust Agreements to advance such amounts as may be necessary to provide interest distributions of approximately equal amounts. The Trustee will be reimbursed, without interest, for any such advances from funds available in the Interest Account for such State Trust.

Unitholders of any series of Kemper Tax-Exempt Income Trust, Multi-State Series or Ohio Tax-Exempt Bond Trust, Series 1-10 who desire to receive distributions on a quarterly or semi-annual basis may elect to do so, however, only monthly distributions are available for series of Kemper Defined Funds. Record Dates for monthly distributions will be the first day of each month; Record Dates for quarterly distributions will be the first day of January, April, July and October; and Record Dates for semi-annual distributions will be the first day of January and July. The distribution option selected by a Unitholder of any series of Kemper Tax-Exempt Income Trust, Multi-State Series or Ohio Tax-Exempt Bond Trust, Series 1-10 will remain in effect until changed by written notice to the Trustee.

Unitholders of any series of Kemper Tax-Exempt Income Trust, Multi-State Series or Ohio Tax-Exempt Bond Trust, Series 1-10 purchasing Units of the State Trusts in the secondary market will initially receive distributions in accordance with the election of the prior owner. Unitholders of such Trusts desiring to change their distribution option may do so by sending written notice to the Trustee, together with their certificate (if one was issued). Certificates should only be sent by registered or certified mail to minimize the possibility of loss. If written notice and any certificate are received by the Trustee not later than January 1 or July 1 of a year, the change will become effective for distributions commencing with February 15 or August 15, respectively, of that year. If notice is not received by the Trustee, the Unitholder will be deemed to have elected to continue with the same option.

Principal Distributions. The Trustee will distribute on each semi-annual Distribution Date (or, in the case of Kemper Defined Funds, on each Distribution Date) or shortly thereafter, to each Unitholder of record of the State Trust of the preceding Record Date, an amount substantially equal to such holder's pro rata share of the cash balance, if any, in the Principal Account of such State Trust computed as of the close of business on the preceding Record Date. However, no distribution will be required if the balance in the Principal Account is less than $1.00 per Unit (or $.001 per Unit for certain Series). Additionally, in the case of any series of Kemper Tax-Exempt Income Trust, Multi-State Series or Ohio Tax-Exempt Bond Trust, Series 1-10, if such balance is between $5.00 and $10.00 per Unit, distributions will be made on each quarterly Distribution Date; and if such balance exceeds $10.00 per Unit, such amounts will be distributed on the next monthly Distribution Date.

STATEMENTS TO UNITHOLDERS. With each distribution, the Trustee will furnish each Unitholder a statement of the amount of interest and the amount of other receipts, if any, which are being distributed, expressed in each case as a dollar amount per Unit.

The accounts of each State Trust are required to be audited annually, at the State Trust's expense, by independent auditors designated by the Sponsor, unless the Trustee determines that such an audit would not be in the best interest of the Unitholders of such State Trust. The accountants' report will be furnished by the Trustee to any Unitholder of such State Trust upon written request.

Within a reasonable period of time after the end of each calendar year, the Trustee shall furnish to each person who at any time during the calendar year was a Unitholder of a State Trust a statement covering the calendar year, setting forth:

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A. As to the Interest Account:

1. The amount of interest received on the Municipal Bonds and the percentage of such amount by states and territories in which the issuers of such Bonds are located;

2. The amount paid from the Interest Account of such State Trust representing accrued interest of any Units redeemed;

3. The deductions from the Interest Account of such State Trust for applicable taxes, if any, fees and expenses (including auditing fees) of the Trustee, the Evaluator, the Sponsor and bond counsel, if any;

4 Any amounts credited by the Trustee to a Reserve Account for such State Trust described under "Expenses of the Trust"; and

5. The net amount remaining after such payments and deductions, expressed both as a total dollar amount and a dollar amount per Unit outstanding on the last business day of such calendar year.

B. As to the Principal Account:

1. The dates of the maturity, liquidation or redemption of any of the Municipal Bonds in such State Trust and the net proceeds received therefrom excluding any portion credited to the Interest Account;

2. The amount paid from the Principal Account of such Series representing the principal of any Units redeemed;

3. The deductions from the Principal Account of such Series for payment of applicable taxes, if any, fees and expenses (including auditing expenses) of the Trustee, the Evaluator, the Sponsor and bond counsel, if any;

4. Any amounts credited by the Trustee to a Reserve Account for such Series described under "Expenses of the Trust"; and

5. The net amount remaining after distributions of principal and deductions, expressed both as a dollar amount and as a dollar amount per Unit outstanding on the last business day of such calendar year.

C. The following information:

1. A list of the Municipal Bonds in such State Trust as of the last business day of such calendar year;

2. The number of Units of such State Trust outstanding on the last business day of such calendar year;

3. The Redemption Price of such State Trust based on the last Trust Fund Evaluation made during such calendar year; and

4. The amount actually distributed during such calendar year from the Interest and Principal Accounts of such State Trust separately stated, expressed both as total dollar amounts and as dollar amounts per Unit of such State Trust outstanding on the Record Date for each such distribution.

RIGHTS OF UNITHOLDERS. A Unitholder may at any time tender Units to the Trustee for redemption. No Unitholder of a State Trust shall have the right to control the operation and management of the Trust or such State Trust in any manner, except to vote with respect to amendment of the Agreement or termination of the Trust or such State Trust. The death or incapacity of any Unitholder will not operate to terminate the Trust or any State Trust nor entitle legal representatives or heirs to claim an accounting or to bring any action or proceeding in any court for partition or winding up of the Trust or any State Trust.

INVESTMENT SUPERVISION

The Sponsor may not alter the portfolio of the State Trusts by the purchase, sale or substitution of Municipal Bonds, except in the special circumstances noted below. Thus, with the exception of the

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redemption or maturity of Municipal Bonds in accordance with their terms, and/or the sale of Municipal Bonds to meet redemption requests, the assets of the State Trusts will remain unchanged under normal circumstances.

The Sponsor may direct the Trustee to dispose of Municipal Bonds the value of which has been affected by certain adverse events including default in the payment of principal or interest, institution of certain legal proceedings, default under other documents which may adversely affect debt service, default in the payment of interest on other obligations of the same issuer, decline in projected income pledged for debt service on revenue bonds, or decline in their price or the occurrence of other market factors, including advance refunding, so that in the opinion of the Sponsor the retention of such Municipal Bonds in a State Trust would be detrimental to the interest of its Unitholders. The proceeds from any such sales, exclusive of any portion which represents accrued interest, will be credited to the Principal Account of such Trust Fund for distribution to its Unitholders.

The Sponsor is required to instruct the Trustee to reject any offer made by an issuer of the Municipal Bonds to issue new obligations in exchange or substitution for any of such Municipal Bonds pursuant to a refunding financing plan, except that the Sponsor may instruct the Trustee to accept or reject such an offer or to take any other action with respect thereto as the Sponsor may deem proper if (a) the issuer is in default with respect to such Municipal Bonds; or (b) in the written opinion of the Sponsor, there is a reasonable basis to believe that the issuer will default with respect to such Municipal Bonds in the foreseeable future. Any obligations received in exchange or substitution will be held by the Trustee subject to the terms and conditions of the Agreement to the same extent as the Municipal Bonds originally deposited thereunder. Within five days after such deposit, notice of such exchange and deposit shall be given by the Trustee to each unitholder of such State Trust registered on the books of the Trustee, including an identification of the Municipal Bonds eliminated and the Municipal Bonds substituted therefor.

The Trustee may sell Municipal Bonds, designated by the Sponsor, from a State Trust for the purpose of redeeming Units of such State Trust tendered for redemption and the payment of expenses.

