

# SECURITIES AND EXCHANGE COMMISSION

## FORM 487

Pre-effective pricing amendment filed pursuant to Securities Act Rule 487

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### FILER

#### **TAX EXEMPT SECURITIES TRUST SERIES 388**

CIK: **917712** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **487** | Act: **33** | File No.: **033-51999** | Film No.: **94514362**

Business Address  
C/O DAVIS POLK &  
WARDWELL  
450 LEXINGTON AVE  
NEW YORK NY 10017  
2124504500

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO  
FORM S-6

FOR REGISTRATION UNDER THE SECURITIES ACT  
OF 1933 OF SECURITIES OF UNIT INVESTMENT  
TRUSTS REGISTERED ON FORM N-8B-2

A. EXACT NAME OF TRUST:  
TAX EXEMPT SECURITIES TRUST, SERIES 388

B. NAMES OF DEPOSITORS:  
SMITH BARNEY SHEARSON INC.  
KIDDER, PEABODY & CO. INCORPORATED

C. COMPLETE ADDRESSES OF DEPOSITORS' PRINCIPAL EXECUTIVE OFFICES:  
  
SMITH BARNEY SHEARSON INC.                      KIDDER, PEABODY & CO. INCORPORATED  
1345 Avenue of the Americas                      60 Broad Street  
New York, New York 10105                      New York, New York 10004

D. NAMES AND COMPLETE ADDRESSES OF AGENTS FOR SERVICE:  
  
STEPHEN J. TREADWAY                                      GILBERT R. OTT, JR.  
Smith Barney Shearson Inc.                      Kidder, Peabody & Co. Incorporated  
1345 Avenue of the Americas                      10 Hanover Square  
New York, New York 10105                      New York, New York 10005

COPY TO:  
PIERRE DE SAINT PHALLE, ESQ.  
Davis Polk & Wardwell  
450 Lexington Ave.  
New York, New York 10017

E. TITLE AND AMOUNT OF SECURITIES BEING REGISTERED:  
  
AN INDEFINITE NUMBER OF UNITS OF BENEFICIAL INTEREST PURSUANT TO RULE 24F-2  
PROMULGATED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

F. PROPOSED MAXIMUM AGGREGATE OFFERING PRICE TO THE PUBLIC OF THE SECURITIES  
BEING REGISTERED:  
  
INDEFINITE

G. AMOUNT OF FILING FEE;  
\$500 (AS REQUIRED BY RULE 24F-2)

H. APPROXIMATE DATE OF PROPOSED SALE TO PUBLIC:  
AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THE REGISTRATION STATEMENT.

Check box if it is proposed that this filing will become effective  
immediately upon filing pursuant to Rule 487.

TAX EXEMPT                                      Series 388  
SECURITIES                      Maryland Trust 89                      New York Trust 130  
TRUST UNITS                      New York Trust 129 (Selected Term)                      Ohio Trust 86

12,000 UNITS

INVESTORS SHOULD READ AND RETAIN THIS PROSPECTUS FOR FUTURE REFERENCE.  
IN THE OPINION OF COUNSEL UNDER EXISTING LAW, INTEREST INCOME TO THE TRUSTS AND  
TO UNIT HOLDERS (EXCEPT IN CERTAIN INSTANCES DEPENDING UPON THE UNIT HOLDERS)  
IS EXEMPT FROM REGULAR FEDERAL INCOME TAX AND FROM CERTAIN STATE AND LOCAL  
PERSONAL INCOME TAXES, TO THE EXTENT INDICATED, IN THE STATE FOR WHICH A STATE  
TRUST IS NAMED. CAPITAL GAINS, IF ANY, ARE SUBJECT TO TAX.

THE TAX EXEMPT SECURITIES TRUST, SERIES 388 consists of separate underlying unit investment trusts designated as Maryland Trust 89, New York Trust 129 (Selected Term), New York Trust 130, and Ohio Trust 86 (the "Maryland Trust," the "New York Selected Term Trust," the "New York Trust" and the "Ohio Trust," collectively, the "State Trusts" or, singularly, the "State Trust") (the "Trusts" or the "Trust" as the context requires). Each Trust was formed for the purpose of obtaining for its Unit holders tax-exempt interest income and conservation of capital through investment in a fixed portfolio of municipal bonds rated at the time of deposit in the category A or better by Standard & Poor's Corporation, Moody's Investors Service or Fitch Investors Service, Inc. (See "Portfolio of Securities".) Each State Trust is comprised of a fixed portfolio of interest-bearing obligations issued primarily by or on behalf of the state for which such State Trust is named and counties, municipalities, authorities or political subdivisions thereof. The interest on all bonds in each Trust is in the opinion of counsel under existing law, with certain exceptions, exempt from regular Federal income taxes (see Part B, "Taxes") and from certain state and local personal income taxes) in the state for which a State Trust is named, but may be subject to other state and local taxes. (See discussions of State and local taxes in Part C.)

THE PUBLIC OFFERING PRICE of the Units of each Trust during the initial public offering period is equal to the aggregate offering price of the underlying bonds in the Trust's portfolio divided by the number of Units outstanding in such Trust, plus a sales charge. The Public Offering Price of the Units of each Trust following the initial public offering period is equal to the aggregate bid price of the underlying bonds in the Trust's portfolio divided by the number of Units outstanding in such Trust, plus a sales charge. During the initial public offering period the sales charge is equal to 4.70% of the Public Offering Price (4.932% of the aggregate offering price of the bonds per Unit) for the Maryland Trust, New York Trust and Ohio Trust and 3.70% of the Public Offering Price (3.842% of the aggregate offering price of the bonds per Unit) for the New York Selected Term Trust. Following the initial public offering period this charge will be equal to 5.00% of the Public Offering Price (5.263% of the aggregate bid price of the bonds per Unit) for the Maryland Trust, New York Trust and Ohio Trust and 4.00% of the Public Offering Price (4.167% of the aggregate bid price of the bonds per Unit) for the New York Selected Term Trust. See Part B, "Public Offering--Distribution of Units" for a description of the initial public offering period. If the Units had been available for sale on March 1, 1994, the Public Offering Price per Unit (including the sales charge) would have been \$1,017.85, \$1,029.51, \$1,026.71 and \$1,020.83 for the Maryland Trust, New York Selected Term Trust, New York Trust and Ohio Trust, respectively. In addition, there will be added an amount equal to accrued interest from the day after the Date of Deposit to the date of settlement (normally five business days after purchase).

THE SPONSORS, although not obligated to do so, intend to maintain a market for the Units of the Trusts at prices based upon the aggregate bid price of the underlying bonds, as more fully described under "Public Offering--Market for Units" in Part B. If such a market is not maintained, a Unit holder may be able to dispose of his Units only through redemption, at prices that are also based upon the aggregate bid price of the underlying bonds.

MONTHLY DISTRIBUTIONS of principal and interest received by each Trust will be made on or shortly after the fifteenth day of each month to holders of record on the first day of that month. For further information regarding the distributions by each Trust, see "Summary of Essential Information".

-----  
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.  
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The date of this Prospectus is March 2, 1994

TAX EXEMPT SECURITIES TRUST, SERIES 388

SUMMARY OF ESSENTIAL INFORMATION AS OF MARCH 1, 1994+

SPONSORS

RECORD DATES

Smith Barney Shearson Inc.  
Kidder, Peabody & Co.  
Incorporated

The first day of each month,  
commencing April 1, 1994

DISTRIBUTION DATES

TRUSTEE

United States Trust Company of

The fifteenth day of each  
month,\*\* commencing April 15,

## EVALUATOR

## EVALUATION TIME

Kenny S & P Evaluation  
Services,  
a division of Kenny Information  
Systems, Inc.

As of 1:00 P.M. on the Date of  
Deposit. Thereafter, as of  
4:00 P.M. New York Time.

## EVALUATOR'S FEE

DATE OF DEPOSIT AND OF TRUST  
AGREEMENT

The Evaluator will receive a  
fee of \$.30 per bond per  
evaluation. (See Part B,  
"Evaluator--Responsibility"  
and "Public Offering--Offering  
Price".)

March 1, 1994

## MANDATORY TERMINATION DATE\*

Each Trust will terminate on the  
date of maturity, redemption,  
sale or other disposition of the  
last Bond held in the Trust.

SPONSORS' ANNUAL PORTFOLIO  
SUPERVISION FEE\*\*\*

Maximum of \$.25 per \$1,000  
face amount of the underlying  
Bonds.

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+ The Date of Deposit. The Date of Deposit is the date on which the Trust  
Agreement was signed and the deposit with the Trustee was made.

\* The actual date of termination of each trust may be considerably earlier  
(see Part B, "Amendment and Termination of the Trust Agreement--  
Termination").

\*\* The first monthly income distribution of \$4.49, \$4.01, \$4.56 and \$4.37 for  
the Maryland Trust, New York Selected Term Trust, New York Trust and Ohio  
Trust, respectively, will be made on April 15, 1994.

\*\*\* In addition to this amount the Sponsors may be reimbursed for bookkeeping  
and other administrative expenses not exceeding their actual costs.

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<TABLE>  
<CAPTION>

	MARYLAND TRUST 89	NEW YORK TRUST 129 (SELECTED TERM)	NEW YORK TRUST 130	OHIO TRUST 86
<S>	<C>	<C>	<C>	<C>
Principal Amount of Bonds in Trust	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Number of Units.....	3,000	3,000	3,000	3,000
Principal Amount of Bonds in Trust per Unit.....	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Fractional Undivided Interest in Trust per Unit.....	1/3,000	1/3,000	1/3,000	1/3,000
Minimum Value of Trust:				
Trust Agreement may be Terminated if Principal Amount is less than	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Calculation of Public Offering Price per Unit*:				
Aggregate Offering Price of Bonds in Trust.....	\$2,910,038	\$2,974,270	\$2,935,363	\$2,918,555
Divided by Number of Units.....	\$ 970.01	\$ 991.42	\$ 978.45	\$ 972.85
Plus: Sales Charge (3.70% for the New York Trust (Selected Term) and 4.70% for the Maryland Trust, the New York Trust and the Ohio Trust of the Public Offering Price).....	\$ 47.84	\$ 38.09	\$ 48.26	\$ 47.98
Public Offering Price per Unit.....	\$ 1,017.85	\$ 1,029.51	\$ 1,026.71	\$ 1,020.83
Plus: Accrued Interest*.....	\$ 1.04	\$ .93	\$ 1.06	\$ 1.01
Total.....	\$ 1,018.89	\$ 1,030.44	\$ 1,027.77	\$ 1,021.84
Sponsors' Initial Repurchase Price per Unit (per Unit Offering Price of Bonds)*.....	\$ 970.01	\$ 991.42	\$ 978.45	\$ 972.85

Approximate Redemption Price per Unit (per Unit Bid Price of Bonds)**.....	\$ 965.76	\$ 987.29	\$ 974.45	\$ 968.15
Difference Between per Unit Offering and Bid Prices of Bonds.....	\$ 4.25	\$ 4.13	\$ 4.00	\$ 4.70
Calculation of Estimated Net Annual Income per Unit				
Estimated Annual Income per Unit.....	\$ 56.10	\$ 50.35	\$ 57.01	\$ 54.68
Less: Estimated Trustee's Annual Fee***.....	\$ 1.33	\$ 1.28	\$ 1.34	\$ 1.32
Less: Other Estimated Annual Expenses.....	\$ .89	\$ .95	\$ .95	\$ .92
Estimated Net Annual Income per Unit.....	\$ 53.88	\$ 48.12	\$ 54.72	\$ 52.44
Calculation of Monthly Income Distribution per Unit:				
Estimated Net Annual Income per Unit.....	\$ 53.88	\$ 48.12	\$ 54.72	\$ 52.44
Divided by 12.....	\$ 4.49	\$ 4.01	\$ 4.56	\$ 4.37
Accrued interest from the day after the Date of Deposit to the first record date**.....				
First distribution per unit.....	\$ 4.49	\$ 4.01	\$ 4.56	\$ 4.37
Daily Rate (360-day basis) of Income Accrual per Unit.....	\$ .1496	\$ .1336	\$ .1520	\$ .1456
Estimated Current Return based on Public Offering Price****.....	5.29%	4.67%	5.33%	5.14%
Estimated Long-Term Return****.....	5.31%	4.74%	5.31%	5.18%

</TABLE>

- \* Accrued interest will be added from the day after the Date of Deposit to the date of settlement (normally five business days after purchase).
- \*\* This figure will also include accrued interest from the day after the Date of Deposit to the date of settlement (normally five business days after purchase) and the net of cash on hand in the relevant Trust, accrued expenses of such Trust and amounts distributable to holders of record of Units of such Trust as of a date prior to the computation date, on a pro rata share basis. (See Part B, "Redemption of Units -- Computation of Redemption Price per Unit.")
- \*\*\* Per \$1,000 principal amount of Bonds, plus expenses. (See Part B, "Rights of Unit Holders -- Distribution of Interest and Principal.")
- \*\*\*\* The Estimated Current Return is calculated by dividing the Estimated Net Annual Interest Income per Unit by the Public Offering Price per Unit. The Estimated Net Annual Interest Income per Unit will vary with changes in fees and expenses of the Trustee and the Evaluator and with the principal prepayment, redemption, maturity, exchange or sale of Bonds while the Public Offering Price will vary with changes in the offering price of the underlying Bonds; therefore, there is no assurance that the present Estimated Current Return indicated above will be realized in the future. The Estimated Long-Term Return is calculated using a formula which (1) takes into consideration, 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 Bonds in the Trust and (2) takes into account the expenses and sales charge associated with each Unit. Since the market values and estimated retirements of the Bonds and the expenses of the Trust will change, there is no assurance that the present Estimated Long-Term Return as indicated above will be realized in the future. The Estimated Current Return and Estimated Long-Term Return are expected to differ because the calculation of the Estimated Long-Term Return reflects the estimated date and amount of principal returned while the Estimated Current Return calculations include only Net Annual Interest Income and Public Offering Price as of the Date of Deposit. The effect of the delay in the payment to Unit holders for the first few months of Trust operations, which results in a lower true return to Unit holders, is not reflected in either calculation (a projected cash flow statement as of the Date of Deposit is available upon request from the Trustee).

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PORTFOLIO SUMMARY AS OF DATE OF DEPOSIT

SERIES 388  
MARYLAND TRUST 89

The Portfolio of the Maryland Trust contains 11 issues of Bonds of issuers located in the State of Maryland. All of the issues are payable from the income of specified projects or authorities and are not supported by the issuer's power to levy taxes. Although income to pay such Bonds may be derived from more than one source, the primary sources of such income and the percentage of the Bonds in this Trust deriving income from such sources are as follows: hospital and health care facilities: 47.3%\*; housing facilities: 44.6%; pollution control facilities: 8.1%. The trust is considered to be concentrated in hospital and housing issues.+ (See Part B, "Tax Exempt Securities Trust--Portfolio--Risk Factors" for a brief summary of additional considerations relating to certain of these issues.) Five Bonds in this Trust have been issued with an "original issue discount." (See Part B, "Taxes.") the average life to maturity of the Bonds in the Maryland Trust is 29.4 years.

As of the Date of Deposit, 88.8% of the Bonds in this Trust are rated by Standard & Poor's Corporation (53.2% rated AAA and 35.6% rated A) and 11.2% are rated A by Moody's Investors Service. For a description of the meaning of the applicable rating symbols as published by the rating agencies, see Part B, "Bond Ratings." It should be emphasized, however, that the ratings of the rating agencies represent their opinions as to the quality of the Bonds which they undertake to rate, and that these ratings are general and are not absolute standards of quality and may change from time to time.

None of the Bonds in the Maryland Trust were acquired from a Sponsor as sole underwriter or from an underwriting syndicate in which a Sponsor participated, or otherwise from a Sponsor's own organization. (See Part B, "Public Offering--Sponsors' and Underwriters' Profits.")

#### NEW YORK TRUST 129 (SELECTED TERM)

The Portfolio of the New York Selected Term Trust contains 13 issues of Bonds of issuers located in the State of New York and the Commonwealth of Puerto Rico. Of the Bonds in this Trust one was issued by the Commonwealth of Puerto Rico (representing 2.7%\* of the Bonds in the Trust) and one of the issues (representing approximately 16.5% of the Bonds in the Trust) is a general obligation of a governmental entity and is backed by the taxing power of that entity. The remaining issues are payable from the income of specified projects or authorities and are not supported by the issuer's power to levy taxes. Although income to pay such Bonds may be derived from more than one source, the primary sources of such income and the percentage of the Bonds in this Trust deriving income from such sources are as follows: hospital and health care facilities: 8.3%; housing facilities: 12.0%; transportation facilities: 3.5%; educational facilities: 16.8%; lease rental, 8.4%; water and sewer facilities: 8.4%; correctional facilities: 8.5%; sales tax: 14.9%. The Trust is not considered to be concentrated in any particular category of bonds.+ Six Bonds in this Trust have been issued with an "original issue discount." (See Part B, "Taxes.") the average life to maturity of the Bonds in the New York Selected Term Trust is 10 years.

As of the Date of Deposit, 67.6% of the Bonds in this Trust are rated by Standard & Poor's Corporation (8.3% rated AAA, 8.4% rated AA and 50.9% rated A); 7.1% are rated Aa by Moody's Investors Service and 25.3% are rated A by Fitch Investors Service, Inc. For a description of the meaning of the applicable rating symbols as published by the rating agencies, see Part B, "Bond Ratings." It should be emphasized, however, that the ratings of the rating agencies represent their opinions as to the quality of the Bonds which they undertake to rate, and that these ratings are general and are not absolute standards of quality and may change from time to time.

None of the Bonds in the New York Selected Term Trust were acquired from a Sponsor as sole underwriter or from an underwriting syndicate in which a Sponsor participated, or otherwise from a Sponsor's own organization. (See Part B, "Public Offering--Sponsors' and Underwriters' Profits.")

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\*Percentages computed on the basis of the aggregate offering price of the Bonds in the Trust on the Date of Deposit.

+ A Trust is considered to be "concentrated" in a particular category when the Bonds in that category constitute 25% or more of the aggregate offering price of the Bonds in the Trust.

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#### NEW YORK TRUST 130

The Portfolio of the New York Trust contains 10 issues of Bonds of issuers located in the State of New York. Two of the issues (representing approximately 14.5%\* of the Bonds in the Trust) are general obligations of governmental entities and are backed by the taxing power of those entities. The remaining issues are payable from the income of specified projects or authorities and are not supported by the issuer's power to levy taxes. Although income to pay such Bonds may be derived from more than one source, the primary sources of such income and the percentage of the Bonds in this Trust deriving income from such sources are as follows: hospital and health care facilities: 24.4%; housing facilities: 10.9%; transportation facilities: 15.3%; educational facilities: 8.3%; correctional facilities: 9.6%; lease rental payments: 17.0%. The trust is not considered to be concentrated in any particular category of bonds.+ (See Part B, "Tax Exempt Securities Trust--Portfolio--Risk Factors" for a brief summary of additional considerations relating to certain of these issues.) In addition, 10.9% of the Bonds in this Trust are subject to redemption or sinking fund provisions early in the life of the Trust. (See "Redemption Provisions" under "Portfolio of Securities".) Four Bonds in this Trust have been issued with an "original issue discount." (See Part B, "Taxes.") The average life to maturity of the Bonds in this New York Trust is 29.7 years.