ADMINISTRATION OF THE TRUST

THE TRUSTEE. The Trustee, Investors Fiduciary Trust Company, is a trust company specializing in investment related services, organized and existing under the laws of Missouri, having its trust office at 127 West 10th Street, Kansas City, Missouri 64105. The Trustee is subject to supervision and examination by the Division of Finance of the State of Missouri and the Federal Deposit Insurance Corporation. Investors Fiduciary Trust Company is jointly owned by DST Systems, Inc. and Kemper Financial Services, Inc., an affiliate of the Sponsor.

The Trustee, whose duties are ministerial in nature, has not participated in selecting the portfolio of any Trust Fund. For information relating to the responsibilities of the Trustee under the Agreement, reference is made to the material set forth under "Unitholders."

In accordance with the Agreements, the Trustee shall keep proper books of record and account of all transactions at its office. Such records shall include the name and address of, and the number of Units held by, every Unitholder of each State Trust. Such books and records shall be open to inspection by any Unitholder of such State Trust at all reasonable times during the usual business hours. The Trustee shall make such annual or other reports as may from time to time be required under any applicable state or Federal statute, rule or regulation. The Trustee shall keep a certified copy or duplicate original of the Agreements on file in its office available for inspection at all reasonable times during usual business hours by any Unitholder, together with a current list of the Municipal Bonds held in each State Trust. Pursuant to the Agreements, the Trustee may employ one or more agents for the purpose of custody and safeguarding of Municipal Bonds comprising the portfolios.

Under the Agreement, the Trustee or any successor

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trustee may resign and be discharged of the trust created by the Agreement by executing an instrument in writing and filing the same with the Sponsor.

The Trustee or successor trustee must mail a copy of the notice of resignation to all Unitholders then of record, not less than sixty days before the date specified in such notice when such resignation is to take effect. The Sponsor upon receiving notice of such resignation is obligated to appoint a successor trustee promptly. If, upon such resignation, no successor trustee has been appointed and has accepted the appointment within thirty days after notification, the retiring Trustee may apply to a court of competent jurisdiction for the appointment of a successor. In case the Trustee becomes incapable of acting or is adjudged a bankrupt or is taken over by public authorities, the Sponsor may remove the Trustee and appoint a successor trustee as provided in the Agreement. Notice of such removal and appointment shall be mailed to each Unitholder by the Sponsor. Upon execution of a written acceptance of such appointment by a successor trustee, all the rights, powers, duties and obligations of the original Trustee shall vest in the successor.

The Trustee shall be a corporation organized under the laws of the United States or any state thereof, which is authorized under such laws to exercise trust powers. The Trustee shall have at all times an aggregate capital, surplus and undivided profits of not less than $5,000,000.

THE EVALUATOR. Kemper Unit Investment Trusts, a service of Kemper Securities, Inc., the Sponsor, also serves as Evaluator. The Evaluator may resign or be removed by the Trustee, which is to use its best efforts to appoint a satisfactory successor. Such resignation or removal shall become effective upon acceptance of appointment by the successor evaluator. If, upon resignation of the Evaluator no successor has accepted appointment within thirty days after notice of resignation, the Evaluator may apply to a court of

competent jurisdiction for the appointment of a successor. Notice of such resignation or removal and appointment shall be mailed by the Trustee to each Unitholder. At the present time, pursuant to a contract with the Evaluator, Muller Data Corporation a non-affiliated firm regularly engaged in the business of evaluating, quoting or appraising comparable securities, provides portfolio evaluations of the Municipal Bonds in the State Trusts which are then reviewed by the Evaluator. In the event the Sponsor is unable to obtain current evaluations from Muller Data Corporation, it may make its own evaluations or it may utilize the services of any other non-affiliated evaluator or evaluators it deems appropriate.

AMENDMENT AND TERMINATION. The Agreement may be amended by the Trustee and the Sponsor without the consent of any of the Unitholders: (1) to cure any ambiguity or to correct or supplement any provision which may be defective or inconsistent; (2) to change any provision thereof as may be required by the Securities and Exchange Commission or any successor governmental agency; or (3) to make such provisions as shall not adversely affect the interest of the Unitholders. The Agreement with respect to any State Trust may also be amended in any respect by the Sponsor and the Trustee, or any of the provisions thereof may be waived, with the written consent of the holders of Units representing 66-2/3% of the Units then outstanding of such State Trust, provided that no such amendment or waiver will reduce the interest in the State Trust of any Unitholder thereof without the consent of such Unitholder or reduce the percentage of Units required to consent to any such amendment or waiver without the consent of all Unitholders of such State Trust. In no event shall the Agreement be amended to increase the number of Units of a State Trust issuable thereunder or to permit, except in accordance with the provisions of the Agreement, the acquisition of any Municipal Bonds in addition to or in substitution for those in a State Trust. The Trustee shall promptly notify Unitholders of the substance of any such amendment.

The Agreement provides that each State Trust shall terminate upon the maturity, redemption or other disposition, as the case may be, of the last of the Municipal Bonds held in such State Trust. If the value of a State Trust shall be less than the applicable minimum value stated under "Essential Information" in Part Two the Trustee may, in its discretion, and shall, when so directed by the Sponsor, terminate the State Trust. A State Trust may be terminated at any time by the holders of Units representing 66-2/3% of the Units thereof then outstanding. Notwithstanding the foregoing, in no event shall any State Trust continue beyond the mandatory termination date shown in Part Two under "Essential Information." In the event of termination of a State Trust, written notice thereof will be sent by the Trustee to all Unitholders of such State Trust. Within a reasonable period after termination, the Trustee will sell any Municipal Bonds remaining in the State Trust and, after paying all expenses and charges incurred by the State

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Trust, will distribute to Unitholders thereof (upon surrender for cancellation of certificates for Units, if issued) their pro rata share of the balances remaining in the Interest and Principal Accounts of such State Trust.

LIMITATIONS ON LIABILITY. The Sponsor: The Sponsor is liable for the performance of its obligations arising from its responsibilities under the Agreement, but will be under no liability to the Unitholders for taking any action or refraining from any action in good faith pursuant to the Agreement or for errors in judgment, except in cases of its own gross negligence, bad faith or willful misconduct. The Sponsor shall not be liable or responsible in any way for depreciation or loss incurred by reason of the sale of any Municipal Bonds.

The Trustee: The Agreement provides that the Trustee shall be under no liability for any action taken in good faith in reliance upon prima facie properly executed documents or for the disposition of monies, Municipal Bonds, or certificates except by reason of its own gross negligence, bad faith or willful misconduct, nor shall the Trustee be liable or responsible in any way for depreciation or loss incurred by reason of the sale by the Trustee of any Municipal Bonds. In the event that the Sponsor shall fail to act, the Trustee may act and shall not be liable for any such action taken by it in good faith. The Trustee shall not be personally liable for any taxes or other governmental charges imposed upon or in respect of the Municipal Bonds or upon the interest thereon. In addition, the Agreement contains other customary provisions limiting the liability of the Trustee. The Trustee, whose duties are ministerial, did not participate in the selection of Municipal Bonds for the State Trusts.

The Evaluator: The Trustee and Unitholders may rely on any evaluation furnished by the Evaluator and shall have no responsibility for the accuracy thereof. The Agreement provides that the determinations made by the Evaluator shall be made in good faith upon the basis of the best information available to it; provided, however, that the Evaluator shall be under no liability to the Trustee or Unitholders for errors in judgment, but shall be liable only for its gross negligence, lack of good faith or willful misconduct.

EXPENSES OF THE TRUST

Except with respect to those series indicated in the next sentence and except as otherwise stated under "Essential Information" in Part Two of the Prospectus, the Sponsor will not charge any State Trust an advisory fee and will receive no fee from the Trust for services performed as Sponsor. The Sponsor will charge Kemper Tax-Exempt Income Trust, Multi-State Series 45 and subsequent series and all series of Kemper Defined Funds an annual surveillance fee for services performed for such Trust Funds in an amount not to exceed the amount shown under "Essential Information" in Part Two, but in no event will such compensation when combined with all compensation received from other unit investment trusts for which the Sponsor acts as Sponsor and provides portfolio surveillance, exceed the aggregate cost to the Sponsor for providing such services. Such fee shall be based on the total number of Units of such State Trust outstanding as of the January Record Date for any annual period. The Sponsor and other Underwriters paid all the expenses of creating and establishing the Trust, including the cost of the initial preparation, printing and execution of the Prospectus, Agreements and the certificates, legal and accounting expenses, advertising and selling expenses, payment of closing fees, expenses of the Trustee, initial evaluation fees and other out-of-pocket expenses.

The Trustee receives for its services a fee calculated on the basis of the annual rate set forth under "Essential Information" in Part Two per $1,000 principal amount of Municipal Bonds in each State Trust, based on the largest aggregate principal amount of Municipal Bonds in the State Trust at any time during the monthly, quarterly or semi-annual period, as appropriate. The Trustee also receives indirect benefits to the extent that it holds funds on deposit in the various non-interest bearing accounts created pursuant to the Agreement; however, the Trustee is also authorized by the Agreement to make from time to time certain non-interest bearing advances to the State Trusts. See "Unitholders - Distributions to Unitholders."

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For evaluation of Municipal Bonds in the State Trusts, the Evaluator receives a fee, payable monthly calculated on an annual rate as set forth under "Essential Information" in Part Two, based upon the largest aggregate principal amount of Municipal Bonds in such State Trust at any time during such monthly period.

The Trustee's, Sponsor's (if any) and Evaluator's fees for the State Trusts are payable monthly on or before each Distribution Date by deductions from the Interest Accounts thereof to the extent funds are available and then from the Principal Accounts. Such fees may be increased without approval of the Unitholders by amounts not exceeding a proportionate increase in the Consumer Price Index entitled "All Services Less Rent of Shelter," published by the United States Department of Labor, or any equivalent index substituted therefor.

The following additional charges are or may be incurred by a State Trust: (a) fees for the Trustee's extraordinary services; (b) expenses of the Trustee (including legal and auditing expenses, but not including any fees and expenses charged by any agent for custody and safeguarding of Municipal Bonds) and of bond counsel, if any; (c) various governmental charges; (d) expenses and costs of any action taken by the Trustee to protect the Trust or such State Trust, or the rights and interests of the Unitholders; (e) indemnification of the Trustee for any loss, liability or expense incurred by it in the administration of the Trust or such State Trust without gross negligence, bad faith or willful misconduct on its part; (f) indemnification of the Sponsor for any loss, liability or expense incurred in acting as Sponsor of the State Trust without gross negligence, bad faith or willful misconduct; and (g) expenditures incurred in contacting Unitholders upon termination of the State Trust. The fees and expenses set forth herein are payable out of the appropriate State Trust and, when owed to the Trustee, are secured by a lien on such State Trust.

Fees and expenses of a State Trust shall be deducted from the Interest Account thereof, or, to the extent funds are not available in such Account, from the Principal Account. The Trustee may withdraw from the Principal Account or the Interest Account of any State Trust such amounts, if any, as it deems necessary to establish a reserve for any taxes or other governmental charges or other extraordinary expenses payable out of the State Trust. Amounts so withdrawn shall be credited to a separate account maintained for the State Trust known as the Reserve Account and shall not be considered a part of the State Trust when determining the value of the Units until such time as the Trustee shall return all or any part of such amounts to the appropriate account.

THE SPONSOR

The Sponsor, Kemper Unit Investment Trusts, with an office at 77 W. Wacker Drive, 29th Floor, Chicago, Illinois 60601, (800) 621-5024, is a service of Kemper Securities, Inc., which is a wholly-owned subsidiary of Kemper Financial Companies, Inc., a financial services holding company which, in turn, is a wholly-owned subsidiary of Kemper Corporation. The Sponsor acts as principal underwriter of a number of other Kemper unit investment trusts and will act as underwriter of any other unit investment trust products developed by the Sponsor in the future. As of January 31, 1994, the total stockholder's equity of Kemper Securities, Inc. was approximately $261,673,436 (unaudited).

If at any time the Sponsor shall fail to perform any of its duties under the Agreement or shall become incapable of acting or shall be adjudged a bankrupt or insolvent or its affairs are taken over by public authorities, then the Trustee may (a) appoint a successor sponsor at rates of compensation deemed by the Trustee to be reasonable and not exceeding such reasonable amounts as may be prescribed by the Securities and Exchange Commission, or (b) terminate the Agreement and liquidate the Trust or any State Trust as provided therein or (c) continue to act as Trustee without terminating the Agreement.

The foregoing financial information with regard to the Sponsor relates to the Sponsor only and not to this Trust or any State Trust. Such information is included in this Prospectus only for the purpose of informing investors as to the financial responsibility of the Sponsor and its ability to carry out its contractual obligations with respect to the State Trusts. More comprehensive financial information can be obtained upon request from the Sponsor.

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LEGAL OPINIONS

The legality of the Units offered hereby and certain matters relating to federal tax law were originally passed upon by Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603, as counsel for the Sponsor.

INDEPENDENT AUDITORS

The statement of net assets, including the schedule of investments, appearing in Part Two of this Prospectus and Registration Statement, with information pertaining to the specific State Trust to which such statement relates, has been audited by Ernst & Young, independent auditors, as set forth in their report appearing in Part Two and is included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

DESCRIPTION OF SECURITIES RATINGS*4

Standard & Poor's Corporation. - A brief description of the applicable Standard & Poor's Corporation rating symbols and their meanings follows:

A Standard & Poor's corporate or municipal bond rating is a current assessment of the creditworthiness of an obligor with respect to a specific debt obligation. This assessment may take into consideration obligors such as guarantors, insurers, or lessees.

- -------------
* As published by the rating companies.

The bond rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished by the issuer and obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or for other circumstances.

The ratings are based, in varying degrees, on the following considerations:

I. Likelihood of default - capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;

II. Nature of and provisions of the obligations;

III. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization or other arrangement, under the laws of bankruptcy and other laws affecting creditors' rights.

AAA - Bonds rated AAA have the highest rating assigned by Standard & Poor's to a debt obligation. Capacity to pay interest and repay principal is extremely strong.

AA - Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the highest rated issues only in small degree.

A - Bonds rated A have a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher rated categories.

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BBB - Bonds rated BBB are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category than for bonds in higher rated categories.

Plus (+) or Minus (-): The ratings from "AA" to "A" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Provisional Ratings: The letter "p" indicates the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the bonds being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful and timely completion of

the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood of, or the risk of default upon failure of, such completion. The investor should exercise his own judgment with respect to such likelihood and risk.

Moody's Investors Service, Inc. - A brief description of the applicable Moody's Investors Service, Inc. rating symbols and their meanings follow:

Aaa - Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. Their safety is so absolute that with the occasional exception of oversupply in a few specific instances, characteristically, their market value is affected solely by money market fluctuations.

Aa - Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuations of protective elements may be of greater amplitude or there may be other elements present which make the long term risks appear somewhat larger than in Aaa securities. Their market value is virtually immune to all but money market influences, with the occasional exception of oversupply in a few specific instances.

A -Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future. The market value of A-rated bonds may be influenced to some degree by economic performance during a sustained period of depressed business conditions, but, during periods of normalcy, A-rated bonds frequently move in parallel with Aaa and Aa obligations, with the occasional exception of oversupply in a few specific instances.