As of the Date of Deposit, 50.8% of the Bonds in this Trust are rated by

Standard & Poor's Corporation (16.9% rated AAA, 19.4% rated AA and 14.5% rated A); 40.9% are rated by Moody's Investors Service (32.3% rated Aa and 8.6% rated A) and 8.3% are rated A by Fitch Investors Service, Inc. For a description of the meaning of the applicable rating symbols as published by the rating agencies, see Part B, "Bond Ratings." It should be emphasized, however, that the ratings of the rating agencies represent their opinions as to the quality of the Bonds which they undertake to rate, and that these ratings are general and are not absolute standards of quality and may change from time to time.

8.6% of the Bonds in this New York Trust were acquired from a Sponsor as sole underwriter or from an underwriting syndicate in which a Sponsor participated, or otherwise from a Sponsor's own organization. (See Part B, "Public Offering--Sponsors' and Underwriters' Profits.")

OHIO TRUST 86

The Portfolio of the Ohio Trust contains 9 issues of Bonds of issuers located in the State of Ohio. All of the issues are payable from the income of specified projects or authorities and are not supported by the issuer's power to levy taxes. Although income to pay such Bonds may be derived from more than one source, the primary sources of such income and the percentage of the Bonds in this Trust deriving income from such sources are as follows: hospital and health care facilities: 30.9%\*; transportation facilities: 17.1%; educational facilities: 24.8%; water and sewer facilities: 19.3%; gas facilities: 7.9%. The Trust is considered to be concentrated in hospital issues.+ (See Part B, "Tax Exempt Securities Trust--Portfolio--Risk Factors" for a brief summary of additional considerations relating to certain of these issues.) Six Bonds in this Trust have been issued with an "original issue discount." (See Part B, "Taxes.") The average life to maturity of the Bonds in the Ohio Trust is 24.5 years.

As of the Date of Deposit, 100% of the Bonds in this Trust are rated by Standard & Poor's Corporation (41.7% rated AAA, 33.7% rated AA and 24.6% rated A). For a description of the meaning of the applicable rating symbols as published by the rating agencies, see Part B, "Bond Ratings." It should be emphasized, however, that the ratings of the rating agencies represent their opinions as to the quality of the Bonds which they undertake to rate, and that these ratings are general and are not absolute standards of quality and may change from time to time.

6.7% of the Bonds in the Ohio Trust were acquired from a Sponsor as sole underwriter or from an underwriting syndicate in which a Sponsor participated, or otherwise from a Sponsor's own organization. (See Part B, "Public Offering--Sponsors' and Underwriters' Profits.")

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\* Percentages computed on the basis of the aggregate offering price of the Bonds in the Trust on the Date of Deposit.

+ A Trust is considered to be "concentrated" in a particular category when the Bonds in that category constitute 25% or more of the aggregate offering price of the Bonds in the Trust.

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UNDERWRITING

The names and addresses of the Underwriters and the number of Units to be sold by them are as follows:

<TABLE>  
<CAPTION>

	UNITS			
	MARYLAND TRUST 89	NEW YORK TRUST 129	NEW YORK TRUST 130	OHIO TRUST 86
<S>	<C>	<C>	<C>	<C>
Smith Barney Shearson Inc. .... 1345 Avenue of the Americas New York, New York 10105	2,600	2,300	2,550	1,500
Kidder, Peabody & Co. Incorporated..... 60 Broad Street New York, New York 10004	100	500	250	1,500
Gruntal & Co. Incorporated..... 14 Wall Street New York, New York 10005	100	100	100	--
Legg Mason Wood Walker, Inc. .... 111 South Calvert Street Baltimore, Maryland 21202	100	--	--	--
Nathan & Lewis Securities, Inc. .... 119 West 40th Street	--	100	--	--

New York, New York 10018				
Oppenheimer & Co., Inc. ....	--	--	100	--
Oppenheimer tower				
One World Financial Center				
New York, New York 10281				
Wheat First Securities, Inc. ....	100	--	--	--
901 East Byrd Street				
Richmond, Virginia 23219				
	-----	-----	-----	-----
	3,000	3,000	3,000	3,000
	=====	=====	=====	=====

</TABLE>

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INDEPENDENT AUDITORS' REPORT

To the Sponsors and Unit Holders of  
Tax Exempt Securities Trust, Series 388:

We have audited the accompanying statements of financial condition, including the portfolios of securities, of Tax Exempt Securities Trust, Series 388 (comprising, respectively, Maryland Trust 89, New York Trust 129 (Selected Term), New York Trust 130 and Ohio Trust 86) as of March 1, 1994. These financial statements are the responsibility of the Trustee (see note 5 to the statements of financial condition). 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 with the Trustee of an irrevocable letter of credit deposited on March 1, 1994, for the purchase of securities, as shown in the statements of financial condition and the portfolios of securities. An audit also includes assessing the accounting principles used and significant estimates made by the Trustee, 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 each of the respective trusts constituting Tax Exempt Securities Trust, Series 388 as of March 1, 1994, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK

New York, N.Y.

March 1, 1994

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TAX EXEMPT SECURITIES TRUST, SERIES 388  
STATEMENTS OF FINANCIAL CONDITION  
AS OF DATE OF DEPOSIT, MARCH 1, 1994

<TABLE>  
<CAPTION>

	SERIES 388			
	-----			
	TRUST PROPERTY			
	-----			
	NEW YORK	NEW YORK	OHIO	
	TRUST 89	TRUST 129	TRUST 130	TRUST 86
		(SELECTED		
		TERM)		
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Investment in Tax-Exempt Securities:				
Bonds represented by purchase contracts backed by letter of credit (1)...	\$2,910,038	\$2,974,270	\$2,935,363	\$2,918,555
Accrued interest through the Date of Deposit on underlying bonds (1) (2)...	25,991	25,913	16,808	34,959
	-----	-----	-----	-----
Total.....	\$2,936,029	\$3,000,183	\$2,952,171	\$2,953,514
	=====	=====	=====	=====

LIABILITY AND INTEREST OF UNIT HOLDERS



Liability:

Accrued interest through the Date of Deposit on underlying bonds (1) (2).. \$ 25,991 \$ 25,913 \$ 16,808 \$ 34,959

Interest of Unit Holders:

Units of fractional undivided interest outstanding (Maryland Trust 89: 3,000; New York Trust 129 (Selected Term): 3,000; New York Trust 130: 3,000; Ohio Trust 86 : 3,000)

Cost to investors (3).....	3,053,561	3,088,541	3,080,135	3,062,498
Less -- Gross underwriting commission (4).....	143,523	114,271	144,772	143,943
Net amount applicable to investors.....	2,910,038	2,974,270	2,935,363	2,918,555
Total.....	\$2,936,029	\$3,000,183	\$2,952,171	\$2,953,514

</TABLE>

- (1) Aggregate cost to each Trust of the Bonds listed under the Portfolios of Securities on the immediately following pages is based on offering prices as of 1:00 P.M. on March 1, 1994, the Date of Deposit, determined by the Evaluator on the basis set forth in Part B, "Public Offering -- Offering Price." Morgan Guaranty Trust Company of New York issued an irrevocable letter of credit in the aggregate principal amount of \$14,000,000 which was deposited with the Trustee for the purchase of \$12,000,000 principal amount of Bonds pursuant to contracts to purchase such Bonds at the Sponsor's aggregate cost of \$11,790,265 plus \$103,671 representing accrued interest thereon through the Date of Deposit.
- (2) The Indenture provides that the Trustee will advance amounts equal to the accrued interest on the underlying securities of each Trust (net of accrued expenses) through the Date of Deposit and that such amounts will be distributed to the Sponsors as Unit holders of record on such date, as set forth in Part B, "Rights of Units Holders -- Distribution of Interest and Principal."
- (3) Aggregate public offering price (exclusive of interest) computed on 3,000 Units each of the Maryland Trust, the New York Trust (Selected Term), the New York Trust and the Ohio Trust, on the basis set forth in Part B, "Public Offering -- Offering Price."
- (4) Sales charge of 3.70% computed on 3,000 Units of the New York Trust (Selected Term) and 4.70% computed on 3,000 Units each of the Maryland Trust, the New York Trust and the Ohio Trust, on the basis set forth in Part B, "Public Offering -- Offering Price."
- (5) The Trustee has custody of and responsibility for all accounting and financial books, records, financial statements and related data of each Trust and is responsible for establishing and maintaining a system of internal controls directly related to, and designed to provide reasonable assurance as to the integrity and reliability of, financial reporting of each Trust. The Trustee is also responsible for all estimates and accruals reflected in each Trust's financial statements. The Evaluator determines the price for each underlying Bond included in each Trust's Portfolio of Securities on the basis set forth in Part B, "Public Offering -- Offering Price." Under the Securities Act of 1933, as amended (the "Act"), the Sponsors are deemed to be issuers of each Trust's Units. As such, the Sponsors have the responsibility of issuers under the Act with respect to financial statements of each Trust included in the Registration Statement under the Act and amendment thereto.

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TAX EXEMPT SECURITIES TRUST, SERIES 388  
MARYLAND TRUST 89--PORTFOLIO OF SECURITIES AS OF MARCH 1, 1994

<TABLE>  
<CAPTION>

Aggregate Principal	Securities Represented By Purchase Contracts	Ratings (1)	Redemption Provisions (2)	Cost of Securities to Trust (3) (4)	Yield on Date of Deposit (4)	Annual Interest Income to Trust
-----	-----	-----	-----	-----	-----	-----
<C>	<S>	<C>	<C>	<C>	<C>	<C>
1. \$ 260,000	Maryland Health and Higher Educational Facilities Authority Revenue Bonds, Good Samaritan Hospital Issue, 5.75% Due 7/1/2019	A	7/1/03 @ 102 SF 7/1/14 @ 100	\$ 258,261	5.800%	\$ 14,950
2. 250,000	Maryland Health and Higher Educational Facilities Authority, Project and Refunding Revenue Bonds, Mercy Medical Center Issue, 5.75% Due 7/1/2015	AAA	7/1/03 @ 102 SF 7/1/09 @ 100	250,625	5.719	14,375
3. 300,000	Maryland Health and Higher Educational Facilities Authority, Project and Refunding Revenue Bonds, Peninsula Regional Medical Center Issue, 5.00% Due 7/1/2023	A	7/1/03 @ 102 SF 7/1/13 @ 100	266,331	5.800	15,000

4.	305,000	Maryland Health and Higher Educational Facilities Authority Refunding Revenue Bonds, Suburban Hospital Issue, 5.125% Due 7/1/2021	A	7/1/03 @ 102 SF 7/1/14 @ 100	276,916	5.800	15,631
5.	260,000	Anne Arundel County, Maryland, Mortgage Revenue Refunding Bonds, FHA Insured Mortgage Loan, The Regency Club Facility, 6.20% Due 12/1/2023	AAA	12/1/02 @ 102 SF 6/1/10 @ 100	269,256	5.750	16,120
6.	250,000	Anne Arundel County, Maryland, Mortgage Revenue Refunding Bonds, FHA-Insured Mortgage Loan, The Regency Club II Facility, 5.875% Due 7/15/2027	AAA	1/15/04 @ 102 SF 7/15/21 @ 100	250,507	5.850	14,687
7.	250,000	Baltimore County, Maryland, Mortgage Revenue Refunding Bonds, FHA Insured Mortgage Loan, Kingswood Common III Apartments Project, 5.85% Due 5/1/2026	AAA	11/1/03 @ 102 SF 5/1/21 @ 100	250,000	5.849	14,625
8.	250,000	Montgomery County, Maryland, Pollution Control Revenue Refunding Bonds, Potomac Electric Project, 5.375% Due 2/15/2024	A+	2/15/04 @ 102	234,978	5.800	13,438
9.	275,000	Housing Opportunities Commission of Montgomery County, Maryland, Housing Development Bonds, 5.80% Due 7/1/2024	AAA	7/1/04 @ 102 SF 7/1/15 @ 100	275,000	5.799	15,950
10.	350,000	Prince George's County, Maryland, Project and Refunding Revenue Bonds, Dimensions Health Corporation Issue, 5.30% Due 7/1/2024	A*	7/1/04 @ 102 SF 7/1/15 @ 100	325,122	5.800	18,550
11.	250,000	Housing Authority of Prince George's County, Maryland, Mortgage Revenue Refunding Bonds, GNMA Collateralized, Timber Ridge/Cypress Creek Apartments Project, 6.00% Due 6/20/2028	AAA	6/20/03 @ 102 SF 6/20/14 @ 100	254,042	5.850	15,000
-----					-----	-----	-----
\$ 3,000,000					\$2,911,038		\$168,326
-----					-----	-----	-----

</TABLE>

The Notes following the Portfolios are an integral part of each Portfolio of Securities.

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TAX EXEMPT SECURITIES TRUST, SERIES 388

NEW YORK TRUST 129 (SELECTED TERM)--PORTFOLIO OF SECURITIES AS OF MARCH 1, 1994

<TABLE>  
<CAPTION>

Aggregate Principal	Securities Represented By Purchase Contracts	Ratings (1)	Redemption Provisions (2)	Cost of Securities to Trust (3) (4)	Yield on Date of Deposit (4)	Annual Interest Income to Trust
-----	-----	-----	-----	-----	-----	-----
<C>	<S>	<C>	<C>	<C>	<C>	<C>
1. \$ 500,000	The City of New York, General Obligation Bonds, 5.25% Due 8/1/2003	A-	-	\$ 492,685	5.450%	\$ 26,250
2. 250,000	Dormitory Authority of the State of New York Revenue Bonds, Upstate Community Colleges, 5.00% Due 7/1/2003	A**	-	249,060	5.050	12,500
3. 250,000	Dormitory Authority of the State of New York Revenue Bonds, Upstate Community Colleges, 5.25% Due 7/1/2005	A**	7/1/04 @ 102	250,000	5.249	13,125
4. 250,000	New York Local Government Assistance Corporation Bonds, 4.85% Due 4/1/2004	A	-	247,047	5.000	12,125
5. 200,000	New York Local Government Assistance Corporation Bonds, 5.00% Due 4/1/2006	A	4/1/04 @ 101.50	196,434	5.200	10,000

6.	250,000	Housing New York Corporation Bonds, Senior Revenue Refunding Bonds, 4.90% Due 11/1/2002	AA	-	250,000	4.899	12,250
7.	100,000	State of New York Mortgage Agency, Homeowner Mortgage Revenue Bonds, 5.80% Due 10/1/2004	Aa*	3/1/03 @ 102	105,665	5.100	5,800
8.	250,000	New York State Medical Care Facilities Finance Agency, Mental Health Services Facilities Improvement Revenue Refunding Bonds, 4.80% Due 2/15/2005	AAA	2/15/04 @ 102	245,815	5.000	12,000
9.	250,000	New York State Urban Development Corporation, Correctional Facilities Revenue Refunding Bonds, 5.625% Due 1/1/2007	A**	1/1/03 @ 102 SF 1/1/05 @ 100	252,503	5.500	14,063
10.	250,000	New York City Municipal Water Finance Authority, Water and Sewer System Revenue Bonds, 4.875% Due 6/15/2002	A-	-	249,560	4.900	12,187
11.	250,000	Battery Park City Authority Revenue Refunding Bonds, 4.80% Due 11/1/2001	A	11/1/98 @ 105	250,000	4.799	12,000
12.	100,000	Triborough Bridge and Tunnel Authority, General Purpose Bonds, 5.75% Due 1/1/2005	Aa*	-	105,351	5.100	5,750
13.	100,000	Commonwealth of Puerto Rico, Public Improvement Refunding Bonds, General Obligation Bonds, 3.00% Due 7/1/2006	A	7/1/97 @ 100	80,150	5.200	3,000
	----- \$ 3,000,000 ----- -----				----- \$ 2,974,270 ----- -----		----- \$ 151,050 ----- -----

</TABLE>

The Notes following the Portfolios are an integral part of each Portfolio of Securities.

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TAX EXEMPT SECURITIES TRUST, SERIES 388  
NEW YORK TRUST 130--PORTFOLIO OF SECURITIES AS OF MARCH 1, 1994

<TABLE>  
<CAPTION>

Aggregate Principal	Securities Represented By Purchase Contracts	Ratings (1)	Redemption Provisions (2)	Cost of Securities to Trust (3) (4)	Yield on Date of Deposit (4)	Annual Interest Income to Trust
<C>	<S>	<C>	<C>	<C>	<C>	<C>
1. \$ 175,000	The City of New York, General Obligation Bonds, 6.25% Due 8/1/2017	A-	8/1/02 @ 101.50	\$ 179,704	5.900%	\$ 10,937
2. 250,000	The City of New York, General Obligation Bonds, 5.75% Due 8/15/2014	A-	8/15/03 @ 101.5	245,570	5.900	14,375
3. 250,000	Dormitory Authority of the State of New York Revenue Bonds, Upstate Community Colleges, 5.70% Due 7/1/2021	A**	7/1/04 @ 102 SF 7/1/15 @ 100	243,230	5.900	14,250
4. 210,000	New York State Medical Care Facilities Finance Agency, Hospital and Nursing Home FHA, Insured Mortgage Revenue Bonds, 6.20% Due 8/15/2022	AAA	8/15/02 @ 102 SF 8/15/99 @ 100	215,680	5.850	13,020
5. 500,000	New York State Medical Care Facilities Finance Agency, Secured Mortgage Health Care Projects Revenue Bonds, 5.85% Due 2/15/2033	Aa*	8/15/03 @ 102 SF 8/15/00 @ 100	500,000	5.850	29,250
6. 250,000	Battery Park City Authority Revenue Refunding Bonds, 5.70% Due 11/1/2020	AA	11/1/03 @ 102	248,283	5.750	14,250
7. 300,000	County of Broome, New York, Certificates of Participation, Public Safety Facility, 5.25% Due 4/1/2022	AAA	4/1/04 @ 102 SF 4/1/16 @ 100	281,184	5.700	15,750

8.	315,000	Newport Highlands Housing Development Corporation, Multifamily Mortgage Revenue Refunding Bonds, Newport Highlands Apartments, FHA Insured Mortgage, Section 8 Assisted Project, 6.10% Due 8/1/2024	AA	6/1/04 @ 100 SF 8/1/96 @ 100	320,972	5.850	19,215
9.	500,000	Triborough Bridge and Tunnel Authority, General Purpose Revenue Bonds, 5.00% Due 1/1/2024	Aa*	1/1/04 @ 101.50 SF 1/1/21 @ 100	448,720	5.720	25,000
10.	250,000	United Nations Development Corporation, New York, Refunding Bonds, 6.00% Due 7/1/2026	A*	7/1/03 @ 102 SF 7/1/13 @ 100	252,020	5.900	15,000
					-----	-----	-----
\$ 3,000,000					\$ 2,935,363		\$ 171,047
					-----	-----	-----

</TABLE>

The Notes following the Portfolios are an integral part of each Portfolio of Securities.