A1 - Bonds which are rated A1 offer the maximum in security within their quality group, can be bought for possible upgrading in quality, and additionally, afford the investor an opportunity to gauge more precisely the relative attractiveness of offerings in the market place.

Baa - Bonds which are rated Baa are considered as lower medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and, in fact, have speculative characteristics as well. The market value of Baa-rated bonds is more sensitive to changes in economic circumstances and, aside from occasional speculative factors applying to some bonds of this class, Baa market valuations move in parallel with Aaa, Aa and A obligations during periods of economic normalcy, except in instances of oversupply.

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Conditional Ratings: Bonds rated "Con(-)" are ones for which the security depends upon the completion of some act or the fulfillment of some condition. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

Note: Moody's applies numerical modifiers, 1, 2, and 3 in each generic rating classification from Aa through B in certain areas of its bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Part Two

Dated July 28, 1995

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTE: Part Two of this Prospectus May Not Be Distributed unless Accompanied by Part One.

Kemper Tax-Exempt Income Trust
Multi-State Series 14

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Colorado Trust
Essential Information
As of June 14, 1995
Sponsor: Kemper Financial Services, Inc.
Evaluator: Kemper Unit Investment Trusts
Trustee: Investors Fiduciary Trust
Company

<TABLE>
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General Information	
<S>	<C>
Principal Amount of Municipal Bonds	$960,000
Number of Units	1,812
Fractional Undivided Interest in the Trust per Unit	1/1,812
Principal Amount of Municipal Bonds per Unit	$529.80
Public Offering Price:	
Aggregate Bid Price of Municipal Bonds in the Portfolio (4)	$893,530
Aggregate Bid Price of Municipal Bonds per Unit	$493.12
Cash per Unit (1)	$142.10
Sales Charge 3.627% (3.5% of Public Offering Price)	$23.04
Public Offering Price per Unit (exclusive of accrued interest) (2)	$658.26
Redemption Price per Unit (exclusive of accrued interest)	$635.22
Excess of Public Offering Price per Unit Over Redemption Price per Unit	$23.04
Minimum Value of the Trust under which Trust Agreement may be terminated	$400,000

</TABLE>

Date of Trust
April 25, 1985
Mandatory Termination Date
December 31, 2035

Annual Evaluation Fee: $.35 per $1,000 principal amount of Municipal Bonds.
Evaluations for purpose of sale, purchase or redemption of Units are made as of the close of business of the Sponsor next following receipt of an order for a sale or purchase of Units or receipt by Investors Fiduciary Trust Company of Units tendered for redemption.

[FN]
1. This amount, if any, represents principal cash or overdraft which is an asset or liability of the Trust and is included in the Public Offering Price.

2. Units are offered at the Public Offering Price plus accrued interest to the date of settlement (three business days after purchase). On June 14, 1995, there was added to the Public Offering Price of $658.26, accrued interest to the settlement date of June 19, 1995 of $8.54, $17.53 and $31.50 for a total price of $666.80, $675.79 and $689.76 for the monthly, quarterly and semiannual distribution options, respectively.

Kemper Tax-Exempt Income Trust
Multi-State Series 14
Colorado Trust
Essential Information (continued)
As of June 14, 1995
Sponsor: Kemper Financial Services, Inc.
Evaluator: Kemper Unit Investment Trusts
Trustee: Investors Fiduciary Trust

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Company

Special Information Based on Various Distribution Options

	Monthly	Quarterly	Semiannual
Calculation of Estimated Net Annual Interest Income per Unit (3)(4):			
Estimated Annual Interest Income	$44.0328	$44.0328	$44.0328
Less: Estimated Annual Expense	2.0496	1.8529	1.4773
Estimated Net Annual Interest Income	$41.9832	$42.1799	$42.5555
Calculation of Interest Distribution per Unit:			
Estimated Net Annual Interest Income	$41.9832	$42.1799	$42.5555
Divided by 12, 4 and 2, respectively	$3.4986	$10.5450	$21.2778
Estimated Daily Rate of Net Interest Accrual per Unit	$.1166	$.1172	$.1182
Estimated Current Return Based on Public Offering Price (3)	6.38%	6.41%	6.46%
Estimated Long-Term Return (3)	8.53%	8.56%	8.62%

Trustee's Annual Fees and Expenses (including Evaluator's Fee): $2.0496, $1.8529 and $1.4773 ($.9414, $.9705 and $.8617 of which represent expenses) per Unit under the monthly, quarterly and semiannual distribution options, respectively.

Record and Computation Dates: First day of the month, as follows: monthly - each month; quarterly - January, April, July and October; semiannual - January and July.

Distribution Dates: Fifteenth day of the month, as follows: monthly - each month; quarterly - January, April, July and October; semiannual - January and July.

[FN]
3. The Estimated Long-Term Return and Estimated Current Return will vary. For detailed explanation, see Part One of this prospectus.

4. See Note 6 in the Schedule of Investments regarding defaulted Bonds.

Report of Independent Auditors

Unitholders
Kemper Tax-Exempt Income Trust
Multi-State Series 14 Colorado Trust

We have audited the accompanying statement of assets and liabilities of Kemper Tax-Exempt Income Trust Multi-State Series 14 Colorado Trust,

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including the
schedule of investments, as of March 31, 1995, and the related
statements of
operations and changes in net assets for each of the three years
in the period
then ended. These financial statements are the responsibility of
the Trust's
sponsor. Our responsibility is to express an opinion on these
financial
statements based on our audits.

We conducted our audits in accordance with generally accepted
auditing
standards. 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. Our
procedures included confirmation of investments owned as of March
31, 1995, by
correspondence with the custodial bank. An audit also includes
assessing the
accounting principles used and significant estimates made by the
sponsor, as
well as evaluating the overall financial statement presentation.
We believe
that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above
present fairly, in
all material respects, the financial position of Kemper
Tax-Exempt Income
Trust Multi-State Series 14 Colorado Trust at March 31, 1995, and
the results
of its operations and the changes in its net assets for each of
the three
years in the period then ended in conformity with generally
accepted
accounting principles.

Ernst & Young LLP

Kansas City, Missouri
July 14, 1995

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Statement of Assets and Liabilities

March 31, 1995

<TABLE>
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<S> <C>
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Assets	
Municipal Bonds, at value (cost $1,151,654)	$1,155,718
Interest receivable	42,689

	1,198,407
Liabilities and net assets	
Cash overdraft	11,165
Accrued liabilities	974

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		12,139
Net assets, applicable to 1,812 Units outstanding:		
Cost of Trust assets, exclusive of interest	$1,151,654	
Unrealized appreciation	4,064	
Distributable funds	30,550	
	----------	----------
Net assets		$1,186,268
		==========

</TABLE>
[FN]

See accompanying notes to financial statements.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Statements of Operations

<TABLE>
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	Year ended March 31		
	1995	1994	1993
<S>	<C>	<C>	<C>
	--------	--------	--------
Investment income - interest	$112,906	$119,000	$139,784
Expenses:			
Trustee's fees and related expenses	2,921	2,956	3,199
Evaluator's fees	427	460	532
	--------	--------	--------
Total expenses	3,348	3,416	3,731
	--------	--------	--------
Net investment income	109,558	115,584	136,053
Realized and unrealized gain (loss) on investments:			
Realized gain (loss)	1,553	(1,500)	(125)
Unrealized depreciation during the year	(75,938)	(68,260)	(14,163)
	--------	--------	--------
Net loss on investments	(74,385)	(69,760)	(14,288)
	--------	--------	--------
Net increase in net assets resulting from operations	$35,173	$45,824	$121,765
	========	========	========