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TAX EXEMPT SECURITIES TRUST, SERIES 388  
OHIO TRUST 86--PORTFOLIO OF SECURITIES AS OF MARCH 1, 1994

<TABLE>  
<CAPTION>

Aggregate Principal	Securities Represented By Purchase Contracts	Ratings (1)	Redemption Provisions (2)	Cost of Securities to Trust (3) (4)	Yield on Date of Deposit (4)	Annual Interest Income to Trust
-----	-----	-----	-----	-----	-----	-----
<C>	<S>	<C>	<C>	<C>	<C>	<C>
1. \$ 250,000	State of Ohio Higher Educational Facility, Higher Educational Facility Revenue Bonds, Kenyon College Project, 5.375% Due 12/1/2016	A+	12/1/03 @ 102 SF 12/1/09 @ 100	\$ 239,690	5.700%	\$ 13,438
2. 500,000	State of Ohio Higher Educational Facility, Higher Educational Facility Revenue Bonds, Oberlin College Project, 5.375% Due 10/1/2015	AA	10/1/03 @ 102 SF 10/1/08 @ 100	482,945	5.650	26,875
3. 500,000	State of Ohio Turnpike Revenue Bonds, Ohio Turnpike Commission, 5.75% Due 2/15/2024	AA-	2/15/04 @ 102 SF 2/15/10 @ 100	500,000	5.750	28,750
4. 300,000	Ohio State Water Development Authority, Water Pollution Control Loan Fund Revenue Bonds, 6.00% Due 12/1/2011	AAA	12/1/01 @ 102 SF 6/1/07 @ 100	314,634	5.350	18,000
5. 250,000	Ohio Water Development Authority, Water Development Revenue Refunding Bonds, Pure Water Refunding and Improvement Series, 5.50% Due 12/1/2018	AAA	12/1/02 @ 102 SF 6/1/12 @ 100	246,648	5.600	13,750
6. 500,000	County of Cuyahoga, Ohio, Hospital Facilities Refunding Revenue Bonds, Health Cleveland, Inc., Fairview General Hospital Project, 5.50% Due 8/15/2019	A	8/15/04 @ 102 SF 8/15/15 @ 100	480,155	5.800	27,500
7. 250,000	City of Hamilton, Ohio, Gas System Revenue Bonds, 5.00% Due 10/15/2018	AAA	10/15/03 @ 102 SF 10/15/14 @100	231,645	5.550	12,500
8. 250,000	County of Lucas, Ohio, Hospital Revenue Bonds, The Toledo Hospital, 5.00% Due 11/15/2022	AAA	11/15/03 @ 102 SF 11/15/16 @100	228,680	5.600	12,500
9. 200,000	County of Lucas, Ohio, Hospital Refunding Revenue Bonds, St. Vincents Medical Center, 5.375% Due 8/15/2017	AAA	8/15/03 @ 102 SF 8/15/13 @ 100	194,158	5.600	10,750
				-----	-----	-----
\$ 3,000,000				\$ 2,918,555		\$ 164,063
				-----	-----	-----

</TABLE>

The Notes following the Portfolios are an integral part of each Portfolio of Securities.

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- (1) For a description of the meaning of the applicable rating symbols as published by Standard & Poor's Corporation, Moody's Investors Service(\*) and Fitch Investors Service, Inc. (\*\*), see Part B, "Bond Ratings."
- (2) There is shown under this heading the year in which each issue of Bonds initially is redeemable and the redemption price of that year; unless otherwise indicated, each issue continues to be redeemable at declining prices thereafter, but not below par. "SF" indicates a sinking fund has been or will be established with respect to an issue of Bonds. The prices at which Bonds may be redeemed or called prior to maturity may or may not include a premium and, in certain cases, may be less than the cost of the Bonds to a Trust. Certain Bonds in a Portfolio, including Bonds listed as not being subject to redemption provisions, 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. For example, see discussion of obligations of housing authorities in Part B, "Tax Exempt Securities Trust-Portfolio."
- (3) Contracts to purchase Bonds were entered into during the period January 6, 1994, through March 1, 1994 with the final settlement date estimated to be March 17, 1994. The Loss to Sponsors on Deposit totals \$7,878, \$6,371, \$21,016 and \$16,774 for the Maryland Trust, the New York Trust (Selected Term), the New York Trust and the Ohio Trust, respectively.
- (4) Evaluation of the Bonds by the Evaluator is made on the basis of current offering prices for the Bonds. The current offering prices of the Bonds are greater than the current bid prices of the Bonds. The Redemption Price per Unit and the public offering price of the Units in the secondary market are determined on the basis of the current bid prices of the Bonds. (See Part B, "Public Offering-Offering Price" and "Rights of Unit Holders-Redemption of Units.") Yield of Bonds was computed on the basis of offering prices on the date of deposit. The aggregate bid price of the Bonds in the Maryland Trust, the New York Trust (Selected Term), the New York Trust and the Ohio Trust, on March 1, 1994 was \$2,897,278 \$2,961,870, \$2,923,363 and \$2,904,455, respectively.

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PROSPECTUS--PART B:

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 NOTE THAT PART B OF THIS PROSPECTUS MAY NOT BE DISTRIBUTED UNLESS ACCOMPANIED  
 BY PART A.  
 -----

TAX EXEMPT SECURITIES TRUST

THE TRUSTS

Each Trust is one of a series of similar but separate unit investment trusts created under the laws of the State of New York by a Trust Indenture and Agreement and related Reference Trust Agreement dated the Date of Deposit (collectively, the "Trust Agreement"), among Smith Barney Shearson Inc. and Kidder, Peabody & Co. Incorporated, as sponsors (the "Sponsors" or "Co-sponsors"), United States Trust Company of New York, as Trustee, and Kenny Information Systems, Inc., as Evaluator. Each Trust containing Bonds of a State for which such Trust is named (a "State Trust") and each National Trust, Selected Term Trust, Long-Intermediate Term Trust, Intermediate Term Trust, Short-Intermediate Term Trust and Short Term Trust are referred to herein as the "Trust" or "Trusts," unless the context requires otherwise. On the Date of Deposit, the Sponsors deposited contracts and funds (represented by a certified check or checks and/or an irrevocable letter or letters of credit, issued by a major commercial bank) for the purchase of certain interest-bearing obligations (the "Bonds") and/or Units of preceding Series of Tax Exempt Securities Trust (such Bonds and Units of preceding Series of Tax Exempt Securities Trust, if any, (the "Deposited Units") being referred to herein collectively as the "Securities"). The Trustee thereafter delivered to the Sponsors registered certificates of beneficial interest (the "Certificates") representing the units (the "Units") comprising the entire ownership of each Trust, which Units are being offered hereby. References to multiple Trusts in Part B herein should be read as references to a single Trust if Part A indicates the creation of only one Trust.

Notwithstanding the availability of the above-mentioned certified check or checks and/or irrevocable letter or letters of credit, it is expected that the Sponsors will pay for the Bonds as the contracts for their purchase become due. A substantial portion of such contracts have not become due by the date of this Prospectus. To the extent Units are sold prior to the settlement of such contracts, the Sponsors will receive the purchase price on such Units prior to the time at which they pay for Bonds pursuant to such contracts and have the

use of such funds during this period.

#### OBJECTIVES

The objectives of a Trust are tax-exempt income and conservation of capital through an investment in a diversified portfolio of municipal bonds. There is, of course, no guarantee that a Trust's objectives will be achieved since the payment of interest and the preservation of principal are dependent upon the continued ability of the issuers of the bonds to meet such obligations. Subsequent to the Date of Deposit, the ratings of the Bonds set forth in Part A--"Portfolio of Securities" may decline due to, among other factors, a decline in creditworthiness of the issuer of said Bonds.

#### PORTFOLIO

The following factors, among others, were considered in selecting the Bonds for each Trust: (1) the Bonds are obligations of the states, counties, territories or municipalities of the United States and authorities or political subdivisions thereof, so that the interest on them will, in the opinion of recognized bond counsel to the issuing governmental authorities, be exempt from Federal tax under existing law to the extent described in "Taxes", (2) all the Bonds deposited in a State Trust are obligations of the State for which such Trust is named or of the counties, territories or municipalities of such State, and authorities or political subdivisions thereof, or of the Territory of Guam or the Commonwealth of Puerto Rico, so that the interest on them will, in the opinion of recognized bond counsel to the issuing governmental authorities, be exempt from Federal income tax under existing law to the extent described in "Taxes" and from state income taxes in the state for which such State Trust is named to the extent described in Part C, (3) the Bonds were chosen in part on the basis of their respective maturity dates, (4) the Bonds are diversified as to purpose of issue and location of issuer, except in the case of a State Trust where the Bonds are diversified only as to purpose of issue, and (5) in the opinion of the Sponsors, the Bonds are fairly valued relative to other bonds of comparable quality and maturity.

The Bonds in the Portfolio of a Trust were chosen in part on the basis of their respective maturity dates. The Bonds in each Trust will have a dollar-weighted average portfolio maturity as designated in Part A--"Portfolio Summary as of Date of Deposit." For the actual maturity date of each of the Bonds contained in a Trust, which date may be earlier or later than the dollar-weighted average portfolio maturity of the Trust, see Part A, "Portfolio of Securities." A sale or other disposition of a Bond by the Trust prior to the maturity of such Bond may be at a price which results in a loss to the Trust. The inability of an issuer to pay the principal amount due upon the maturity of a Bond would result in a loss to the Trust.

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In the event that any contract for the purchase of any Bond fails, the Sponsors are authorized under the Trust Agreement, subject to the conditions set forth below, to instruct the Trustee to acquire other securities (the "Replacement Bonds") for inclusion in the Portfolio of the affected Trust. Any Replacement Bonds must be deposited not later than the earlier of (i) the first monthly Distribution Date of the Trust and (ii) 90 days after such Trust was established. The cost and aggregate principal amount of a Replacement Bond may not exceed the cost and aggregate principal amount of the Bond which it replaces. In addition, a Replacement Bond must (1) be a tax-exempt bond; (2) have a fixed maturity or disposition date comparable to the Bond it replaces; (3) be purchased at a price that results in a yield to maturity and in a current return, in each case as of the execution and delivery of the Trust Agreement, which is approximately equivalent to the yield to maturity and current return of the Bond which it replaces; (4) be purchased within twenty days after delivery of notice of the failed contracts and; (5) be rated in a category A or better by Standard & Poor's Corporation, Moody's Investors Service, Fitch Investors Service, Inc., or Duff & Phelps Credit Rating Co. Whenever a Replacement Bond has been acquired for a Trust, the Trustee shall, within five days thereafter, notify all Unit holders of such Trust of the acquisition of the Replacement Bond.

In the event that a contract to purchase Bonds fails and Replacement Bonds are not acquired, the Trustee will, not later than the second monthly Distribution Date, distribute to Unit holders the funds attributable to the failed contract. The Sponsors will, in such a case, refund the sales charge applicable to the failed contract. If less than all the funds attributable to a failed contract are applied to purchase Replacement Bonds, the remaining moneys will be distributed to Unit holders not later than the second monthly Distribution Date. Moreover, the failed contract will reduce the Estimated Net Annual Income per Unit, and may lower the Estimated Current Return and Estimated Long-Term Return.

#### Risk Factors

Certain Bonds in a Trust may have been purchased by the Sponsors on a "when, as and if issued" basis; that is, they had not yet been issued by their

governmental entity on the Date of Deposit (although such governmental entity had committed to issue such Bonds). Contracts relating to such "when, as and if issued" Bonds are not expected to be settled by the first settlement date for Units. In the case of these and/or certain other Bonds, the delivery of the Bonds may be delayed ("delayed delivery") or may not occur. Unit holders who purchased their Units of a Trust prior to the date such Bonds are actually delivered to the Trustee may have to make a downward adjustment in the tax basis of their Units for interest accruing on such "when, as and if issued" or "delayed delivery" Bonds during the interval between their purchase of Units and delivery of such Bonds, since the Trust and the Unit holders will not be reimbursing the Sponsors for interest accruing on such "when, as and if issued" or "delayed delivery" Bonds during the period between the settlement date for the Units and the delivery of such Bonds into the Trust. (See "Taxes.") Such adjustment has been taken into account in computing the Estimated Current Return and Estimated Long-Term Return set forth herein, which is slightly lower than Unit holders may receive after the first year. (See Part A, "Summary of Essential Information.") To the extent that the delivery of such Bonds is delayed beyond their respective expected delivery dates, the Estimated Current Return and Estimated Long-Term Return for the first year may be lower than indicated in the "Summary of Essential Information" in Part A.

Most of the Bonds in the Portfolio of a Trust are subject to redemption prior to their stated maturity date pursuant to sinking fund or call provisions. (See Part A--"Portfolio Summary as of Date of Deposit" for information relating to the particular Trust described therein.) In general, a call or redemption provision is more likely to be exercised when the offering price valuation of a bond is higher than its call or redemption price, as it might be in periods of declining interest rates, than when such price valuation is less than the bond's call or redemption price. To the extent that a Bond was deposited in a Trust at a price higher than the price at which it is redeemable, redemption will result in a loss of capital when compared with the original public offering price of the Units. Conversely, to the extent that a Bond was acquired at a price lower than the redemption price, redemption will result in an increase in capital when compared with the original public offering price of the Units. Monthly distributions will generally be reduced by the amount of the income which would otherwise have been paid with respect to redeemed bonds. The Estimated Current Return and Estimated Long-Term Return of the Units may be affected by such redemptions. Each Portfolio of Securities in Part A contains a listing of the sinking fund and call provisions, if any, with respect to each of the Bonds in a Trust. Because certain of the Bonds may from time to time under certain circumstances be sold or redeemed or will mature in accordance with their terms and the proceeds from such events will be distributed to Unit holders and will not be reinvested, no assurance can be given that a Trust will retain for any length of time its present size and composition. NEITHER THE SPONSORS NOR THE TRUSTEE SHALL BE LIABLE IN ANY WAY FOR ANY DEFAULT, FAILURE OR DEFECT IN ANY BOND.

The Portfolio of the Trust may consist of some Bonds whose current market values were below face value on the Date of Deposit. A primary reason for the market value of such Bonds being less than face value at maturity is that the interest coupons of such Bonds are at lower rates than the current market interest rate for comparably rated Bonds, even though at the time of the issuance of such Bonds the interest coupons thereon represented then prevailing interest rates on comparably rated Bonds then newly issued. Bonds selling at market discounts tend to increase in market value as they approach maturity when the principal amount is payable. A market discount tax-exempt Bond held to maturity will have a larger portion of its total return in the form of taxable ordinary income and less in the form of tax-exempt income than a comparable Bond bearing interest at current market rates. Under the provisions of the Internal Revenue

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Code in effect on the date of this Prospectus any ordinary income attributable to market discount will be taxable but will not be realized until maturity, redemption or sale of the Bonds or Units.

As set forth under "Portfolio Summary as of Date of Deposit", the Trust may contain or be concentrated in one or more of the classifications of Bonds referred to below. A Trust is considered to be "concentrated" in a particular category when the Bonds in that category constitute 25% or more of the aggregate value of the Portfolio. (See Part A--"Portfolio Summary as of Date of Deposit" for information relating to the particular Trust described therein.) An investment in Units of the Trust should be made with an understanding of the risks that these investments may entail, certain of which are described below.

GENERAL OBLIGATION BONDS. Certain of the Bonds in the Portfolio may be general obligations of a governmental entity that are secured by the taxing power of the entity. General obligation bonds are backed by the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. However, the taxing power of any governmental entity may be limited by provisions of state constitutions or laws and an entity's credit will depend on many factors, including an erosion of the tax base due to population declines, natural disasters, declines in the state's industrial base or

inability to attract new industries, economic limits on the ability to tax without eroding the tax base and the extent to which the entity relies on Federal or state aid, access to capital markets or other factors beyond the entity's control.

As a result of the recent recession's adverse impact upon both their revenues and expenditures, as well as other factors, many state and local governments are confronting deficits and potential deficits which are the most severe in recent years. Many issuers are facing highly difficult choices about significant tax increases and/or spending reductions in order to restore budgetary balance. Failure to implement these actions on a timely basis could force the issuers to depend upon market access to finance deficits or cash flow needs.

In addition, certain of the Bonds in the Trust may be obligations of issuers (including California issuers) who rely in whole or in part on ad valorem real property taxes as a source of revenue. Certain proposals, in the form of state legislative proposals or voter initiatives, to limit ad valorem real property taxes have been introduced in various states, and an amendment to the constitution of the State of California, providing for strict limitations on ad valorem real property taxes, has had a significant impact on the taxing powers of local governments and on the financial conditions of school districts and local governments in California. It is not possible at this time to predict the final impact of such measures, or of similar future legislative or constitutional measures, on school districts and local governments or on their abilities to make future payments on their outstanding debt obligations.

INDUSTRIAL DEVELOPMENT REVENUE BONDS ("IDRS"). IDRs, including pollution control revenue bonds, are tax-exempt securities issued by states, municipalities, public authorities or similar entities ("issuers") to finance the cost of acquiring, constructing or improving various projects, including pollution control facilities and certain industrial development facilities. These projects are usually operated by corporate entities. IDRs are not general obligations of governmental entities backed by their taxing power. Issuers are only obligated to pay amounts due on the IDRs to the extent that funds are available from the unexpended proceeds of the IDRs or receipts or revenues of the issuer under arrangements between the issuer and the corporate operator of a project. These arrangements 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 IDRs.

IDRs are generally issued under bond resolutions, agreements or trust indentures pursuant to which the revenues and receipts payable under the issuer's arrangements with the corporate operator of a particular project have been assigned and pledged to the holders of the IDRs or a trustee for the benefit of the holders of the IDRs. In certain cases, a mortgage on the underlying project has been assigned to the holders of the IDRs or a trustee as additional security for the IDRs. In addition, IDRs are frequently directly guaranteed by the corporate operator of the project or by another affiliated company. Regardless of the structure, payment of IDRs is solely dependent upon the creditworthiness of the corporate operator of the project or corporate guarantor. Corporate operators or guarantors that are industrial companies 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 (including that of low-cost foreign companies), unfunded pension fund liabilities or off-balance sheet items, and financial deterioration resulting from leveraged buy-outs or takeovers. However, certain of the IDRs in the Portfolio may be additionally insured or secured by letters of credit issued by banks or otherwise guaranteed or secured to cover amounts due on the IDRs in the event of default in payment by an issuer.