</TABLE>
[FN]

See accompanying notes to financial statements.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Statements of Changes in Net Assets

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<TABLE>
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	Year ended March 31		
	1995	1994	1993
Operations:			
Net investment income	$109,558	$115,584	$136,053
Realized gain (loss) on investments	1,553	(1,500)	(125)
Unrealized depreciation on investments during the year	(75,938)	(68,260)	(14,163)
Net increase in net assets resulting from operations	35,173	45,824	121,765
Distributions to Unitholders:			
Net investment income	(110,355)	(124,939)	(156,198)
Principal from investment transactions	(15,656)	(262,467)	(40,008)
Capital transactions:			
Redemption of Units	(20,603)	-	-
Total decrease in net assets	(111,441)	(341,582)	(74,441)
Net assets:			
At the beginning of the year	1,297,709	1,639,291	1,713,732
At the end of the year (including distributable funds applicable to Trust Units of $30,550, $31,347 and $43,869 at March 31, 1995, 1994 and 1993, respectively)	$1,186,268	$1,297,709	$1,639,291
Trust Units outstanding at the end of the year	1,812	1,842	1,842

</TABLE>
[FN]

See accompanying notes to financial statements.

<TABLE>

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Schedule of Investments

March 31, 1995

<CAPTION>

Name of Issuer and Title of Bond(5)	Coupon Rate	Maturity Date	Redemption Provisions(2)	Rating(1)	Principal Amount(4)	Value(3)

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<S> <C> <C> <C> <C> <C> <C>

+City of Aurora, Colorado, General Obligation Water Bonds, Series 1980.	9.25%	11/01/2012	1995 @ 101	AA-	$280,000	$289,814
Colorado Housing Finance Agency, Multifamily Housing Insured Mortgage Revenue Bonds, 1982 Series B.	6.00	10/01/2025	2020 @ 100 S.F. 1995 @ 101.5	AA	195,000	135,714
+El Paso County (Pikes Peak Library District) Colorado, General Obligation Library Bonds.	9.75	12/30/2003	1996 @ 100	AAA	100,000	104,071
~City of Lakewood, Colorado, Single-Family Mortgage Revenue Bonds, 1985 Series A (Cities of Arvada, Englewood, Lakewood, Pueblo and Thornton, Colorado, Program).	9.75	5/01/2005	2001 @ 100 S.F. Non-Callable	BBB-	25,000	25,582
+Mesa County, Colorado, Sewer Revenue Bonds, Series 1980.	10.00	11/01/2005	1995 @ 100	A-	300,000	309,435
~Mesa County, Colorado, Single-Family Mortgage Revenue Bonds, Series 1982. (6)	10.75	12/01/1999	1995 @ 100 S.F. 1995 @ 101	NR	60,000	31,680
+The Regents of the University of Colorado, Student Facilities Revenue Bonds, Series May 1, 1985.	9.50	6/01/2005	1995 @ 103	AAA	250,000	259,422
					$1,210,000	$1,155,718

</TABLE>
[FN]

See accompanying notes to Schedule of Investments.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Notes to Schedule of Investments

1. All ratings are by Standard & Poor's Corporation, unless marked with the symbol "*", in which case the rating is by Moody's Investors Service, Inc. The symbol "NR" indicates Bonds for which no rating is available.

2. There is shown under this heading the year in which each issue of Bonds is initially redeemable and the redemption price for that year or, if currently redeemable, the redemption price currently in effect; unless otherwise indicated, each issue continues to be redeemable at declining prices thereafter, but not below par value. In addition, certain Bonds in the Portfolio may be redeemed in whole or in part other than by operation of the stated redemption or sinking fund provisions under certain unusual or extraordinary circumstances specified in the instruments setting forth the terms and provisions of such Bonds. "S.F." indicates a sinking fund is established with respect to an issue of Bonds. Redemption pursuant to call provisions generally will, and redemption pursuant to sinking

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fund provisions
may, occur at times when the redeemed Bonds have a valuation which represents
a premium over the call price or par.

To the extent that the Bonds were deposited in the Trust at a price higher
than the price at which they are redeemed, this will represent a loss of
capital when compared with the original Public Offering Price of the Units.
To the extent that the Bonds were acquired at a price lower than the
redemption price, this may represent an increase in capital when compared with
the original Public Offering Price of the Units. Distributions of net income
will generally be reduced by the amount of the income which would otherwise
have been paid with respect to redeemed Bonds and, unless utilized to pay for
Units tendered for redemption, there will be distributed to Unitholders the
principal amount and any premium received on such redemption. In this event
the estimated current return and estimated long-term return may be affected by
such redemptions.

3. See Note 1 to the accompanying financial statements for a description of
the method of determining cost and value.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Notes to Schedule of Investments (continued)

4. At March 31, 1995, the Portfolio of the Trust consists of 7 obligations
issued by entities located in Colorado. Five issues, representing $830,000 of
the aggregate principal amount, are payable from the income of a specific
project or authority and are not supported by an issuer's power to levy taxes.
Two issues, representing $380,000 of the aggregate principal amount, are
general obligations of governmental entities and are backed by the taxing
powers of such entities. The sources of payment for the revenue bonds are
divided as follows: Housing, 3; Sewer, 1; University, 1. Approximately 25%
of the aggregate principal amount of Bonds in the Trust are obligations of
issuers whose revenues are derived primarily from sewer services.
Approximately 98% of the aggregate principal amount of Bonds in the Trust are
subject to call by the issuers within five years after March 31, 1995. Those
securities preceded by (~) are Single-Family Mortgage Revenue Bonds issued
under Section 103A of the Internal Revenue Code.

5. Those securities preceded by (+) are secured by, and payable from,
escrowed U.S. Government securities.

6. In June 1989, the Trustee of the Mesa County, Colorado, Single-Family
Mortgage Revenue Bonds (Series 1982, 10.75% due 12/01/1999) declared that an
event of default occurred with respect to such Bond, as the County of Mesa,
Colorado was unable to pay its debts for the aforementioned Bond.

[FN]

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See accompanying notes to financial statements.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Notes to Financial Statements

1. Significant Accounting Policies

Valuation of Municipal Bonds

Municipal Bonds (Bonds) are stated at bid prices as determined by Kemper Unit Investment Trusts (A Service of Kemper Securities, Inc.), the "Evaluator" of the Trust. The aggregate bid prices of the Bonds are determined by the Evaluator based on (a) current bid prices of the Bonds, (b) current bid prices for comparable bonds, (c) appraisal, or (d) any combination of the above.

Cost of Municipal Bonds

Cost of the Trust's Bonds was based on the offering prices of the Bonds on April 25, 1985 (Date of Deposit). The premium or discount (including any original issue discount) existing at April 25, 1985, is not being amortized. Realized gain (loss) from Bond transactions is reported on an identified cost basis.

2. Unrealized Appreciation and Depreciation

Following is an analysis of net unrealized appreciation at March 31, 1995:

<TABLE>
<CAPTION>
<S>
<C>

Gross unrealized depreciation	$(31,320)
Gross unrealized appreciation	35,384

Net unrealized appreciation	$4,064
	=========

</TABLE>

3. Transactions with Affiliates

From the inception of the Trust through January 31, 1995, the Trustee, Investors Fiduciary Trust Company (IFTC), was 50% owned by Kemper Financial Services, Inc., the Trust's sponsor and an affiliate of Kemper Unit Investment Trusts. On that date, State Street Boston Corporation acquired IFTC. Prior to January 1, 1995, the Trustee's fee (not including the reimbursement of out-of-pocket expenses), calculated monthly, was at the annual rate of $1.35, $1.08 and $.75 under the monthly, quarterly and semiannual distribution options, respectively, per $1,000 principal amount of Bonds in the Trust, based on the largest aggregate principal amount of Bonds in the Trust at any time during such monthly, quarterly or semiannual periods. Effective January 1, 1995, such fees were revised to $1.6595, $1.3214 and $.9219 under the

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monthly, quarterly and semiannual distribution options, respectively. The Evaluator received a fee, payable monthly, at an annual rate of $.35 per $1,000 principal amount of Bonds, based on the largest aggregate principal amount of Bonds in the Trust at any time during such monthly period.

4. Federal Income Taxes

The Trust is not an association taxable as a corporation for federal income tax purposes. Each Unitholder is considered to be the owner of a pro rata portion of the Trust under Subpart E, Subchapter J of Chapter 1 of the Internal Revenue Code of 1986, as amended. Accordingly, no provision has been made for federal income taxes.

5. Other Information

Cost to Investors

The cost to initial investors of Units of the Trust was based on the aggregate offering price of the Bonds on the date of an investor's purchase, plus a sales charge of 4.9% of the Public Offering Price (equivalent to 5.152% of the net amount invested). The Public Offering Price for secondary market transactions is based on the aggregate bid price of the Bonds plus or minus a pro rata share of cash or overdraft in the Principal Account, if any, on the date of an investor's purchase, plus a sales charge of 3.5% of the Public Offering Price (equivalent to 3.627% of the net amount invested).

Distributions

Distributions of net investment income to Unitholders are declared and paid in accordance with the option (monthly, quarterly or semiannual) selected by the investor. Such income distributions, on a record date basis, are as follows:

<TABLE>
<CAPTION>

Distribution Plan	Year ended March 31, 1995 Per Unit	Total	Year ended March 31, 1994 Per Unit	Total	Year ended March 31, 1993 Per Unit	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Monthly	$60.36	$82,187	$67.01	$90,236	$84.49	$112,037
Quarterly	60.43	13,960	69.49	17,298	84.92	21,656
Semiannual	60.76	13,550	69.85	17,405	85.31	22,505
		$109,697		$124,939		$156,198

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</TABLE>

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Notes to Financial Statements (continued)

5. Other Information (continued)

In addition, the Trust redeemed Units with proceeds from the sale of Bonds as follows:

<TABLE>
<CAPTION>

<S>	Year ended March 31, 1995 <C>
Principal portion	$20,603
Net interest accrued	658
	$21,261
Units	30

</TABLE>

<TABLE>

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Colorado Trust

Notes to Financial Statements (continued)

5. Other Information (continued)

Selected data for a Unit of the Trust outstanding throughout each year -

<CAPTION>

<S>	Monthly Year ended March 31 1995 <C>	1994 <C>	1993 <C>	Quarterly Year ended March 31 1995 <C>	1994 <C>	1993 <C>	Semiannual Year ended March 31 1995 <C>	1994 <C>	1993 <C>
Investment income - interest	$62.14	$64.60	$75.89	$62.14	$64.60	$75.89	$62.14	$64.60	$75.89
Expenses	1.94	1.95	2.14	1.74	1.75	1.92	1.40	1.41	1.53

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Net investment income	60.20	62.65	73.75	60.40	62.85	73.97	60.74	63.19	74.36
Distributions to Unitholders:									
Net investment income	(60.36)	(67.01)	(84.49)	(60.43)	(69.49)	(84.92)	(60.76)	(69.85)	(85.31)
Principal from investment transactions	(8.64)	(142.49)	(21.72)	(8.64)	(142.49)	(21.72)	(8.64)	(142.49)	(21.72)
Net loss on investments	(40.92)	(37.88)	(7.76)	(40.92)	(37.88)	(7.76)	(40.92)	(37.88)	(7.76)
Change in net asset value	(49.72)	(184.73)	(40.22)	(49.59)	(187.01)	(40.43)	(49.58)	(187.03)	(40.43)
Net asset value:									
Beginning of the year	702.18	886.91	927.13	711.01	898.02	938.45	711.16	898.19	938.62
End of the year, including distributable funds	$652.46	$702.18	$886.91	$661.42	$711.01	$898.02	$661.58	$711.16	$898.19

</TABLE>

Consent of Independent Auditors

We consent to the reference to our firm under the caption "Independent Auditors" and to the use of our report dated July 14, 1995, in this Post-Effective Amendment to the Registration Statement (Form S-6) and related Prospectus of Kemper Tax-Exempt Income Trust Multi-State Series 14 Colorado Trust dated July 28, 1995.

Ernst & Young LLP

Kansas City, Missouri
July 28, 1995

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

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Part Two

Dated July 28, 1995

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTE: Part Two of this Prospectus May Not Be Distributed unless Accompanied by Part One.

Kemper Tax-Exempt Income Trust
Multi-State Series 14
Kansas Trust
Essential Information
As of June 14, 1995
Sponsor: Kemper Financial Services, Inc.
Evaluator: Kemper Unit Investment Trusts
Trustee: Investors Fiduciary Trust Company

<TABLE>
<CAPTION>
General Information
<S>
<C>

General Information	
Principal Amount of Municipal Bonds	$555,000
Number of Units	1,850
Fractional Undivided Interest in the Trust per Unit	1/1,850
Principal Amount of Municipal Bonds per Unit	$300.00
Public Offering Price:	
Aggregate Bid Price of Municipal Bonds in the Portfolio	$612,535
Aggregate Bid Price of Municipal Bonds per Unit	$331.10
Cash per Unit (1)	$(.69)
Sales Charge 3.627% (3.5% of Public Offering Price)	$11.98
Public Offering Price per Unit (exclusive of accrued interest) (2)	$342.39
Redemption Price per Unit (exclusive of accrued interest)	$330.41
Excess of Public Offering Price per Unit Over Redemption Price per Unit	$11.98
Minimum Value of the Trust under which Trust Agreement may be terminated	$400,000

</TABLE>

Date of Trust
April 25, 1985
Mandatory Termination Date
December 31, 2035

Annual Evaluation Fee: $.35 per $1,000 principal amount of Municipal Bonds.
Evaluations for purpose of sale, purchase or redemption of Units are made as of the close of business of the Sponsor next following receipt of an order for a sale or purchase of Units or receipt by Investors Fiduciary

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Trust Company of
Units tendered for redemption.

[FN]
1. This amount, if any, represents principal cash or overdraft which is an asset or liability of the Trust and is included in the Public Offering Price.

2. Units are offered at the Public Offering Price plus accrued interest to the date of settlement (three business days after purchase). On June 14, 1995, there was added to the Public Offering Price of $342.39, accrued interest to the settlement date of June 19, 1995 of $4.08, $7.81 and $13.40 for a total price of $346.47, $350.20 and $355.79 for the monthly, quarterly and semiannual distribution options, respectively.

Kemper Tax-Exempt Income Trust
Multi-State Series 14
Kansas Trust
Essential Information (continued)
As of June 14, 1995
Sponsor: Kemper Financial Services, Inc.
Evaluator: Kemper Unit Investment Trusts
Trustee: Investors Fiduciary Trust Company

<TABLE>
<CAPTION>
Special Information Based on Various Distribution Options

	Monthly	Quarterly	Semiannual
<S>	<C>	<C>	<C>
Calculation of Estimated Net Annual Interest Income per Unit (3):			
Estimated Annual Interest Income	$23.3818	$23.3818	$23.3818
Less: Estimated Annual Expense	1.4007	1.2038	1.0847
Estimated Net Annual Interest Income	$21.9811	$22.1780	$22.2971
Calculation of Interest Distribution per Unit:			
Estimated Net Annual Interest Income	$21.9811	$22.1780	$22.2971
Divided by 12, 4 and 2, respectively	$1.8318	$5.5445	$11.1486
Estimated Daily Rate of Net Interest Accrual per Unit	$.0611	$.0616	$.0619
Estimated Current Return Based on Public Offering Price (3)	6.42%	6.48%	6.51%
Estimated Long-Term Return (3)	4.88%	4.95%	4.98%

</TABLE>

Trustee's Annual Fees and Expenses (including Evaluator's Fee): $1.4007, $1.2038 and $1.0847 ($.9028, $.8038 and $.8056 of which represent expenses) per Unit under the monthly, quarterly and semiannual distribution options, respectively.