HOSPITAL AND HEALTH CARE FACILITY BONDS. The ability of hospitals and other health care facilities to meet their obligations with respect to revenue bonds issued on their behalf is dependent on various factors, including the level of payments received from private third-party payors and government programs and the cost of providing health care services.

A significant portion of the revenues of hospitals and other health care facilities is derived from private third-party payors and government programs, including the Medicare and Medicaid programs. Both private third-party payors and government programs have undertaken cost containment measures designed to limit payments made to health care facilities. Furthermore, government programs

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are subject to statutory and regulatory changes, retroactive rate adjustments, administrative rulings and government funding restrictions, all of which may materially decrease the rate of program payments for health care facilities. There can be no assurance that payments under governmental programs will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs allocable to patients participating in such programs. In



addition, there can be no assurance that a particular hospital or other health care facility will continue to meet the requirements for participation in such programs.

The costs of providing health care services are subject to increase as a result of, among other factors, changes in medical technology and increased labor costs. In addition, health care facility construction and operation is subject to federal, state and local regulation relating to the adequacy of medical care, equipment, personnel, operating policies and procedures, rate-setting, and compliance with building codes and environmental laws. Facilities are subject to periodic inspection by governmental and other authorities to assure continued compliance with the various standards necessary for licensing and accreditation. These regulatory requirements are subject to change and, to comply, it may be necessary for a hospital or other health care facility to incur substantial capital expenditures or increased operating expenses to effect changes in its facilities, equipment, personnel and services.

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 affect the results of operations of a hospital or other health care facility. The Clinton Administration may impose regulations which could limit price increases for hospitals or the level of reimbursements for third-party payors or other measures to reduce health care costs and make health care available to more individuals, which would reduce profits for hospitals. Some states, such as New Jersey, have significantly changed their reimbursement systems. If a hospital cannot adjust to the new system by reducing expenses or raising rates, financial difficulties may arise. Also, Blue Cross has denied reimbursement for some hospitals for services other than emergency room services. The lost volume would reduce revenues unless replacement patients were found.

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, if the hospital becomes subject to ad valorem taxation, or in various other circumstances. For example, certain hospitals may have the right to call bonds at par if the hospital may be legally required because of the bonds to perform procedures against specified religious principles or to disclose information that is considered confidential or privileged. Certain FHA-insured bonds may provide that all or a portion of these 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 severely reduce its collateral value.

The Internal Revenue Service is currently engaged in a program of intensive audits of certain large tax-exempt hospital and health care facility organizations. Although these audits have not yet been completed, it has been reported that the tax-exempt status of some of these organizations may be revoked. At this time, it is uncertain whether any of the hospital and health care facility bonds held by the Trust will be affected by such audit proceedings.

**SINGLE FAMILY AND MULTI-FAMILY HOUSING BONDS.** Multi-family housing revenue bonds and single family mortgage revenue bonds are state and local housing issues that have been issued to provide financing for various housing projects. Multi-family housing revenue bonds are payable primarily from the revenues derived from mortgage loans to housing projects for low to moderate income families. Single-family mortgage revenue bonds are issued for the purpose of acquiring from originating financial institutions notes secured by mortgages on residences.

Housing obligations are not general obligations of the issuer although certain obligations may be supported to some degree by Federal, state or local housing subsidy programs. Budgetary constraints experienced by these programs as well as the failure by a state or local housing issuer to satisfy the qualifications required for coverage under these programs or any legal or administrative determinations that the coverage of these programs is not available to a housing issuer, probably will result in a decrease or elimination of subsidies available for payment of amounts due on the issuer's obligations. The ability of housing issuers to make debt service payments on their obligations will also be affected by various economic and non-economic developments including, among other things, the achievement and maintenance of sufficient occupancy levels and adequate rental income in multi-family projects, the rate of default on mortgage loans underlying single family issues and the ability of mortgage insurers to pay claims, employment and income conditions prevailing in local markets, increases in construction costs, taxes, utility costs and other operating expenses, the managerial ability of project managers, changes in laws and governmental regulations and economic trends generally in the localities in which the projects are situated. Occupancy of multi-family housing projects may also be adversely affected by high rent

levels and income limitations imposed under Federal, state or local programs.

All single family mortgage revenue bonds and certain multi-family housing revenue bonds are prepayable over the life of the underlying mortgage or mortgage pool, and therefore the average life of housing obligations cannot be determined. However, the average

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life of these obligations will ordinarily be less than their stated maturities. Single-family issues are subject to mandatory redemption in whole or in part from prepayments on underlying mortgage loans; mortgage loans are frequently partially or completely prepaid prior to their final stated maturities as a result of events such as declining interest rates, sale of the mortgaged premises, default, condemnation or casualty loss. Multi-family issues are characterized by mandatory redemption at par upon the occurrence of monetary defaults or breaches or covenants by the project operator. Additionally, housing obligations are generally subject to mandatory partial redemption at par to the extent that proceeds from the sale of the obligations are not allocated within a stated period (which may be within a year of the date of issue). To the extent that these obligations were valued at a premium when a Holder purchased Units, any prepayment at par would result in a loss of capital to the Holder and, in any event, reduce the amount of income that would otherwise have been paid to Holders.

The tax exemption for certain housing revenue bonds depends on qualification under Section 143 of the Internal Revenue Code of 1986, as amended (the "Code"), in the case of single family mortgage revenue bonds or Section 142(a)(7) of the Code or other provisions of Federal law in the case of certain multi-family housing revenue bonds (including Section 8 assisted bonds). These sections of the Code or other provisions of Federal law contain certain ongoing requirements, including requirements relating to the cost and location of the residences financed with the proceeds of the single family mortgage revenue bonds and the income levels of tenants of the rental projects financed with the proceeds of the multi-family housing revenue bonds. While the issuers of the bonds and other parties, including the originators and servicers of the single-family mortgages and the owners of the rental projects financed with the multi-family housing revenue bonds, generally covenant to meet these ongoing requirements and generally agree to institute procedures designed to ensure that these requirements are met, there can be no assurance that these ongoing requirements will be consistently met. The failure to meet these requirements could cause the interest on the bonds to become taxable, possibly retroactively from the date of issuance, thereby reducing the value of the bonds, subjecting the Holders to unanticipated tax liabilities and possibly requiring the Trustee to sell the bonds at reduced values. Furthermore, any failure to meet these ongoing requirements might not constitute an event of default under the applicable mortgage or permit the holder to accelerate payment of the bond or require the issuer to redeem the bond. In any event, where the mortgage is insured by the Federal Housing Administration, its consent may be required before insurance proceeds would become payable to redeem the mortgage bonds.

**POWER FACILITY BONDS.** The ability of utilities to meet their obligations with respect to revenue bonds issued on their behalf is dependent on various factors, including the rates they may charge their customers, the demand for a utility's services and the cost of providing those services. Utilities, in particular investor-owned utilities, are subject to extensive regulations relating to the rates which they may charge customers. Utilities can experience regulatory, political and consumer resistance to rate increases. Utilities engaged in long-term capital projects are especially sensitive to regulatory lags in granting rate increases. Any difficulty in obtaining timely and adequate rate increases could adversely affect a utility's results of operations.

The demand for a utility's services is influenced by, among other factors, competition, weather conditions and economic conditions. Electric utilities, for example, have experienced increased competition as a result of the availability of other energy sources, the effects of conservation on the use of electricity, self-generation by industrial customers and the generation of electricity by co-generators and other independent power producers. Also, increased competition will result if federal regulators determine that utilities must open their transmission lines to competitors. Utilities which distribute natural gas also are subject to competition from alternative fuels, including fuel oil, propane and coal.

The utility industry is an increasing cost business making the cost of generating electricity more expensive and heightening its sensitivity to regulation. A utility's costs are influenced by the utility's cost of capital, the availability and cost of fuel and other factors. In addition, natural gas pipeline and distribution companies have incurred increased costs as a result of long-term natural gas purchase contracts containing "take or pay" provisions which require that they pay for natural gas even if natural gas is not taken by them. There can be no assurance that a utility will be able to pass on these increased costs to customers through increased rates. Utilities incur substantial capital expenditures for plant and equipment. In the future they

will also incur increasing capital and operating expenses to comply with environmental legislation such as the Clean Air Act of 1990, and other energy, licensing and other laws and regulations relating to, among other things, air emissions, the quality of drinking water, waste water discharge, solid and hazardous substance handling and disposal, and siting and licensing of facilities. Environmental legislation and regulations are changing rapidly and are the subject of current public policy debate and legislative proposals. It is increasingly likely that some or many utilities will be subject to more stringent environmental standards in the future that could result in significant capital expenditures. Future legislation and regulation could include, among other things, regulation of so-called electromagnetic fields associated with electric transmission and distribution lines as well as emissions of carbon dioxide and other so-called greenhouse gases associated with the burning of fossil fuels. Compliance with these requirements may limit a utility's operations or require substantial investments in new equipment and, as a result, may adversely affect a utility's results of operations.

The electric utility industry in general is subject to various external factors including (a) the effects of inflation upon the costs of operation and construction, (b) substantially increased capital outlays and longer construction periods for larger and more complex new

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generating units, (c) uncertainties in predicting future load requirements, (d) increased financing requirements coupled with limited availability of capital, (e) exposure to cancellation and penalty charges on new generating units under construction, (f) problems of cost and availability of fuel, (g) compliance with rapidly changing and complex environmental, safety and licensing requirements, (h) litigation and proposed legislation designed to delay or prevent construction of generating and other facilities, (i) the uncertain effects of conservation on the use of electric energy, (j) uncertainties associated with the development of a national energy policy, (k) regulatory, political and consumer resistance to rate increases and (l) increased competition as a result of the availability of other energy sources. These factors may delay the construction and increase the cost of new facilities, limit the use of, or necessitate costly modifications to, existing facilities, impair the access of electric utilities to credit markets, or substantially increase the cost of credit for electric generating facilities. The Sponsors cannot predict at this time the ultimate effect of such factors on the ability of any issuers to meet their obligations with respect to Bonds.

The National Energy Policy Act ("NEPA"), which became law in October, 1992, makes it mandatory for a utility to permit non-utility generators of electricity access to its transmission system for wholesale customers, thereby increasing competition for electric utilities. NEPA also mandated demand-side management policies to be considered by utilities. NEPA prohibits the Federal Energy Regulatory Commission from mandating electric utilities to engage in retail wheeling, which is competition among suppliers of electric generation to provide electricity to retail customers (particularly industrial retail customers) of a utility. However, under NEPA, a state can mandate retail wheeling under certain conditions.

There is concern by the public, the scientific community, and the U.S. Congress regarding environmental damage resulting from the use of fossil fuels. Congressional support for the increased regulation of air, water, and soil contaminants is building and there are a number of pending or recently enacted legislative proposals which may affect the electric utility industry. In particular, on November 15, 1990, legislation was signed into law that substantially revises the Clean Air Act (the "1990 Amendments"). The 1990 Amendments seek to improve the ambient air quality throughout the United States by the year 2000. A main feature of the 1990 Amendments is the reduction of sulphur dioxide and nitrogen oxide emissions caused by electric utility power plants, particularly those fueled by coal. Under the 1990 Amendments the U.S. Environmental Protection Agency ("EPA") must develop limits for nitrogen oxide emissions by 1993. The sulphur dioxide reduction will be achieved in two phases. Phase I addresses specific generating units named in the 1990 Amendments. In Phase II the total U.S. emissions will be capped at 8.9 million tons by the year 2000. The 1990 Amendments contain provisions for allocating allowances to power plants based on historical or calculated levels. An allowance is defined as the authorization to emit one ton of sulphur dioxide.

The 1990 Amendments also provide for possible further regulation of toxic air emissions from electric generating units pending the results of several federal government studies to be conducted over the next three to four years with respect to anticipated hazards to public health, available corrective technologies, and mercury toxicity.

Electric utilities which own or operate nuclear power plants are exposed to risks inherent in the nuclear industry. These risks include exposure to new requirements resulting from extensive federal and state regulatory oversight, public controversy, decommissioning costs, and spent fuel and radioactive waste disposal issues. While nuclear power construction risks are no longer of paramount concern, the emerging issue is radioactive waste disposal. In

addition, nuclear plants typically require substantial capital additions and modifications throughout their operating lives to meet safety, environmental, operational and regulatory requirements and to replace and upgrade various plant systems. The high degree of regulatory monitoring and controls imposed on nuclear plants could cause a plant to be out of service or on limited service for long periods. When a nuclear facility owned by an investor-owned utility or a state or local municipality is out of service or operating on a limited service basis, the utility operator or its owners may be liable for the recovery of replacement power costs. Risks of substantial liability also arise from the operation of nuclear facilities and from the use, handling, and possible radioactive emissions associated with nuclear fuel. Insurance may not cover all types or amounts of loss which may be experienced in connection with the ownership and operation of a nuclear plant and severe financial consequences could result from a significant accident or occurrence. The Nuclear Regulatory Commission has promulgated regulations mandating the establishment of funded reserves to assure financial capability for the eventual decommissioning of licensed nuclear facilities. These funds are to be accrued from revenues in amounts currently estimated to be sufficient to pay for decommissioning costs.

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, Oregon 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 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.

**WATER AND SEWER REVENUE BONDS.** Water and sewer bonds are generally payable from user fees. The ability of state and local water and sewer authorities to meet their obligations may be affected by failure of municipalities to utilize fully the facilities constructed by

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these authorities, economic or population decline and resulting decline in revenue from user charges, rising construction and maintenance costs and delays in construction of facilities, impact of environmental requirements, failure or inability to raise user charges in response to increased costs, the difficulty of obtaining or discovering new supplies of fresh water, the effect of conservation programs and the impact of "no growth" zoning ordinances. In some cases this ability may be affected by the continued availability of Federal and state financial assistance and of municipal bond insurance for future bond issues.

**UNIVERSITY AND COLLEGE BONDS.** 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, demographic trends, geographic location, geographic diversity and quality of the student body, quality of the faculty and the diversity of program offerings.

Legislative or regulatory action in the future at the Federal, state or local level may directly or indirectly affect eligibility standards or reduce or eliminate the availability of funds for certain types of student loans or grant programs, including student aid, research grants and work-study programs, and may affect indirect assistance for education.

**LEASE RENTAL BONDS.** Lease rental bonds are issued for the most part by governmental authorities that have no taxing power or other means of directly raising revenues. Rather, the authorities are financing vehicles created solely for the construction of buildings (administrative offices, convention centers and prisons, for example) or the purchase of equipment (police cars and computer systems, for example) that will be used by a state or local government (the "lessee"). Thus, the bonds are subject to the ability and willingness of the lessee government to meet its lease rental payments which include debt service on the bonds. Willingness to pay may be subject to changes in the views of citizens and government officials as to the essential nature of the finance project. Lease rental bonds are subject, in almost all cases, to the annual appropriation risk, i.e., the lessee government is not legally obligated to budget and appropriate for the rental payments beyond the current fiscal year. These bonds are also subject to the risk of abatement in many states--rental bonds cease in the event that damage, destruction or condemnation of the project prevents its use by the lessee. (In these cases, insurance provisions

and reserve funds 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 reletting 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 it 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 the necessary funds even though it is not legally obligated to do so, but its legality remains untested in most, if not all, states.

**CAPITAL IMPROVEMENT FACILITY BONDS.** The Portfolio of a Trust may contain Bonds which are in the capital improvement facilities category. Capital improvement bonds are bonds issued to provide funds to assist political subdivisions or agencies of a state through acquisition of the underlying debt of a state or local political subdivision or agency which bonds are secured by the proceeds of the sale of the bonds, proceeds from investments and the indebtedness of a local political subdivision or agency. The risks of an investment in such bonds include the risk of possible prepayment or failure of payment of proceeds on and default of the underlying debt.

**SOLID WASTE DISPOSAL BONDS.** Bonds issued for solid water disposal facilities are generally payable from tipping fees and from revenues that may be earned by the facility on the sale of electrical energy generated in the combustion of waste products. The ability of solid waste disposal facilities to meet their obligations depends upon the continued use of the facility, the successful and efficient operation of the facility and, in the case of waste-to-energy facilities, the continued ability of the facility to generate electricity on a commercial basis. All of these factors may be affected by a failure of municipalities to fully utilize the facilities, an insufficient supply of waste for disposal due to economic or population decline, rising construction and maintenance costs, any delays in construction of facilities, lower-cost alternative modes of waste processing and changes in environmental regulations. Because of the relatively short history of this type of 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, for incinerators or waste-to-energy facilities, 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-to-energy facilities are concerned with many of the

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same issues facing utilities insofar as they derive revenues from the sale of energy to local power utilities (see Power Facility Bonds above).

**MORAL OBLIGATION BONDS.** The Trust may also include "moral obligation" bonds. If an issuer of moral obligation bonds is unable to meet its obligations, the repayment of the 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.

**REFUNDED BONDS.** Refunded Bonds are typically secured by direct obligations of the U.S. Government, or in some cases obligations guaranteed by the U.S. Government, placed in an escrow account maintained by an independent trustee until maturity or a predetermined redemption date. These obligations are generally noncallable prior to maturity or the predetermined redemption date. In a few isolated instances to date, however, bonds which were thought to be escrowed to maturity have been called for redemption prior to maturity.

**AIRPORT, PORT AND HIGHWAY REVENUE BONDS.** Certain facility revenue bonds are payable from and secured by the revenues from the ownership and operation of particular facilities, such as airports (including airport terminals and maintenance facilities), bridges, marine terminals, turnpikes and port authorities. For example, the major portion of gross airport operating income is generally derived from fees received from signatory airlines pursuant to use agreements which consist of annual payments for airport use, occupancy of

certain terminal space, facilities, service fees, concessions and leases. 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 aviation fuel, deregulation, traffic constraints, the current recession and other factors. As a result, several airlines are experiencing severe financial difficulties. Several airlines including America West Airlines have sought protection from their creditors under Chapter 11 of the Bankruptcy Code. In addition, other airlines such as Midway Airlines, Inc., Eastern Airlines, Inc. and Pan American Corporation have been liquidated. However, within the past few months Northwest Airlines, Continental Airlines and Trans World Airlines have emerged from bankruptcy. The Sponsors 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 bonds related to other facilities is dependent on revenues from the projects, such as use 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 and increased cost of maintenance or decreased use of a facility, lower cost of alternative modes of transportation or scarcity of fuel and reduction or loss of rents.

**SPECIAL TAX BONDS.** Special tax bonds are payable from and secured by the revenues derived by a municipality from a particular tax such as a tax on the rental of a hotel room, on the purchase of food and beverages, on the rental of automobiles or on the consumption of liquor. Special tax bonds are not secured by the general tax revenues of the municipality, and they do not represent general obligations of the municipality. Therefore, payment on special tax bonds may not be adversely affected by a reduction in revenues realized from the underlying special tax due to a general decline in the local economy or population or due to a decline in the consumption, use or cost of the goods and services that are subject to taxation. Also, should spending on the particular goods or services that are subject to the special tax decline, the municipality may be under no obligation to increase the rate of the special tax to ensure that sufficient revenues are raised from the shrinking taxable base.