Record and Computation Dates: First day of the month, as follows: monthly - each month; quarterly - January, April, July and October; semiannual - January and July.

Distribution Dates: Fifteenth day of the month, as follows:

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monthly - each
month; quarterly - January, April, July and October; semiannual -
January and
July.

[FN]
3. The Estimated Long-Term Return and Estimated Current Return will vary.
For detailed explanation, see Part One of this prospectus.

Report of Independent Auditors

Unitholders
Kemper Tax-Exempt Income Trust
Multi-State Series 14 Kansas Trust

We have audited the accompanying statement of assets and liabilities of Kemper Tax-Exempt Income Trust Multi-State Series 14 Kansas Trust, including the schedule of investments, as of March 31, 1995, and the related statements of operations and changes in net assets for each of the three years in the period then ended. These financial statements are the responsibility of the Trust's sponsor. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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. Our procedures included confirmation of investments owned as of March 31, 1995, by correspondence with the custodial bank. An audit also includes assessing the accounting principles used and significant estimates made by the sponsor, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kemper Tax-Exempt Income Trust Multi-State Series 14 Kansas Trust at March 31, 1995, and the results of its operations and the changes in its net assets for each of the three years in the period then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

Kansas City, Missouri
July 14, 1995

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

Statement of Assets and Liabilities

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March 31, 1995

Assets	
Municipal Bonds, at value (cost $492,423)	$600,410
Interest receivable	13,012
Cash	1,022

	614,444
Liabilities and net assets	
Accrued liabilities	630
Net assets, applicable to 1,870 Units outstanding:	
Cost of Trust assets, exclusive of interest	$492,423
Unrealized appreciation	107,987
Distributable funds	13,404

Net assets	$613,814
	========

[FN]

See accompanying notes to financial statements.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

Statements of Operations

	Year ended March 31		
	1995	1994	1993
Investment income - interest	$61,813	$105,758	$126,750
Expenses:			
Trustee's fees and related expenses	2,334	2,820	2,996
Evaluator's fees	269	432	497
Total expenses	2,603	3,252	3,493
Net investment income	59,210	102,506	123,257
Realized and unrealized gain (loss) on investments:			
Realized gain (loss)	32,723	(33,295)	(7,148)
Unrealized appreciation (depreciation) during the year	(75,577)	(25,490)	28,740
Net gain (loss) on investments	(42,854)	(58,785)	

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	--------	--------	--------
Net increase in net assets resulting from operations	$16,356	$43,721	$144,849
	========	========	========

</TABLE>
[FN]

See accompanying notes to financial statements.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

Statements of Changes in Net Assets

	Year ended March 31		
	1995	1994	1993
Operations:			
Net investment income	$59,210	$102,506	$123,257
Realized gain (loss) on investments	32,723	(33,295)	(7,148)
Unrealized appreciation (depreciation) on investments during the year	(75,577)	(25,490)	28,740
Net increase in net assets resulting from operations	16,356	43,721	144,849
Distributions to Unitholders:			
Net investment income	(73,034)	(114,627)	(125,782)
Principal from investment transactions	(437,443)	(320,000)	(90,000)
Capital transactions:			
Redemptions of Units	(57,693)	-	-
Total decrease in net assets	(551,814)	(390,906)	(70,933)
Net assets:			
At the beginning of the year	1,165,628	1,556,534	1,627,467
At the end of the year (including distributable funds applicable to Trust Units of $13,404, $27,220 and $39,341 at March 31, 1995, 1994 and 1993, respectively)	$613,814	$1,165,628	$1,556,534
Trust Units outstanding at the end of the year	1,870	2,000	2,000

</TABLE>
[FN]

See accompanying notes to financial statements.

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<TABLE>

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

Schedule of Investments

March 31, 1995

<CAPTION>

Name of Issuer and Title of Bond(6)	Coupon Rate	Maturity Date	Redemption Provisions(2)	Rating(1)	Principal Amount(4)	Value(3)
+Kansas State Highway. Insured by Municipal Bond Investors Assurance Corporation. (5)	9.00%	7/01/1999		AAA	$300,000	$331,866
+Topeka, Kansas, Hospital Revenue Bonds, Series of 1978 (Stormont-Vail Hospital Project).	6.375	11/15/2007		AAA	260,000	268,544
					$560,000	$600,410

</TABLE>
[FN]

See accompanying notes to Schedule of Investments.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

Notes to Schedule of Investments

1. All ratings are by Standard & Poor's Corporation, unless marked with the symbol "*", in which case the rating is by Moody's Investors Service, Inc. The symbol "NR" indicates Bonds for which no rating is available.

2. There is shown under this heading the year in which each issue of Bonds is initially redeemable and the redemption price for that year or, if currently redeemable, the redemption price currently in effect; unless otherwise indicated, each issue continues to be redeemable at declining prices thereafter, but not below par value. In addition, certain Bonds in the Portfolio may be redeemed in whole or in part other than by operation of the stated redemption or sinking fund provisions under certain unusual or extraordinary circumstances specified in the instruments setting forth the terms and provisions of such Bonds. "S.F." indicates a sinking fund is established with respect to an issue of Bonds. Redemption pursuant to call provisions generally will, and redemption pursuant to sinking fund provisions may, occur at times when the redeemed Bonds have a valuation which represents a premium over the call price or par.

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To the extent that the Bonds were deposited in the Trust at a price higher
than the price at which they are redeemed, this will represent a loss of
capital when compared with the original Public Offering Price of the Units.
To the extent that the Bonds were acquired at a price lower than the
redemption price, this may represent an increase in capital when compared with
the original Public Offering Price of the Units. Distributions of net income
will generally be reduced by the amount of the income which would otherwise
have been paid with respect to redeemed Bonds and, unless utilized to pay for
Units tendered for redemption, there will be distributed to Unitholders the
principal amount and any premium received on such redemption. In this event
the estimated current return and estimated long-term return may be affected by
such redemptions.

3. See Note 1 to the accompanying financial statements for a description of
the method of determining cost and value.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

Notes to Schedule of Investments
(continued)

4. At March 31, 1995, the Portfolio of the Trust consists of 2 obligations
issued by entities located in Kansas. All of the issues are payable from the
income of a specific project or authority and are not supported by an issuer's
power to levy taxes. The sources of payment for the revenue bonds are divided
as follows: Hospital, 1; Highway, 1. Approximately 46% and 54% of the
aggregate principal amount of Bonds in the Trust are hospital revenue bonds
and transportation bonds, respectively. Approximately 54% of the aggregate
principal amount of Bonds in the Trust will mature within five years after
March 31, 1995.

5. Insurance on this Bond was obtained by the issuers of the Bond. No
representation is made as to any insurer's ability to meet its commitments.

6. Those securities preceded by (+) are secured by, and payable from,
escrowed U.S. Government securities.

[FN]
See accompanying notes to financial statements.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

Notes to Financial Statements

1. Significant Accounting Policies

Valuation of Municipal Bonds

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Municipal Bonds (Bonds) are stated at bid prices as determined by Kemper Unit Investment Trusts (A Service of Kemper Securities, Inc.), the "Evaluator" of the Trust. The aggregate bid prices of the Bonds are determined by the Evaluator based on (a) current bid prices of the Bonds, (b) current bid prices for comparable bonds, (c) appraisal, or (d) any combination of the above.