**TAX ALLOCATION BONDS.** Tax allocation bonds are typically secured by incremental tax revenues collected on property within the areas where redevelopment projects, financed by bond proceeds are located ("project areas"). Such payments are expected to be made from projected increases in tax revenues derived from higher assessed values of property resulting from development in the particular project area and not from an increase in tax rates. Special risk considerations include: reduction of, or a less than anticipated increase in, taxable values of property in the project area, caused either by economic factors beyond the Issuer's control (such as a relocation out of the project area by one or more major property owners) or by destruction of property due to natural or other disasters; successful appeals by property owners of assessed valuations; substantial delinquencies in the payment of property taxes; or imposition of any constitutional or legislative property tax rate decrease.

**TRANSIT AUTHORITY BONDS.** Mass transit is generally not self-supporting from fare revenues. Therefore, additional financial resources must be made available to ensure operation of mass transit systems as well as the timely payment of debt service. Often such financial resources include Federal and state subsidies, lease rentals paid by funds of the state or local government or a pledge of a special tax such as a sales tax or a property tax. If fare revenues or the additional financial resources do not increase appropriately to pay for rising operating expenses, the ability of the issuer to adequately service the debt may be adversely affected.

**CONVENTION FACILITY BONDS.** The Portfolio of a Trust may contain Bonds of issuers in the convention facilities category. Bonds in the convention facilities category include special limited obligation securities issued to finance convention and sports facilities payable from rental payments and annual governmental appropriations. The governmental agency is not obligated to make payments in any year in

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which the monies have not been appropriated to make such payments. In addition, these facilities are limited use facilities that may not be used for purposes other than as convention centers or sports facilities.

**PUERTO RICO.** The Portfolio may contain bonds of issuers which will be affected by general economic conditions in Puerto Rico. Puerto Rico's unemployment rate remains significantly higher than the U.S. unemployment rate. Furthermore, the economy is largely dependent for its development upon U.S. policies and programs that are being reviewed and may be eliminated.

The Puerto Rican economy is affected by a number of Commonwealth and Federal investment incentive programs. For example, Section 936 of the Internal Revenue Code (the "Code") provides for a credit against Federal income taxes for U.S.

companies operating on the island if certain requirements are met. The Omnibus Budget Reconciliation Act of 1993 imposes limits on such credit, effective for tax years beginning after 1993. In addition, from time to time proposals are introduced in Congress which, if enacted into law, would eliminate some or all of the benefits of Section 936. Although no assessment can be made at this time of the precise effect of such limitation, it is expected that the limitation of Section 936 credits would have a negative impact on Puerto Rico's economy.

Aid for Puerto Rico's economy has traditionally depended heavily on Federal programs, and current Federal budgetary policies suggest that an expansion of aid to Puerto Rico is unlikely. An adverse effect on the Puerto Rican economy could result from other U.S. policies, including a reduction of tax benefits for distilled products, further reduction in transfer payment programs such as food stamps, curtailment of military spending and policies which could lead to a stronger dollar.

In a plebiscite held in November, 1993, the Puerto Rican electorate chose to continue Puerto Rico's Commonwealth status. Previously proposed legislation, which was not enacted, would have preserved the federal tax exempt status of the outstanding debts of Puerto Rico and its public corporations regardless of the outcome of the referendum, to the extent that similar obligations issued by states are so treated and subject to the provisions of the Code currently in effect. There can be no assurance that any pending or future legislation finally enacted will include the same or similar protection against loss of tax exemption. The November 1993 plebiscite can be expected to have both direct and indirect consequences on such matters as the basic characteristics of future Puerto Rico debt obligations, the markets for these obligations, and the types, levels and quality of revenue sources pledged for the payment of existing and future debt obligations. Such possible consequences include, without limitation, legislative proposals seeking restoration of the status of Section 936 benefits otherwise subject to the limitations discussed above. However, no assessment can be made at this time of the economic and other effects of a change in federal laws affecting Puerto Rico as a result of the November 1993 plebiscite.

LITIGATION AND LEGISLATION. To the best knowledge of the Sponsors, there is no litigation pending as of the Initial Date in respect of any Bonds which might reasonably be expected to have a material adverse effect upon the Trust. At any time after the Initial Date of Deposit, litigation may be initiated on a variety of grounds, or legislation may be enacted, with respect to Bonds in the Trust. Litigation, for example, challenging the issuance of pollution control revenue bonds under environmental protection statutes may affect the validity of Bonds or the tax-free nature of their interest. While the outcome of litigation of this nature can never be entirely predicted, opinions of bond counsel are delivered on the date of issuance of each Bond to the effect that the Bond has been validly issued and that the interest thereon is exempt from Federal income tax. In addition, other factors may arise from time to time which potentially may impair the ability of issuers to make payments due on the Bonds.

Under the Federal Bankruptcy Act, a political subdivision or public agency or instrumentality of any state, including municipalities, may proceed to restructure or otherwise alter the terms of its obligations, including those of the type comprising the Trust's Portfolio. The Sponsors are unable to predict what effect, if any, this legislation might have on the Trust.

From time to time Congress considers proposals to tax the interest on state and local obligations, such as the Bonds. The Supreme Court clarified in *South Carolina v. Baker* (decided April 20, 1988) that the U.S. Constitution does not prohibit Congress from passing a nondiscriminatory tax on interest on state and local obligations. This type of legislation, if enacted into law, could adversely affect an investment in Units. Holders are urged to consult their own tax advisers.

TAX EXEMPTION. In the opinion of bond counsel rendered on the date of issuance of each Bond, the interest on each Bond is excludable from gross income under existing law for regular Federal income tax purposes (except in certain circumstances depending on the Holder) but may be subject to state and local taxes. As discussed under Taxes below, interest on some or all of the Bonds may become subject to regular Federal income tax, perhaps retroactively to their date of issuance, as a result of changes in Federal law or as a result of the failure of issuers (or other users of the proceeds of the Bonds) to comply with certain ongoing requirements.

Moreover, the Internal Revenue Service announced on June 14, 1993 that it will be expanding its examination program with respect to tax-exempt bonds. The expanded examination program will consist of, among other measures, increased enforcement against abusive transactions, broader audit coverage (including the expected issuance of audit guidelines) and expanded compliance achieved by means of expected revisions to the tax-exempt bond information return forms. At this time, it is uncertain whether the tax exempt status of any of the Bonds would be affected by such proceedings, or whether such effect, if any, would be retroactive.

In certain cases, a Bond may provide that if the interest on the Bond should ultimately be determined to be taxable, the Bond would become due and payable by its issuer, and, in addition, may provide that any related letter of credit or other security could be called upon if the issuer failed to satisfy all or part of its obligation. In other cases, however, a Bond may not provide for the acceleration or redemption of the Bond or a call upon the related letter of credit or other security upon a determination of taxability. In those cases in which a Bond does not provide for acceleration or redemption or in which both the issuer and the bank or other entity issuing the letter of credit or other security are unable to meet their obligations to pay the amounts due on the Bond as a result of a determination of taxability, the Trustee would be obligated to sell the Bond and, since it would be sold as a taxable security, it is expected that it would have to be sold at a substantial discount from current market price. In addition, as mentioned above, under certain circumstances Holders could be required to pay income tax on interest received prior to the date on which the interest is determined to be taxable.

#### THE UNITS

On the Date of Deposit, each Unit in a Trust represented a fractional undivided interest in the principal and net income of such Trust as is set forth in Part A, "Summary of Essential Information."

If any Units are redeemed after the date of this Prospectus by the Trustee, the principal amount of Bonds in the affected Trust will be reduced by an amount allocable to redeemed Units and the fractional undivided interest in the affected Trust represented by each unredeemed Unit will be increased. Units will remain outstanding until redeemed upon tender to the Trustee by any Unit holder, which may include the Sponsors, or until the termination of the Trust Agreement. (See "Amendment and Termination of the Trust Agreement--Termination.")

#### TAXES

The following discussion addresses only the tax consequences of Units held as capital assets and does not address the tax consequences of Units held by dealers, financial institutions or insurance companies.

In the opinion of Davis Polk & Wardwell, special counsel for the Sponsors, under existing law:

The Trusts are not associations taxable as corporations for Federal income tax purposes, and income received by the Trusts will be treated as the income of the Unit holders ("Holders") in the manner set forth below.

Each Holder of Units of a Trust will be considered the owner of a pro rata portion of each Bond in the Trust under the grantor trust rules of Sections 671-679 of the Internal Revenue Code of 1986, as amended (the "Code"). In order to determine the face amount of a Holder's pro rata portion of each Bond on the Date of Deposit, see "Aggregate Principal" under "Portfolio of Securities". The total cost to a Holder of his Units, including sales charges, is allocated to his pro rata portion of each Bond, in proportion to the fair market values thereof on the date the Holder purchases his Units, in order to determine his tax cost for his pro rata portion of each Bond. In order for a Holder who purchases his Units on the Date of Deposit to determine the fair market value of his pro rata portion of each Bond on such date, see "Cost of Securities to Trust" under "Portfolio of Securities".

Each Holder of Units of a Trust will be considered to have received the interest on his pro rata portion of each Bond when interest on the Bond is received by the Trust. In the opinion of bond counsel (delivered on the date of issuance of each Bond), such interest will be excludable from gross income for regular Federal income tax purposes (except in certain limited circumstances referred to below). Amounts received by a Trust pursuant to a bank letter of credit, guarantee or insurance policy with respect to payments of principal, premium or interest on a Bond in the Trust will be treated for Federal income tax purposes in the same manner as if such amounts were paid by the issuer of the Bond.

The Trusts may contain Bonds which were originally issued at a discount ("original issue discount"). The following principles will apply to each Holder's pro rata portion of any Bond originally issued at a discount. In general, original issue discount is defined as the difference between the price at which a debt obligation was issued and its stated redemption price at maturity. Original issue discount on a tax-exempt obligation issued September 3, 1982, is deemed to accrue as tax-exempt interest over the life of the obligation under a formula based on the compounding of interest. Original issue discount on a tax-exempt obligation issued before July 2, 1982 is deemed to accrue as tax-exempt interest ratably over the life of the obligation. Original issue discount on any tax-exempt obligation issued during the period beginning July 2, 1982 and ending September 3, 1982 is also deemed to accrue as tax-exempt interest over the life of the obligation, although it is not clear whether such accrual is ratable or is



determined under a formula based on the compounding of interest. If a Holder's tax cost for his pro rata portion of a Bond issued with original issue discount is greater than its "adjusted issue price" but less than its stated redemption price at maturity (as may be adjusted for certain payments), the Holder will be considered to have purchased his pro rata portion of the Bond at an "acquisition premium." A Holder's adjusted tax basis for his pro rata portion of a Bond issued with original issue discount will include original issue discount

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accrued during the period such Holder held his Units. Such increases to the Holder's tax basis in his pro rata portion of the Bond resulting from the accrual of original issue discount, however, will be reduced by the amount of any such acquisition premium.

If a Holder's tax basis for his pro rata portion of a Bond in the Holder's Trust exceeds the redemption price at maturity thereof (subject to certain adjustments), the Holder will be considered to have purchased his pro rata portion of the Bond with "amortizable bond premium". The Holder is required to amortize such bond premium over the term of the Bond. Such amortization is only a reduction of basis for his pro rata portion of the Bond and does not result in any deduction against the Holder's income. Therefore, under some circumstances, a Holder may recognize taxable gain when his pro rata portion of a Bond is disposed of for an amount equal to or less than his original tax basis therefor.

A Holder will recognize taxable gain or loss when all or part of his pro rata portion of a Bond in his Trust is disposed of by the Trust for an amount greater or less than his adjusted tax basis. Any such taxable gain or loss will be capital gain or loss, except that any gain from the disposition of a Holder's pro rata portion of a Bond acquired by the Holder at a "market discount" (i.e., where the Holder's original basis for his pro rata portion of the Bond (plus any original issue discount which will accrue thereon until its maturity) is less than its stated redemption price at maturity) would be treated as ordinary income to the extent the gain does not exceed the accrued market discount. Capital gains are generally taxed at the same rate as ordinary income. However, the excess of net long-term capital gains over net short-term capital losses may be taxed at a lower rate than ordinary income for certain noncorporate taxpayers. A capital gain or loss is long-term if the asset is held for more than one year and short-term if held for one year or less. The deduction of capital losses is subject to limitations. A Holder will also be considered to have disposed of all or part of his pro rata portion of each Bond when he sells or redeems all or some of his Units.

Under Section 265 of the Code, a Holder (except a corporate Holder) is not entitled to a deduction for his pro rata share of fees and expenses of a Trust because the fees and expenses are incurred in connection with the production of tax-exempt income. Further, if borrowed funds are used by a Holder to purchase or carry Units of any Trust, interest on such indebtedness will not be deductible for Federal income tax purposes. In addition, under rules used by the Internal Revenue Service, the purchase of Units may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of Units. Similar rules may be applicable for state tax purposes.

From time to time proposals are introduced in Congress and state legislatures which, if enacted into law, could have an adverse impact on the tax-exempt status of the Bonds. It is impossible to predict whether any legislation in respect of the tax status of interest on such obligations may be proposed and eventually enacted at the Federal or state level.

The foregoing discussion relates only to Federal income taxes. For information about certain state taxes of the states for which the Trusts are named, investors should consult Part C of this Prospectus. Holders may be subject to state and local taxation in such states or in other jurisdictions, and should consult their own tax advisers in this regard.

\* \* \* \* \*

Interest on certain tax-exempt bonds issued after August 7, 1986 will be a preference item for purposes of the alternative minimum tax ("AMT"). The Sponsors believe that interest (including any original issue discount) on the Bonds should not be subject to the AMT for individuals or corporations under this rule. A corporate Holder should be aware, however, that the accrual or receipt of tax-exempt interest not subject to the AMT may give rise to an alternative minimum tax liability (or increase an existing liability) because the interest income will be included in the corporation's "adjusted current earnings" for purposes of the adjustment to alternative minimum taxable income required by Section 56(g) of the Code and will be taken into account for purposes of the environmental tax on corporations under Section 59A of the Code, which is based on an alternative minimum taxable income.

In addition, interest on the Bonds must be taken into consideration in computing the portion, if any, of social security benefits that will be included in an individual's gross income and subject to Federal income tax. Holders are urged to consult their own tax advisers concerning an investment in Units.

At the time of issuance of each Bond in a Trust, an opinion relating to the validity of the Bond and to the exemption of interest thereon from regular Federal income taxes and personal income taxes of the State for which the Trust is named was or will be rendered by bond counsel. Neither the Sponsors, Davis Polk & Wardwell nor any of the special counsel for state tax matters have made or will make any review of the proceedings relating to the issuance of the Bonds or the basis for these opinions. The tax exemption is dependent upon the issuer's (and other users') compliance with certain ongoing requirements, and the opinion of bond counsel assumes that these requirements will be complied with. However, there can be no assurance that the issuer (and other users) will comply with these requirements, in which event the interest on the Bond could be determined to be taxable retroactively from the date of issuance.

In the case of certain of the Bonds, the opinions of bond counsel indicate that interest on such Bonds received by a "substantial user" of the facilities being financed with the proceeds of such Bonds, or persons related thereto, for periods while such Bonds are held

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by such a user or related person, will not be exempt from regular Federal income taxes, although interest on such Bonds received by others would be exempt from regular Federal income taxes. "Substantial user" is defined under U.S. Treasury Regulations to include only a person from regular Federal income taxes. "Substantial user" is defined under U.S. Treasury Regulations to include only a person whose gross revenue derived with respect to the facilities financed by the issuance of bonds is more than 5% of the total revenue derived by all users of such facilities, or who occupies more than 5% of the usable area of such facilities or for whom such facilities or a part thereof were specifically constructed, reconstructed or acquired. "Related persons" are defined to include certain related natural persons, affiliated corporations, partners and partnerships. Similar rules may be applicable for state tax purposes.

After the end of each calendar year, the Trustee will furnish to each Holder an annual statement containing information relating to the interest received by the Trust on the Bonds, the gross proceeds received by the Trust from the disposition of any Bond (resulting from redemption or payment at maturity of any Bond or the sale by the Trust of any Bond), and the fees and expenses paid by the Trust. The Trustee will also furnish annual information returns to each Holder and to the Internal Revenue Service. Holders are required to report to the Internal Revenue Service the amount of tax-exempt interest received during the year.

#### EXPENSES AND CHARGES

##### Initial Expenses

At no cost to a Trust the Sponsors have borne all the expenses of creating and establishing the Trust, including the cost of the initial preparation and execution of the Trust Agreement, initial preparation and printing of the certificates for Units, the fees of the Evaluator during the initial public offering, legal expenses, advertising and selling expenses and other out-of-pocket expenses.

##### Trustee's, Sponsors' and Evaluator's Fees

The Trustee will receive for its ordinary recurring services to a Trust an annual fee in the amount set forth under Part A, "Summary of Essential Information." For a discussion of the services performed by the Trustee pursuant to its obligations under the Trust Agreement, see "Rights of Unit Holders." The Trustee will receive the benefit of any reasonable cash balances in the Income and Principal Accounts.

The Portfolio supervision fee (the "Supervision Fee") which is earned for Portfolio supervisory services is based upon the greatest face amount of Bonds in the Trust at any time during the calendar year with respect to which the fee is being computed.

The Supervision Fee, which is not to exceed the amount set forth in Part A-- "Summary of Essential Information", may exceed the actual costs of providing Portfolio supervisory services for such Trust, but at no time will the total amount the Sponsors receive for Portfolio supervisory services rendered to all series of Tax Exempt Securities Trust in any calendar year exceed the aggregate cost to them of supplying such services in such year. In addition, the Sponsors may also be reimbursed for bookkeeping and other administrative services provided to the Trust in amounts not exceeding their costs of providing these services.

The Evaluator will receive a fee in the amount set forth under Part A, "Summary of Essential Information," for each evaluation of the Bonds in a Trust. For a discussion of the services performed by the Evaluator pursuant to its obligations under the Trust Agreement, see "Evaluator--Responsibility" and "Public Offering--Offering Price."

Any of such fees may be increased without approval of the Unit holders by amounts not exceeding proportionate increases in consumer prices for services as measured by the United States Department of Labor's Consumer Price Index entitled "All Services Less Rent" or, if such Index is no longer published, in a similar Index to be determined by the Trustee and the Sponsors.

Other Charges

The following additional charges are or may be incurred by a Trust: all expenses of the Trustee (including fees and expenses of counsel and auditors) incurred in connection with its activities under the Trust Agreement, including reports and communications to Unit holders; expenses and costs of any action undertaken by the Trustee to protect a Trust and the rights and interests of the Unit holders; fees of the Trustee for any extraordinary services performed under the Trust Agreement; indemnification of the Trustee for any loss or liability accruing to it without gross negligence, bad faith or willful misconduct on its part, arising out of or in connection with its acceptance or administration of a Trust; to the extent lawful, expenses (including legal, accounting and printing expenses) of maintaining registration or qualification of the Units and/or a Trust under Federal or state securities laws subsequent to initial registration so long as the Sponsors are maintaining a market for the Units and all taxes and other governmental charges imposed upon the Bonds or any part of a Trust (no such taxes or charges are being levied or made or, to the knowledge of the Sponsors, contemplated). The above expenses, including the Trustee's fee, when paid by or owing to the Trustee, are secured by a lien on the Trust. In addition, the Trustee is empowered to sell Bonds in order to make funds available to pay all expenses.

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PUBLIC OFFERING

OFFERING PRICE

During the initial public offering period, the Public Offering Price of the Units of a Trust is determined by adding to the Evaluator's determination of the aggregate OFFERING price of the Bonds per Unit a sales charge equal to a percentage of the Public Offering Price of the Units of the Trust, as set forth in the table below. After the initial public offering period, the Public Offering Price of the Units of a Trust will be determined by adding to the Evaluator's determination of the aggregate BID price of the Bonds per Unit a sales charge equal to 5.00% and 4.00% of the Public Offering Price (5.263% and 4.167% of the aggregate bid price of the Bonds per Unit) for a Trust whose Units had a sales charge (prior to any reduction) during the initial offering period of 4.70% and 3.70%, respectively. A proportionate share of accrued and undistributed interest on the Bonds in a Trust at the date of delivery of the Units of such Trust to the purchaser is also added to the Public Offering Price. (See "Rights of Unit Holders--Distribution of Interest and Principal.")

During the initial public offering period, the sales charge and dealer concession for a Trust will be reduced pursuant to the following scales (see Part A, "The Public Offering Price" for the unreduced sales charge to determine the applicable table):

<TABLE>  
<CAPTION>

STATE TRUSTS			
UNITS PURCHASED+	PERCENT OF PUBLIC OFFERING PRICE	PERCENT OF NET AMOUNT INVESTED	DEALER CONCESSION
<S>	<C>	<C>	<C>
1- 99.....	4.70%	4.932%	\$33.00
100-249.....	4.25%	4.439%	\$32.00
250-499.....	4.00%	4.167%	\$30.00
500-999.....	3.50%	3.627%	\$25.00
1,000 or more.....	3.00%	3.093%	\$20.00

NEW YORK SELECTED TERM TRUST			
UNITS PURCHASED+	PERCENT OF PUBLIC OFFERING PRICE	PERCENT OF NET AMOUNT INVESTED	DEALER CONCESSION
<S>	<C>	<C>	<C>
1-249.....	3.70%	3.842%	\$25.00

250-499.....	3.25%	3.359%	\$22.50
500 or more.....	3.00%	3.093%	\$20.00

</TABLE>

The Sponsors may at any time change the amount by which the sales charge is reduced, or discontinue the discount completely.

Pursuant to employee benefit plans, Units of a Trust are available to employees of certain of the Sponsors, during the initial public offering period, at a Public Offering Price equal to the Evaluator's determination of the aggregate offering price of the Bonds of a Trust per Unit plus a sales charge of 1.25% of the Public Offering Price and after the initial public offering period, at a Public Offering Price equal to the Evaluator's determination of the aggregate bid price of the Bonds of a Trust per Unit plus a sales charge of 1.25% of the Public Offering Price. Sales through such plans to employees of the Sponsors result in less selling effort and selling expenses than sales to the general public.

METHOD OF EVALUATION

During the initial public offering period, the aggregate offering price of the Bonds is determined by the Evaluator (1) on the basis of current offering prices for the Bonds\*, (2) if offering prices are not available for any Bonds, on the basis of current offering prices for comparable securities, (3) by appraisal, or (4) by any combination of the above. Such determinations are made each business day as of the Evaluation Time set forth in the "Summary of Essential Information," in Part A, effective for all sales made subsequent to the last preceding determination. Following the initial public offering period, the aggregate bid price of the Bonds (which is used to calculate the price at which the Sponsors repurchase and sell Units in the secondary market and the Redemption Price at which Units may be redeemed) will be determined by the Evaluator (1) on the basis of the current bid prices for the Bonds\*, (2) if bid prices are not available for any Bonds, on the basis of current bid prices of comparable securities, (3) by appraisal, or (4) by any combination of the above. Such determinations will be made each business day as of the Evaluation Time set forth in the "Summary of Essential Information," in Part A, effective for all sales made subsequent to the last preceding determination. The term "business day," as used herein shall exclude Saturdays, Sundays and any day on which the New York Stock Exchange is closed. The difference between the bid and offering prices of

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+ The reduced sales charge is also applied on a dollar basis utilizing a breakpoint equivalent in the above table of \$1,000 for one Unit, etc.

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the Bonds may be expected to average approximately 1 1/2% of principal amount. In the case of actively traded securities, the difference may be as little as 1/2 of 1%, and in the case of inactively traded securities such difference will usually not exceed 3%. The price at which Units may be repurchased by the Sponsors in the secondary market could be less than the price paid by the Unit holder. On the Date of Deposit for each Trust the aggregate current offering price of such Bonds per Unit exceeded the bid price of such Bonds per Unit by the amounts set forth under "Summary of Essential Information" in Part A. For information relating to the calculation of the Redemption Price per Unit, which is also based upon the aggregate bid price of the underlying Bonds and which may be expected to be less than the Public Offering Price per Unit, see "Rights of Unit Holders--Redemption of Units."

DISTRIBUTION OF UNITS

During the initial public offering period Units of a Trust will be distributed to the public at the Public Offering Price determined in the manner provided above (see "Public Offering--Offering Price") through the Underwriters and dealers. The initial public offering period is 30 days unless all Units of a Trust are sold prior thereto, in which case the initial public offering period terminates with the sale of all Units. So long as all Units initially offered have not been sold, the Sponsors may extend the initial public offering period for up to four additional successive 30-day periods. Upon completion of the initial public offering, Units which remain unsold or which may be acquired in the secondary market (see "Public Offering--Market for Units") may be offered by this Prospectus at the Public Offering Price determined in the manner provided above (see "Public Offering--Offering Price").

It is the Sponsors' intention to qualify Units of a Trust for sale in several states through the Underwriters and dealers who are members of the National Association of Securities Dealers, Inc. Units of a State Trust will not be offered for sale in the State of Virginia. Units will initially be sold to dealers at prices which represent a concession equal to the amount designated in the tables under "Public Offering--Offering Price" herein, for a Trust with an unreduced sales charge as specified in Part A--"The Public Offering Price." The Sponsors reserve the right to change the amount of the concession to dealers from time to time. After the initial offering period the dealer concession is negotiated on a case-by-case basis.

Sales will be made only with respect to whole Units, and the Sponsors reserve the right to reject, in whole or in part, any order for the purchase of Units. A purchaser does not become a Unit holder (Certificate holder) or become entitled to exercise the rights of a Unit holder (including the right to redeem his Units) until he has paid for his Units. Generally, such payment must be made within five business days after an order for the purchase of Units has been placed. The price paid by a Unit holder is the Public Offering Price in effect at the time his order is received, plus accrued interest (see "Public Offering--Method of Evaluation"). This price may be different from the Public Offering Price in effect on any other day, including the day on which he made payment for the Units.

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\* Current offering or bid prices of the Deposited Units, if any, are based on prevailing weekly evaluations of the obligations underlying such Deposited Units.

#### MARKET FOR UNITS

Following the initial public offering period the Sponsors, although not obligated to do so, presently intend to maintain a market for the Units of a Trust and continuously to offer to purchase such Units at prices based upon the aggregate bid price of the underlying Bonds. For information relating to the method and frequency of the Evaluator's determination of the aggregate bid price of the underlying Bonds, see "Public Offering--Method of Evaluation." The Sponsors may cease to maintain such a market at any time and from time to time without notice if the supply of Units of a Trust of this Series exceeds demand or for any other reason. In this event the Sponsors may nonetheless purchase Units, as a service to Unit holders, at prices based on the current Redemption Price of those Units. In the event that a market is not maintained for the Units of a Trust, a Unit holder of such Trust desiring to dispose of his Units may be able to do so only by tendering such Units to the Trustee for redemption at the Redemption Price, which is based upon the aggregate bid price of the underlying Bonds. The aggregate bid price of the underlying Bonds of a Trust may be expected to be less than the aggregate offering price.

#### EXCHANGE OPTION

Unit holders may elect to exchange any or all of their Units of this series for units of one or more of any series of Tax Exempt Securities Trust (the "Exchange Trust") available for sale in the state in which the Unit holder resides at a Public Offering Price for the units of the Exchange Trust to be acquired based on a fixed sales charge of \$25 per unit. The Sponsors reserve the right to modify, suspend or terminate this plan at any time without further notice to Unit holders. Therefore, there is no assurance that a market for units will in fact exist on any given date on which a Unit holder wishes to sell his Units of this series and thus there is no assurance that the Exchange Option will be available to a Unit holder. Exchanges will be effected in whole units ONLY. Any excess proceeds from Unit

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holders' Units being surrendered will be returned and Unit holders will NOT be permitted to advance any new money in order to complete an exchange.

An exchange of Units pursuant to the Exchange Option for units of an Exchange Trust will generally constitute a "taxable event" under the Code, i.e., a Holder will recognize a gain or loss at the time of exchange. However, an exchange of Units of this Trust for units of any other series of the Tax Exempt Securities Trust which are grantor trusts for U.S. Federal income tax purposes will not constitute a taxable event to the extent that the underlying securities in each trust do not differ materially either in kind or in extent. Unit holders are urged to consult their own tax advisors as to the tax consequences to them of exchanging Units in particular cases.

Units of the Exchange Trust will be sold under the Exchange Option at the bid prices of the underlying securities in the particular portfolio involved per unit plus a fixed charge of \$25 per unit. As an example, assume that a Unit holder, who has three units of a trust with a current price of \$1,020 per unit based on the bid prices of the underlying securities, desires to exchange his Units for units of a series of an Exchange Trust with a current price of \$880 per unit based on the bid prices of the underlying securities. In this example, the proceeds from the Unit holder's units will aggregate \$3,060. Since only whole units of an Exchange Trust may be purchased under the Exchange Option, the Unit holder would be able to acquire three units in the Exchange Trust for a total cost of \$2,715 (\$2,640 for the units and \$75 for the sales charge). The remaining \$345 would be returned to the Unit holder in cash.

#### REINVESTMENT PROGRAMS

Distributions of interest and principal, if any, are made to Unit holders monthly. The Unit holder will have the option of either receiving his monthly income check from the Trustee or participating in one of the reinvestment programs offered by certain of the Sponsors provided such Unit holder meets the

minimum qualifications of the reinvestment program and such program lawfully qualifies for sale in the jurisdiction in which the Unit holder resides. Upon enrollment in a reinvestment program, the Trustee will direct monthly interest distributions and principal distributions, if any, to the reinvestment program selected by the Unit holder. Since each Sponsor has arranged for different reinvestment alternatives, Unit holders should contact the Sponsors for more complete information, including charges and expenses. The appropriate prospectus will be sent to the Unit holder. The Unit holder should read the prospectus for a reinvestment program carefully before deciding to participate. Participation in the reinvestment program will apply to all Units of a Trust owned by a Unit holder and may be terminated at any time by the Unit holder, or the program may be modified or terminated by the Trustee or the program's Sponsor.

#### SPONSORS' AND UNDERWRITERS' PROFITS

For their services the Underwriters (see Part A, "Underwriting") receive a commission based on the sales charge of a particular Trust (see "Public Offering--Offering Price") as adjusted pursuant to the Agreement Among Underwriters. The Sponsors receive a gross commission equal to the applicable sales charge for any Units they have underwritten, and receive the difference between the applicable sales charge and the Underwriter's commission for the remainder of the Units. In addition, the Sponsors may realize profits or sustain losses, as the case may be, in the amount of any difference between the cost of the Bonds to a Trust (which is based on the aggregate offering price of the underlying Bonds on the Date of Deposit) and the purchase price of such Bonds to the Sponsors (which is the cost of the Bonds at the time they were acquired for the account of a Trust and the cost of the Deposited Units at the time they were acquired by the Sponsors). (See Part A, "Portfolio of Securities"--Note (3).) Under certain circumstances, an Underwriter may be entitled to share in such profits, if any, realized by the Sponsors. A Sponsor may also realize profits or sustain losses with respect to Bonds deposited in a Trust which were acquired from its own organization or from underwriting syndicates of which it was a member. During the initial public offering period the Underwriters also may realize profits or sustain losses as a result of fluctuations after the Date of Deposit in the offering prices of the Bonds and hence in the Public Offering Price received by the Underwriters for Units. Cash, if any, made available to the Sponsors prior to the anticipated first settlement date for the purchase of Units may be used in the Sponsors' businesses to the extent permitted by applicable regulations and may be of use to the Sponsors.

In maintaining a market for the Units of a Trust (see "Public Offering--Market for Units"), the Sponsors will also realize profits or sustain losses in the amount of any difference between the price at which they buy such Units and the price at which they resell or redeem such Units (see "Public Offering--Offering Price").

#### RIGHTS OF UNIT HOLDERS

##### CERTIFICATES

Ownership of Units of a Trust is evidenced by registered certificates executed by the Trustee and the Sponsors. Certificates are transferable by presentation and surrender to the Trustee properly endorsed or accompanied by a written instrument or instruments of transfer.

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Certificates may be issued in denominations of one Unit or any multiple thereof. A Unit holder may be required to pay \$2.00 per certificate reissued or transferred, and to pay any governmental charge that may be imposed in connection with each such transfer or interchange. For new certificates issued to replace destroyed, stolen or lost certificates, the Unit holder must furnish indemnity satisfactory to the Trustee and must pay such expenses as the Trustee may incur. Mutilated certificates must be surrendered to the Trustee for replacement.

#### DISTRIBUTION OF INTEREST AND PRINCIPAL

Interest and principal received by a Trust will be distributed on each monthly Distribution Date on a pro rata basis to Unit holders in such Trust of record as of the preceding Record Date. All distributions will be net of applicable expenses and funds required for the redemption of Units and, if applicable, reimbursements to the Trustee for interest payments advanced to Unit holders on previous Monthly Distribution Dates. (See Part A, "Summary of Essential Information," "Tax Exempt Securities Trust--Expenses and Charges" and "Rights of Unit Holders--Redemption of Units.")

The Trustee will credit to the Interest Account of a Trust all interest received by such Trust, including that part of the proceeds of any disposition of Bonds of such Trust which represents accrued interest. Other receipts will be credited to the Principal Account of a Trust. The pro rata share of the Interest Account and the pro rata share of cash in the Principal Account

represented by each Unit of a Trust will be computed by the Trustee each month as of the Record Date. (See Part A, "Summary of Essential Information.") Proceeds received from the disposition of any of the Bonds subsequent to a Record Date and prior to the next succeeding Distribution Date will be held in the Principal Account and will not be distributed until the following Distribution Date. The distribution to the Unit holders as of each Record Date will be made on the following Distribution Date or shortly thereafter and shall consist of an amount substantially equal to one-twelfth of such holders' pro rata share of the estimated annual income to the Interest Account after deducting estimated expenses (the "Monthly Income Distribution") plus such holders' pro rata share of the cash balance in the Principal Account computed as of the close of business on the preceding Record Date. Persons who purchase Units between a Record Date and a Distribution Date will receive their first distribution on the second Distribution Date following their purchase of Units. No distribution need be made from the Principal Account if the balance therein is less than an amount sufficient to distribute \$1.00 per Unit. The Monthly Income Distribution per Unit initially will be in the amount shown under Part A, "Summary of Essential Information" for a Trust and will change as the income and expenses of such Trust change and as Bonds are exchanged, redeemed, paid or sold.

Normally, interest on the Bonds in the Portfolio of a Trust is paid on a semi-annual basis. Because Bond interest is not received by a Trust at a constant rate throughout the year, any Monthly Income Distribution may be more or less than the amount credited to the Interest Account as of the Record Date. In order to eliminate fluctuations in Monthly Income Distributions resulting from such variances, the Trustee is required by the Trust Agreement to advance such amounts as may be necessary to provide Monthly Income Distributions of approximately equal amounts. The Trustee will be reimbursed, without interest, for any such advances from funds available from the Interest Account on the next ensuing Record Date or Record Dates, as the case may be. If all or a portion of the Bonds for which advances have been made subsequently fail to pay interest when due, the Trustee may recoup advances made by it in anticipation of receipt of interest payments on such Bonds by reducing the amount distributed per Unit in one or more Monthly Interest Distributions. If units are redeemed subsequent to such advances by the Trustee, but prior to receipt by the Trustee of actual notice of such failure to pay interest, the amount of which was so advanced by the Trustee, each remaining Unit holder will be subject to a greater pro rata reduction in his Monthly Interest Distribution than would have occurred absent such redemptions. Funds which are available for future distributions, payments of expenses and redemptions are in accounts which are non-interest bearing to Unit holders and are available for use by United States Trust Company of New York, pursuant to normal banking procedures. The Trustee is entitled to the benefit of any reasonable cash balances in the Income and Principal Accounts. Because of the varying interest payment dates of the Bonds comprising a Trust Portfolio, accrued interest at any point in time will be greater than the amount of interest actually received by a Trust and distributed to Unit holders. This excess accrued but undistributed interest amount will be added to the value of the units on any purchase made after the Date of Deposit. If a Unit holder sells all or a portion of his Units a portion of his sale proceeds will be allocable to his proportionate share of the accrued interest. Similarly, if a Unit holder redeems all or a portion of his Units, the Redemption Price per Unit which he is entitled to receive from the Trustee will also include his accrued interest on the Bonds. (See "Rights of Unit Holders--Redemption of Units--Computation of Redemption Price per Unit.") The Trustee is also entitled to withdraw from the Interest Account, and to the extent funds are not sufficient therein, from the Principal Account, on one or more Record Dates as may be appropriate, amounts sufficient to recoup advances which it has made in anticipation of the receipt by the Trust of interest in respect of Bonds which subsequently fail to pay interest when due.

As of the first day of each month the Trustee will deduct from the Interest Account of a Trust and, to the extent funds are not sufficient therein, from the Principal Account of such Trust, amounts necessary to pay the expenses of such Trust. (See "Tax Exempt Securities Trust--Expenses and Charges.") The Trustee also may withdraw from said accounts such amounts, if any, as it deems necessary to establish a reserve for any governmental charges payable out of a Trust. Amounts so withdrawn shall not be considered a

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part of the Trust's assets until such time as the Trustee shall return all or any part of such amounts to the appropriate account. In addition, the Trustee may withdraw from the Interest Account and the Principal Account such amounts as may be necessary to cover redemption of Units by the Trustee. (See "Rights of Unit Holders--Redemption of Units.")