Cost of Municipal Bonds

Cost of the Trust's Bonds was based on the offering prices of the Bonds on April 25, 1985 (Date of Deposit). The premium or discount (including any original issue discount) existing at April 25, 1985, is not being amortized. Realized gain (loss) from Bond transactions is reported on an identified cost basis.

2. Unrealized Appreciation and Depreciation

Following is an analysis of net unrealized appreciation at March 31, 1995:

<TABLE>
<CAPTION>
<S>
<C>

Gross unrealized depreciation	$-
Gross unrealized appreciation	107,987

Net unrealized appreciation	$107,987
	========

</TABLE>

3. Transactions with Affiliates

From the inception of the Trust through January 31, 1995, the Trustee, Investors Fiduciary Trust Company (IFTC), was 50% owned by Kemper Financial Services, Inc., the Trust's sponsor and an affiliate of Kemper Unit Investment Trusts. On that date, State Street Boston Corporation acquired IFTC. Prior to January 1, 1995, the Trustee's fee (not including the reimbursement of out-of-pocket expenses), calculated monthly, was at the annual rate of $1.35, $1.08 and $.75 under the monthly, quarterly and semiannual distribution options, respectively, per $1,000 principal amount of Bonds in the Trust, based on the largest aggregate principal amount of Bonds in the Trust at any time during such monthly, quarterly or semiannual periods. Effective January 1, 1995, such fees were revised to $1.6595, $1.3214 and $.9219 under the monthly, quarterly and semiannual distribution options, respectively. The Evaluator received a fee, payable monthly, at an annual rate of $.35 per $1,000 principal amount of Bonds, based on the largest aggregate principal amount of Bonds in the Trust at any time during such monthly period.

Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

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4. Federal Income Taxes

The Trust is not an association taxable as a corporation for federal income tax purposes. Each Unitholder is considered to be the owner of a pro rata portion of the Trust under Subpart E, Subchapter J of Chapter 1 of the Internal Revenue Code of 1986, as amended. Accordingly, no provision has been made for federal income taxes.

5. Other Information

Cost to Investors

The cost to initial investors of Units of the Trust was based on the aggregate offering price of the Bonds on the date of an investor's purchase, plus a sales charge of 4.9% of the Public Offering Price (equivalent to 5.152% of the net amount invested). The Public Offering Price for secondary market transactions is based on the aggregate bid price of the Bonds plus or minus a pro rata share of cash or overdraft in the Principal Account, if any, on the date of an investor's purchase, plus a sales charge of 3.5% of the Public Offering Price (equivalent to 3.627% of the net amount invested).

Distributions

Distributions of net investment income to Unitholders are declared and paid in accordance with the option (monthly, quarterly or semiannual) selected by the investor. Such income distributions, on a record date basis, are as follows:

Distribution Plan	Year ended March 31, 1995 Per Unit	Total	Year ended March 31, 1994 Per Unit	Total	Year ended March 31, 1993 Per Unit	Total
Monthly	$34.45	$26,713	$55.14	$43,759	$62.12	$48,700
Quarterly	37.93	15,684	58.48	24,328	63.24	26,403
Semiannual	38.10	29,176	58.71	46,540	63.47	50,679
		$71,573		$114,627		$125,782

5. Other Information (continued)

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In addition, the Trust redeemed Units with proceeds from the sale of Bonds as follows:

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	Year ended March 31, 1995
Principal portion	$57,693
Net interest accrued	1,461
	$59,154
Units	130

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Kemper Tax-Exempt Income Trust

Multi-State Series 14

Kansas Trust

Notes to Financial Statements (continued)

5. Other Information (continued)

Selected data for a Unit of the Trust outstanding throughout each year -

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	Monthly			Quarterly			Semiannual		
	Year ended March 31			Year ended March 31			Year ended March 31		
	1995	1994	1993	1995	1994	1993	1995	1994	1993
Investment income - interest	$31.70	$52.88	$63.38	$31.70	$52.88	$63.38	$31.70	$52.88	$63.38
Expenses	1.52	1.86	2.02	1.29	1.58	1.71	1.16	1.38	1.49
Net investment income	30.18	51.02	61.36	30.41	51.30	61.67	30.54	51.50	61.89
Distributions to Unitholders:									
Net investment income	(34.45)	(55.14)	(62.12)	(37.93)	(58.48)	(63.24)	(38.10)	(58.71)	(63.47)
Principal from investment transactions	(226.94)	(160.00)	(45.00)	(226.94)	(160.00)	(45.00)	(226.94)	(160.00)	(45.00)
Net gain (loss) on investments	(21.47)	(29.40)	10.79	(21.47)	(29.40)	10.79	(21.47)	(29.40)	10.79
Change in net asset value	(252.68)	(193.52)	(34.97)						

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(255.93) (196.58) (35.78) (255.97) (196.61) (35.79)

Net asset value:						
Beginning of the year	578.14	771.66	806.63			
	585.98	782.56	818.34	585.90	782.51	818.30
End of the year, including distributable funds	$325.46	$578.14	$771.66			
	$330.05	$585.98	$782.56	$329.93	$585.90	$782.51

</TABLE>

Consent of Independent Auditors

We consent to the reference to our firm under the caption "Independent Auditors" and to the use of our report dated July 14, 1995, in this Post-Effective Amendment to the Registration Statement (Form S-6) and related Prospectus of Kemper Tax-Exempt Income Trust Multi-State Series 14 Kansas Trust dated July 28, 1995.

Ernst & Young LLP

Kansas City, Missouri
July 28, 1995

Contents of Post-Effective AmendmentTo Registration Statement

This Post-Effective amendment to the Registration Statement comprises the following papers and documents:

The facing sheet
The prospectus
The signatures
The Consent of Independent Accountants

Signatures

Pursuant to the requirements of the Securities Act of 1933, The Registrant, Kemper Tax-Exempt Income Trust Multi-State, Series 14, certifies that it meets all of the requirements for effectiveness of this registration statement pursuant to Rule 485(b) under the Securities Act of 1933 and has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago, and State of Illinois, on the 27th day of July, 1995.

Kemper Tax-Exempt Income Trust
Multi-State, Series 14
Registrant

By: Kemper Unit Investment Trusts
(a service of Kemper
Securities, Inc.)
Depositor

By: Michael J. Thoms
Vice President

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed below on July 27, 1995 by the following persons, who constitute a majority of the Board of Directors of Kemper Securities, Inc.

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Signature	Title
James R. Boris James R. Boris	Chairman and Chief Executive Officer
Stephen G. McConahey Stephen G. McConahey	President and Chief Operating Officer
Frank V. Geremia Frank V. Geremia	Senior Executive Vice President
David M. Greene David M. Greene	Senior Executive Vice President
Arthur J. McGivern Arthur J. McGivern	Senior Executive Vice President and Director
Ramon Pecuch Ramon Pecuch	Senior Executive Vice President and Director
Thomas R. Reedy Thomas R. Reedy	Senior Executive Vice President and Director
Janet L. Reali Janet L. Reali	Executive Vice President and Director
Daniel D. Williams Daniel D. Williams	Executive Vice President and Treasurer
David B. Mathis David B. Mathis	Director
Stephen B. Timbers Stephen B. Timbers	Director
Donald F. Eller Donald F. Eller	Director

Michael J. Thoms

Michael J. Thoms signs this document pursuant to a Power of Attorney filed with the Securities and Exchange Commission with Amendment No. 1 to the Registration Statement on Form S-6 for Kemper Defined Funds Series 28 (Registration No. 33-56779).

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