The Trustee has agreed to advance to a Trust the amount of accrued interest due on the Bonds of such Trust from their respective issue dates or previous interest payment dates through the Date of Deposit. This accrued interest amount will be paid to the Sponsors as the holders of record of all Units on the first settlement date for the Units. Consequently, when the Sponsors sell Units of a Trust, the amount of accrued interest to be added to the Public Offering Price of the Units purchased by an investor will include only accrued

interest from the day after the Date of Deposit, to, but not including, the date of settlement of the investor's purchase (normally five business days after purchase), less any distributions from the Interest Account. The Trustee will recover its advancements to a Trust (without interest or other cost to such Trust) from interest received on the Bonds deposited in such Trust.

#### REPORTS AND RECORDS

The Trustee shall furnish Unit holders in connection with each distribution a statement of the amount of interest, if any, and the amount of other receipts, if any, which are being distributed, expressed in each case as a dollar amount per Unit. In the event that the issuer of any of the Bonds fails to make payment when due of any interest or principal and such failure results in a change in the amount which would otherwise be distributed as a monthly distribution, the Trustee will, with the first such distribution following such failure, set forth in an accompanying statement, the issuer and the Bond, the amount of the reduction in the distribution per Unit resulting from such failure, the percentage of the aggregate principal amount of Bonds which such Bond represents and, to the extent then determined, information regarding any disposition or legal action with respect to such Bond. Within a reasonable time after the end of each calendar year, the Trustee will furnish to each person who at any time during the calendar year was a Unit holder of record, a statement (1) as to the Interest Account: interest received (including amounts representing interest received upon any disposition of Bonds), deductions for payment of applicable taxes and for fees and expenses of a Trust, redemptions of Units and the balance remaining after such distributions and deductions, expressed both as a total dollar amount and as a dollar amount representing the pro rata share of each Unit outstanding on the last business day of such calendar year; (2) as to the Principal Account: the dates of disposition of any Bonds and the net proceeds received therefrom (excluding any portion representing interest), deductions for payments of applicable taxes and for fees and expenses of a Trust, redemptions of Units, and the balance remaining after such distributions and deductions, expressed both as a total dollar amount and as a dollar amount representing the pro rata share of each Unit outstanding on the last business day of such calendar year; (3) a list of the Bonds held and the number of Units outstanding on the last business day of such calendar year; (4) the Redemption Price per Unit based upon the last computation thereof made during such calendar year; and (5) amounts actually distributed during such calendar year from the Interest Account and from the Principal Account, separately stated, expressed both as total dollar amounts and as dollar amounts representing the pro rata share of each Unit outstanding. The accounts of a Trust shall be audited not less frequently than annually by independent auditors designated by the Sponsors, and the report of such auditors shall be furnished by the Trustee to Unit holders upon request.

The Trustee shall keep available for inspection by Unit holders at all reasonable times during usual business hours, books of record and account of its transactions as Trustee including records of the names and addresses of Unit holders, certificates issued or held, a current list of Bonds in the Portfolio of a Trust and a copy of the Trust Agreement.

#### REDEMPTION OF UNITS

Units may be tendered to the Trustee for redemption at its unit investment trust office at 770 Broadway, New York, New York 10003, upon payment of any relevant tax. At the present time there are no specific taxes related to the redemption of the Units. No redemption fee will be charged by the Sponsors or the Trustee. Units redeemed by the Trustee will be cancelled.

Certificates for Units to be redeemed must be properly endorsed or accompanied by a written instrument of transfer. Unit holders must sign exactly as their name appears on the face of the certificate with the signature guaranteed by an officer of a national bank or trust company or by a member of either the New York, Midwest or Pacific Stock Exchange. In certain instances the Trustee may require additional documents such as, but not limited to, trust instruments, certificates of death, appointments as executor or administrator or certificates of corporate authority.

Within seven calendar days following such tender, the Unit holder will be entitled to receive in cash an amount for each Unit tendered equal to the Redemption Price per Unit computed as of the Evaluation Time set forth in the "Summary of Essential Information" in Part A on the date of tender. (See "Redemption of Units--Computation of Redemption Price per Unit.") The "date of tender" is deemed to be the date on which Units are received by the Trustee, except as regards Units received after the close of trading on the New York Stock Exchange, the date of tender is the next day on which such Exchange is open for trading, and such Units will be deemed to have been tendered to the Trustee on such day for redemption at the Redemption Price computed on that day. For information relating

to the purchase by the Sponsors of Units tendered to the Trustee for redemption at prices in excess of the Redemption Price, see "Redemption of Units--Purchase



by the Sponsors of Units Tendered for Redemption."

Accrued interest paid on redemption shall be withdrawn from the Interest Account, or, if the balance therein is insufficient, from the Principal Account. All other amounts paid on redemption shall be withdrawn from the Principal Account. The Trustee is empowered to sell Bonds in order to make funds available for redemption. Such sales, if required, could result in a sale of Bonds by the Trustee at a loss. To the extent Bonds are sold, the size and diversity of a Trust will be reduced.

The Trustee reserves the right to suspend the right of redemption and to postpone the date of payment of the Redemption Price per Unit for any period during which the New York Stock Exchange is closed, other than weekend and holiday closings, or trading on that Exchange is restricted or during which (as determined by the Securities and Exchange Commission) an emergency exists as a result of which disposal or evaluation of the underlying Bonds is not reasonably practicable, or for such other periods as the Securities and Exchange Commission has by order permitted.

COMPUTATION OF REDEMPTION PRICE PER UNIT--The Redemption Price per Unit of a Trust is determined by the Trustee on the basis of the bid prices of the Bonds in such Trust as of the Evaluation Time on the date any such determination is made. The Redemption Price per Unit of a Trust is each Unit's pro rata share, determined by the Trustee, of: (1) the aggregate value of the Bonds in such Trust on the bid side of the market (determined by the Evaluator as set forth below), (2) cash on hand in such Trust (other than funds covering contracts to purchase Bonds), and accrued and unpaid interest on the Bonds as of the date of computation, less (a) amounts representing taxes or governmental charges payable out of such Trust, (b) the accrued expenses of such Trust, and (c) cash held for distribution to Unit holders of such Trust of record as of a date prior to the evaluation. The Evaluator may determine the value of the Bonds in the Trust (1) on the basis of current bid prices for the Bonds, (2) if bid prices are not available for any Bonds, on the basis of current bid prices for comparable securities, (3) by appraisal, or (4) by any combination of the above.

The difference between the bid and offering prices of the Bonds may be expected to average approximately 1 1/2% of principal amount. In the case of actively traded securities, the difference may be as little as 1/2 of 1%, and in the case of inactively traded securities such difference usually will not exceed 3%. The price at which Units may be redeemed could be less than the price paid by the Unit holder. On the Date of Deposit for each Trust the aggregate current offering price of such Bonds per Unit exceeded the bid price of such Bonds per Unit by the amounts set forth under Part A, "Summary of Essential Information."

PURCHASE BY THE SPONSORS OF UNITS TENDERED FOR REDEMPTION--The Trust Agreement requires that the Trustee notify the Sponsors of any tender of Units for redemption. So long as the Sponsors are maintaining a bid in the secondary market, the Sponsors, prior to the close of business on the second succeeding business day, will purchase any Units tendered to the Trustee for redemption at the price so bid by making payment therefor to the Unit holder in an amount not less than the Redemption Price not later than the day on which the Units would otherwise have been redeemed by the Trustee. (See "Public Offering--Market for Units.")

The offering price of any Units resold by the Sponsors will be the Public Offering Price determined in the manner provided in this Prospectus. (See "Public Offering--Offering Price.") Any profit resulting from the resale of such Units will belong to the Sponsors which likewise will bear any loss resulting from a lower offering or redemption price subsequent to their acquisition of such Units. (See "Public Offering--Sponsors' and Underwriters' Profits.")

#### SPONSORS

Smith Barney Shearson Inc., 1345 Avenue of the Americas, New York, New York 10105 ("Smith Barney"), was incorporated in Delaware in 1960 and traces its history through predecessor partnerships to 1873. Smith Barney, an investment banking and securities broker-dealer firm, is a member of the New York Stock Exchange, Inc. and other major securities and commodities exchanges, the National Association of Securities Dealers, Inc. and the Securities Industry Association. Smith Barney is an indirect wholly-owned subsidiary of The Travelers Inc.

Kidder, Peabody & Co. Incorporated, 60 Broad Street, New York, New York 10004 ("Kidder, Peabody"), was incorporated in Delaware in 1956 and traces its history through predecessor partnerships to 1865. Kidder, Peabody, an investment banking and securities broker-dealer firm, is a member of the New York Stock Exchange, Inc. and other major securities and option exchanges, the National Association of Securities Dealers, Inc. and the Securities Industry Association.

Smith Barney sponsors seven open-end investment companies, Smith Barney Equity Funds, Inc., Smith Barney Funds, Inc., Smith Barney Variable Account

Funds, Smith Barney Tax Free Money Fund, Inc., Smith Barney Money Funds, Inc., Smith Barney Muni Bond Funds and Smith Barney World Funds, Inc. and three closed-end investment companies: Smith Barney Intermediate Municipal Fund, Inc., The Inefficient-Market Fund, Inc. and Smith Barney Municipal Fund, Inc. Smith Barney also sponsors all Series of Corporate Securities Trust, Government Securities Trust and Harris, Upham Tax-Exempt Fund and acts as co-sponsor of certain trusts of The Equity Income Fund, Concept Series. Kidder, Peabody sponsors Target Corporate High Yield Series Unit Trust and a family of open-end

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investment companies, presently including: Kidder, Peabody Government Money Fund, Inc., Kidder, Peabody Premium Account Fund, Kidder, Peabody Tax Exempt Money Fund, Inc., Kidder, Peabody Cash Reserve Fund, Inc., Kidder, Peabody Equity Income Fund, Inc., Kidder, Peabody Government Income Fund, Inc., Kidder, Peabody California Tax Exempt Money Fund, Liquid Institutional Reserves (Government Securities Income Fund, Money Market Fund and Treasury Securities Fund), Kidder, Peabody Global Equity Fund, Kidder, Peabody Intermediate Fixed Income Fund, Kidder, Peabody Adjustable Rate Government Fund, Kidder, Peabody Global Fixed Income Fund, Kidder, Peabody Municipal Money Market Series (Connecticut, New Jersey and New York), Kidder, Peabody Municipal Bond Fund, Kidder, Peabody Emerging Markets Equity Fund, Kidder, Peabody Small Cap Equity Fund, Institutional Adjustable Rate Government Portfolio and Kidder, Peabody Asset Allocation Fund. Kidder Peabody Asset Management, Inc., a subsidiary of Kidder, Peabody, is the investment adviser and/or manager of each of these open-end investment companies. The Sponsors have acted previously as managing underwriters of other investment companies. In addition to participating as a member of various underwriting and selling groups or as agent of other investment companies, the Sponsors also execute orders for the purchase and sale of securities of investment companies and sell securities to such companies in their capacities as brokers or dealers in securities.

#### LIMITATIONS ON LIABILITY

The Sponsors are jointly and severally liable for the performance of their obligations arising from their responsibilities under the Trust Agreement, but will be under no liability to Unit holders for taking any action or refraining from any action in good faith or for errors in judgment or responsible in any way for depreciation or loss incurred by reason of the sale of any Bonds, except in cases of willful misfeasance, bad faith, gross negligence or reckless disregard of their obligations and duties. (See "Tax Exempt Securities Trust--Portfolio" and "Sponsors--Responsibility.")

#### RESPONSIBILITY

The Sponsors are empowered to direct the Trustee to dispose of Bonds when certain events occur that adversely affect the value of the Bonds, including default in payment of interest or principal, default in payment of interest or principal on other obligations of the same issuer, institution of legal proceedings, default under other documents adversely affecting debt service, decline in price or the occurrence of other market or credit factors, or decline in projected income pledged for debt service on revenue Bonds and advanced refunding that, in the opinion of the Sponsors, may be detrimental to the interests of the Unit holders.

The Sponsors intend to provide portfolio services for each Trust in order to determine whether the Trustee should be directed to dispose of any such Bonds.

It is the responsibility of the Sponsors to instruct the Trustee to reject any offer made by an issuer of any of the Bonds to issue new obligations in exchange and substitution for any Bonds pursuant to a refunding or refinancing plan, except that the Sponsors may instruct the Trustee to accept such an offer or to take any other action with respect thereto as the Sponsors may deem proper if the issuer is in default with respect to such Bonds or in the judgment of the Sponsors the issuer will probably default in respect to such Bonds in the foreseeable future.

Any obligations so received in exchange or substitution will be held by the Trustee subject to the terms and conditions of the Trust Agreement to the same extent as Bonds originally deposited thereunder. Within five days after the deposit of obligations in exchange or substitution for underlying Bonds, the Trustee is required to give notice thereof to each Unit holder, identifying the Bonds eliminated and the Bonds substituted therefor. Except as stated in this and the preceding paragraph, the acquisition by a Trust of any securities other than the Bonds initially deposited in the Trust is prohibited.

Smith Barney Shearson Inc. has been appointed by Kidder, Peabody & Co. Incorporated as agent for purposes of taking any action required or permitted to be taken by the Sponsors under the Trust Agreement. If the Sponsors are unable to agree with respect to action to be taken jointly by them under the Trust Agreement and they cannot agree as to which Sponsor shall act as sole Sponsor, then Smith Barney Shearson Inc. shall act as sole Sponsor. If one of the Sponsors fails to perform its duties under the Trust Agreement or becomes incapable of acting or becomes bankrupt or its affairs are taken over by public

authorities, that Sponsor is automatically discharged under the Trust Agreement and the remaining Sponsor acts as Sponsor.

#### RESIGNATION

Any Sponsor may resign provided that at the time of such resignation each remaining Sponsor maintains a net worth of \$1,000,000 and is agreeable to such resignation. Concurrently with or subsequent to such resignation a new Sponsor may be appointed by the remaining Sponsors and the Trustee to assume the duties of the resigning Sponsor. If all Sponsors resign or otherwise fail or become unable to perform their duties under the Trust Agreement, and no express provision is made for action by the Trustee in such event, the Trustee may appoint a successor sponsor or terminate the Trust Agreement and liquidate the Trusts.

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#### TRUSTEE

The Trustee is United States Trust Company of New York, with its principal place of business at 114 West 47th Street, New York, New York 10036. United States Trust Company of New York has, since its establishment in 1853, engaged primarily in the management of trust and agency accounts for individuals and corporations. The Trustee is a member of the New York Clearing House Association and is subject to supervision and examination by the Superintendent of Banks of the State of New York, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System. In connection with the storage and handling of certain Bonds deposited in the Trust, the Trustee may use the services of The Depository Trust Company. These services may include safekeeping of the Bonds and coupon-clipping, computer book-entry transfer and institutional delivery services. The Depository Trust Company is a limited purpose trust company organized under the Banking Law of the State of New York, a member of the Federal Reserve System and a clearing agency registered under the Securities Exchange Act of 1934.

#### LIMITATIONS ON LIABILITY

The Trustee shall not be liable or responsible in any way for depreciation or loss incurred by reason of the disposition of any moneys, securities or certificates or in respect of any evaluation or for any action taken in good faith reliance on prima facie properly executed documents except in cases of willful misfeasance, bad faith, gross negligence or reckless disregard for its obligations and duties. In addition, the Trustee shall not be personally liable for any taxes or other governmental charges imposed upon or in respect of a Trust which the Trustee may be required to pay under current or future law of the United States or any other taxing authority having jurisdiction. (See "Tax Exempt Securities Trust-- Portfolio.") For information relating to the responsibilities and indemnification of the Trustee under the Trust Agreement, reference is made to the material set forth under "Rights of Unit Holders", "Sponsors--Resignation" and "Other Charges."

#### RESIGNATION

By executing an instrument in writing and filing the same with the Sponsors, the Trustee and any successor may resign. In such an event the Sponsors are obligated to appoint a successor trustee as soon as possible. If the Trustee becomes incapable of acting or becomes bankrupt or its affairs are taken over by public authorities, the Sponsors may remove the Trustee and appoint a successor as provided in the Trust Agreement. Such resignation or removal shall become effective upon the acceptance of appointment by the successor trustee. If no successor has accepted the appointment within thirty days after notice of resignation, the retiring trustee may apply to a court of competent jurisdiction for the appointment of a successor. The resignation or removal of a trustee becomes effective only when the successor trustee accepts its appointment as such or when a court of competent jurisdiction appoints a successor trustee.

#### EVALUATOR

The Evaluator is Kenny S&P Evaluation Services, a division of Kenny Information Systems, Inc., with main offices located at 65 Broadway, New York, New York 10006.

#### LIMITATIONS ON LIABILITY

The Trustee, Sponsors and Unit holders may rely on any evaluation furnished by the Evaluator and shall have no responsibility for the accuracy thereof. Determination by the Evaluator under the Trust Agreement 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, the Sponsors, or Unit holders for errors in judgment. But this provision shall not protect the Evaluator in cases of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties.

## RESPONSIBILITY

The Trust Agreement requires the Evaluator to evaluate the Bonds of a Trust on the basis of their bid prices on the last business day of June and December in each year, on the day on which any Unit of such Trust is tendered for redemption and on any other day such evaluation is desired by the Trustee or is requested by the Sponsors. For information relating to the responsibility of the Evaluator to evaluate the Bonds on the basis of their offering prices, see "Public Offering--Offering Price."

## RESIGNATION

The Evaluator may resign or may be removed by the joint action of the Sponsors and the Trustee, and in such event, the Sponsors and the Trustee are to use their best efforts to appoint a satisfactory successor. Such resignation or removal shall become effective

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upon the acceptance of appointment by a 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.

## AMENDMENT AND TERMINATION OF THE TRUST AGREEMENT

### AMENDMENT

The Sponsors and the Trustee have the power to amend the Trust Agreement without the consent of any of the Unit holders when such an amendment is (1) to cure any ambiguity or to correct or supplement any provision of the Trust Agreement which may be defective or inconsistent with any other provision contained therein, or (2) to make such other provisions as shall not adversely affect the interests of the Unit holders; provided, that the Trust Agreement is not amended to increase the number of Units issuable thereunder or to permit the deposit or acquisition of securities either in addition to or in substitution for any of the Bonds initially deposited in a Trust, except for the substitution of certain refunding securities for such Bonds or to permit the Trustee to engage in business or investment activities not specifically authorized in the Trust Agreement as originally adopted. In the event of any amendment, the Trustee is obligated to notify promptly all Unit holders of the substance of such amendment.

### TERMINATION

The Trust Agreement provides that if the principal amount of Bonds held in Trust is less than 50% of the principal amount of the Bonds originally deposited in such Trust, the Trustee may in its discretion and will, when directed by the Sponsors, terminate such Trust. A Trust may be terminated at any time by 100% of the Unit holders. However, in no event may a Trust continue beyond the Mandatory Termination Date set forth under Part A, "Summary of Essential Information." In the event of termination, written notice thereof will be sent by the Trustee to all Unit holders. Within a reasonable period after termination, the Trustee will sell any Bonds remaining in the affected Trust, and, after paying all expenses and charges incurred by such Trust, will distribute to each Unit holder, upon surrender for cancellation of his certificate for Units, his pro rata share of the balances remaining in the Interest and Principal Account of such Trust.

### LEGAL OPINION

The legality of the Units has been passed upon by Davis Polk & Wardwell, 450 Lexington Avenue, New York, New York 10017, as special counsel for the sponsors.

### AUDITORS

The Statements of Financial Condition and the Portfolios of Securities included in this Prospectus have been audited by KPMG Peat Marwick, independent auditors, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing.

### BOND RATINGS+

ALL RATINGS SHOWN UNDER PART A, "PORTFOLIO OF SECURITIES", EXCEPT THOSE IDENTIFIED OTHERWISE, ARE BY STANDARD & POOR'S CORPORATION.

### STANDARD & POOR'S CORPORATION

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 of creditworthiness may take into

consideration obligors such as guarantors, insurers, or lessees.

The bond rating is not a recommendation to purchase or sell 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 to Standard & Poor's by the issuer and obtained by Standard & Poor's from other sources it considers reliable. The ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information.

- -----  
+As described by the rating agencies.

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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 obligation; and

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--This is the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay interest and repay principal.

AA--Bonds rated AA have a very strong capacity to pay interest and repay principal, and in the majority of instances they differ from AAA issues only in small degrees.

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

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 weakened capacity to pay interest and repay principal for bonds in this category than for bonds in the higher-rated categories.

Plus (+) or Minus (-): To provide more detailed indications of credit quality, the ratings from "AA" to "BB" 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" following a rating indicates the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the issuance of 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, makes no comment on the likelihood of, or the risk of default upon failure of, such completion. Accordingly, the investor should exercise his own judgment with respect to such likelihood and risk.

Conditional rating(s), indicated by "Con" are given to bonds for which the continuance of the security rating is contingent upon Standard & Poor's receipt of an executed copy of the escrow agreement or closing documentation confirming investments and cash flows and/or the security rating is conditional upon the issuance of insurance by the respective insurance company.

#### MOODY'S INVESTORS SERVICE

A brief description of the applicable Moody's Investors Service's rating symbols and their meanings is as follows:

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.

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. Aa bonds are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation 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.

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.

Baa--Bonds which are rated Baa are considered as 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.

Rating symbols may include numerical modifiers "1," "2," or "3." The numerical modifier "1" indicates that the security ranks at the high end, "2" in the mid-range, and "3" nearer the low end of the generic category. These modifiers of rating symbols "Aa," "A" and "Baa" are to give investors a more precise indication of relative debt quality in each of the historically defined categories.

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FITCH INVESTORS SERVICE, INC.

AAA--These bonds are considered to be investment grade and of the highest quality. The obligor has an extraordinary ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA--These bonds are considered to be investment grade and of high quality. The obligor's ability to pay interest and repay principal, while very strong, is somewhat less than for AAA rated securities or more subject to possible change over the term of the issue.

A--These bonds are considered to be investment grade and of good quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

BBB--These bonds are considered to be investment grade and of satisfactory quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however are more likely to weaken this ability than bonds with higher ratings.

A "+" or a "-" sign after a rating symbol indicates relative standing in its rating.

FEDERAL TAX FREE VS. TAXABLE INCOME

This table shows the approximate yields which taxable securities must earn in various income brackets to produce, after Federal income tax, returns equivalent to specified tax-exempt bond yields. The table is computed on the theory that the taxpayer's highest bracket tax rate is applicable to the entire amount of any increase or decrease in his or her taxable income resulting from a switch from taxable to tax-exempt securities or vice versa. The table reflects the Federal income tax rates and the tax brackets for the 1993 taxable year under the Code as in effect on the date of this Prospectus. Because the Federal rate brackets are subject to adjustment based on changes in the Consumer Price Index, the taxable equivalent yields for subsequent years may vary somewhat from those indicated in the table. Use this table to find your tax bracket. Read across to determine the approximate taxable yield you would need to equal a return free of Federal income tax.

1994 TAX YEAR

<TABLE>

<CAPTION>

TAXABLE INCOME BRACKET*		% TAX RATE	TAX EXEMPT YIELD								
JOINT RETURN	SINGLE RETURN		3.5%	4%	4.5%	5.00%	5.50%	6.00%	6.50%	7.00%	
TAXABLE EQUIVALENT YIELD											

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
UP TO \$36,900	UP TO \$22,100	15.0%	4.117	4.705	5.294	5.882	6.470	7.059	7.647	8.235	
\$ 36,900- 89,150	\$ 22,100- 53,500	28.0%	4.861	5.555	6.250	6.944	7.638	8.333	9.028	9.722	
\$ 89,150-140,000	\$ 53,500-115,000	31.0%	5.072	5.797	6.521	7.246	7.971	8.696	9.420	10.145	
\$140,000-250,000	\$115,000-250,000	36.0%	5.468	6.250	7.031	7.812	8.593	9.375	10.156	10.937	
OVER \$250,000	OVER \$250,000	39.6%	5.794	6.622	7.450	8.278	9.105	9.933	10.761	11.589	

</TABLE>

\* The income amount shown is income subject to Federal income tax reduced by

adjustments to income, exemptions, and itemized deductions or the standard deduction. It is assumed that the investor is not subject to the alternative minimum tax. Where applicable, investors should take into account the provisions of the Code under which the benefit of certain itemized deductions and the benefit of personal exemptions are limited in the case of higher income individuals. Under the Code, individual taxpayers with adjusted gross income in excess of a \$111,800 threshold amount are subject to an overall limitation on certain itemized deductions, requiring a reduction equal to the lesser of (i) 3% of adjusted gross income in excess of the \$111,800 threshold amount or (ii) 80% of the amount of such itemized deductions otherwise allowable. The benefit of each personal exemption is phased-out for married taxpayers filing a joint return with adjusted gross income in excess of \$167,700 and for single taxpayers with adjusted gross income in excess of \$111,800. Personal exemptions are phased out at the rate of two percentage points for each \$2,500 (or fraction thereof) of adjusted gross income in excess of the applicable threshold amount. The first three Federal tax brackets, the threshold amounts at which itemized deductions are subject to reduction, and the range over which personal exemptions are phased out will be adjusted for inflation for each year. The 36.0% and 39.6% Federal tax brackets will be adjusted for inflation for each year after 1994.

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PROSPECTUS--PART C:

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NOTE: PART C OF THIS PROSPECTUS MAY NOT BE DISTRIBUTED UNLESS ACCOMPANIED BY PARTS A AND B.  
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TAX EXEMPT SECURITIES TRUST--THE STATE TRUSTS

Potential purchasers of the Units of a State Trust should consider the fact that the Trust's Portfolio consists primarily of Bonds issued by the state for which such State Trust is named or its municipalities or authorities and realize the substantial risks associated with an investment in such Bonds. Each State Trust is subject to certain additional risk factors. The Sponsors believe the discussions of risk factors summarized below describe some of the more significant aspects of the State Trusts. The sources of such information are the official statements of issuers as well as other publicly available documents. While the Sponsors have not independently verified this information, they have no reason to believe that such information is not correct in all material respects. Investment in a State Trust should be made with an understanding that the value of the underlying Portfolio may decline with increases in interest rates.

MARYLAND TRUST

RISK FACTORS--

The Public indebtedness of the State of Maryland and its instrumentalities is divided into three general types. The State issues general obligation bonds for capital improvements and for various State projects to the payment of which the State ad valorem property tax is exclusively pledged. In addition, the Maryland Department of Transportation issues for transportation purposes its limited, special obligation bonds payable primarily from specific, fixed-rate excise taxes and other revenues related mainly to highway use. Certain authorities issue obligations payable solely from specific non-tax, enterprise fund revenues and for which the State has no liability and has given no moral obligation assurance.

General obligation bonds of the State are authorized and issued primarily to provide funds for State-owned capital improvements, including institutions of higher learning, and the construction of locally owned public schools. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, to provide funds for repayable loans or outright grants to private, non-profit cultural or educational institutions, and to fund certain loan and grant programs.

The Maryland Constitution prohibits the contracting of State debt unless it is authorized by a law levying an annual tax or taxes sufficient to pay the debt service within 15 years and prohibiting the repeal of the tax or taxes or their use for another purpose until the debt is paid. As a uniform practice, each separate enabling act which authorizes the issuance of general obligation bonds for a given object or purpose has specifically levied and directed the collection of an ad valorem property tax on all taxable property in the State. The Board of Public Works is directed by law to fix by May 1 of each year the precise rate of such tax necessary to produce revenue sufficient for debt service requirements of the next fiscal year, which begins July 1. However, the taxes levied need not be collected if or to the extent that funds sufficient for debt service requirements in the next fiscal year have been appropriated in the annual State budget. Accordingly, the Board, in annually fixing the rate of property tax after the end of the regular legislative session in April, takes

account of appropriations of general funds for debt service.

In the opinion of counsel, the courts of Maryland have jurisdiction to entertain proceedings and power to grant mandatory injunctive relief to (i) require the Governor to include in the annual budget a sufficient appropriation to pay all general obligation bond debt service for the ensuing fiscal year; (ii) prohibit the General Assembly from taking action to reduce any such appropriation below the level required for that debt service; (iii) require the Board of Public Works to fix and collect a tax on all property in the State subject to assessment for State tax purposes at a rate and in an amount sufficient to make such payments to the extent that adequate funds are not provided in the annual budget; and (iv) provide such other relief as might be necessary to enforce the collection of such taxes and payment of the proceeds of the tax collection to the holders of general obligation bonds, *pari passu*, subject to the inherent constitutional limitations referred to below.

It is also the opinion of counsel that, while the mandatory injunctive remedies would be available and while the general obligation bonds of the State are entitled to constitutional protection against the impairment of the obligation of contracts, such constitutional protection and the enforcement of such remedies would not be absolute. Enforcement of a claim for payment of the principal of or interest on the bonds could be subject to the provisions of any statutes that may be constitutionally enacted by the United States Congress or the Maryland General Assembly extending the time for payment or imposing other constraints upon enforcement.

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There is no general debt limit imposed by the Maryland Constitution or public general laws, but a special committee created by statute annually submits to the Governor an estimate of the maximum amount of new general obligation debt that prudently may be authorized. Although the committee's responsibilities are advisory only, the Governor is required to give due consideration to the committee's findings in preparing a preliminary allocation of new general debt authorization for the next ensuing fiscal year.

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation, the principal of which must be paid within 15 years from the date of issue, for highway, port, transit, rail or aviation facilities or any combination of such facilities. Debt service on Consolidated Transportation Bonds is payable from those portions of the excise tax on each gallon of motor vehicle fuel and the motor vehicle titling tax, all mandatory motor vehicle registration fees, motor carrier fees, and the corporate income tax as are credited to the Maryland Department of Transportation, plus all departmental operating revenues and receipts. Holders of such bonds are not entitled to look to other sources for payment.

The Maryland Department of Transportation also issues its bonds to provide financing of local road construction and various other county transportation projects and facilities. Debt service on these bonds is payable from the subdivisions' share of highway user revenues held to their credit in a special State fund.

The Maryland Transportation Authority operates certain highway, bridge and tunnel toll facilities in the State. The tolls and other revenues received from these facilities are pledged as security for revenue bonds of the Authority issued under and secured by a trust agreement between the Authority and a corporate trustee.

Certain other instrumentalities of the State government are authorized to borrow money under legislation which expressly provides that the loan obligations shall not be deemed to constitute a debt or a pledge of the faith and credit of the State. The Community Development Administration of the Department of Housing and Community Development, the Board of Trustees of St. Mary's College of Maryland, the Maryland Environmental Service, the Board of Regents of the University of Maryland System, the Board of Regents of Morgan State University, and the Maryland Food Center Authority have issued and have outstanding bonds of this type. The principal of and interest on bonds issued by these bodies are payable solely from various sources, principally fees generated from use of the facilities or enterprises financed by the bonds.

Under a Comprehensive Plan of Financing, as amended, of the Maryland Stadium Authority, the Authority is authorized to finance the acquisition and construction of sports facilities at a site within the City of Baltimore. Under the Plan of Financing, the Authority has engaged in a series of borrowings, together with certain equity contributions, to finance acquisition of the site, construction of a baseball stadium and ancillary facilities, and, if a lease agreement is executed between the Authority and a professional football franchise, proposes to finance the construction of a football stadium.

The Authority's financings as well as any future financings for a football stadium are lease-backed revenue obligations, payment of which is secured by, among other things, an assignment of revenues to be received under a lease of



the sports facilities from the Authority to the State of Maryland; rental payments due from the State under that lease will be subject to annual appropriation by the Maryland General Assembly. The State anticipates that revenues to fund the lease payments will be generated from a variety of sources, including in each year sports lottery revenues, the net operating revenues of the Authority and funds from the City of Baltimore.

The Water Quality Revolving Loan Fund is administered by the Water Quality Financing Administration in the Department of the Environment. The Fund may be used to provide loans, subsidies and other forms of financial assistance to local government units for wastewater treatment projects as contemplated by the 1987 amendments to the federal Water Pollution Control Act. The Administration is authorized to issue bonds secured by revenues of the Fund, including loan repayments, federal capitalization grants, and matching State grants.

The University of Maryland System, Morgan State University, and St. Mary's College of Maryland are authorized to issue revenue bonds for the purpose of financing academic and auxiliary facilities. Auxiliary facilities are any facilities that furnish a service to students, faculty, or staff, and that generate income. Auxiliary facilities include housing, eating, recreational, campus, infirmary, parking, athletic, student union or activity, research laboratory, testing, and any related facilities.

On August 7, 1989, the Governor issued an Executive Order assigning to the Department of Budget and Fiscal Planning responsibility to review certain proposed issuances of revenue and enterprise debt other than private activity bonds. The Executive Order also provides that the Governor may establish a ceiling of such debt to be issued during the fiscal year, which ceiling may be amended by the Governor.

Although the State has authority to make short-term borrowings in anticipation of taxes and other receipts up to a maximum of \$100 million, in the past it has not issued short-term tax anticipation and bond anticipation notes or made any other similar short-term borrowings. However, the State has issued certain obligations in the nature of bond anticipation notes for the purpose of assisting several savings and loan associations in qualifying for Federal insurance and in connection with the assumption by a bank of the deposit liabilities of an insolvent savings and loan association.

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The State has financed the construction and acquisition of various facilities through conditional purchase, sale-leaseback, and similar transactions. All of the lease payments under these arrangements are subject to annual appropriation by the Maryland General Assembly. In the event that appropriations are not made, the State may not be held contractually liable for the payments.

Savings and Loan Matters. During the first half of calendar year 1985, several State-chartered savings and loan associations, the savings accounts of which were privately insured, experienced unusually heavy withdrawals of funds by depositors. The resulting decline in the associations' liquid assets led to the appointment of receivers for the assets of six associations and the creation of an agency of the State to succeed, by statutory merger, the private insurer. The savings accounts of all savings and loan associations operating in the State of Maryland must be insured by either the State agency or the Federal Savings and Loan Insurance Corporation. The State agency assumed the insurance liabilities of the private insurance agency with respect to deposits made prior to May 18, 1985, and insures amounts deposited after that date up to a certain limit. The legislation establishing the insurance agency provides that "It is the policy of this State that funds will be appropriated to the [insurance agency] to the extent necessary to protect holders of savings accounts in member associations." As of December 31, 1989, depositors of all non-disputed insured accounts at associations in receivership have been paid in full. The insurance agency believes that the allowance for estimated insurance losses will be sufficient to provide for the agency's ultimate liability.

Local Subdivision Debt. The counties and incorporated municipalities in Maryland issue general obligation debt for general governmental purposes. The general obligation debt of the counties and incorporated municipalities is generally supported by ad valorem taxes on real estate, tangible personal property and intangible personal property subject to taxation. The issuer typically pledges its full faith and credit and unlimited taxing power to the prompt payment of the maturing principal and interest on the general obligation debt and to the levy and collection of the ad valorem taxes as and when such taxes become necessary in order to provide sufficient funds to meet the debt service requirements. The amount of debt which may be authorized may in some cases be limited by the requirement that it not exceed a stated percentage of the assessable base upon which such taxes are levied.

In the opinion of counsel, the issuer may be sued in the event that it fails to perform its obligations under the general obligation debt to the holders of the debt, and any judgments resulting from such suits would be enforceable against the issuer. Nevertheless, a holder of the debt who has obtained any

such judgment may be required to seek additional relief to compel the issuer to levy and collect such taxes as may be necessary to provide the funds from which a judgment may be paid. Although there is no Maryland law on this point, it is the opinion of counsel that the appropriate courts of Maryland have jurisdiction to entertain proceedings and power to grant additional relief, such as a mandatory injunction, if necessary, to enforce the levy and collection of such taxes and payment of the proceeds of the collection of the taxes to the holders of general obligation debt, pari passu, subject to the same constitutional limitations on enforcement, as described above, as apply to the enforcement of judgments against the State.

Local subdivisions, including counties and municipal corporations, are also authorized by law to issue special and limited obligation debt for certain purposes other than general governmental purposes. The source of payment of that debt is limited to certain revenues of the issuer derived from commercial activities operated by the issuer, payments made with respect to certain facilities or loans, and any funds pledged for the benefit of the holders of the debt. That special and limited obligation debt does not constitute a debt of the State, the issuer or any other political subdivision of either within the meaning of any constitutional or statutory limitation. Neither the State nor the issuer or any other political subdivision of either is obligated to pay the debt or the interest on the debt except from the revenues of the issuer specifically pledged to the payment of the debt. Neither the faith and credit nor the taxing power of the State, the issuer or any other political subdivision of either is pledged to the payment of the debt. The issuance of the debt is not directly or indirectly or contingently an obligation, moral or other, of the State, the issuer or any other political subdivision of either to levy any tax for its payment.

Washington Suburban Sanitary District Debt. The Washington Suburban Sanitary District operates as a public corporation of the State to provide, as authorized, water, sewerage and drainage systems, including water supply, sewage disposal, and storm water drainage facilities for Montgomery County, Maryland and Prince George's County, Maryland. For the purpose of paying the principal of and interest on bonds of the District, Maryland law provides for the levy, annually, against all the assessable property within the District by the County Council of Montgomery County and the County Council of Prince George's County of ad valorem taxes sufficient to pay such principal and interest when due and payable.

Storm water drainage bonds for specific projects are payable from an ad valorem tax upon all of the property assessed for county tax purposes within the portion of the District situated in the county in which the storm water project was, or is to be, constructed. Storm water drainage bonds of the District are also guaranteed by such county, which guaranty operates as a pledge of the full faith and credit of the county to the payment of the bonds and obligates the county council, to the extent that the tax revenues referred to above and any other money available or to become available are inadequate to provide the funds necessary to pay the principal of and the interest on the bonds, to levy upon all property subject to taxation within the county ad valorem taxes in rate and in amount sufficient to make up any such deficiency.

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Substantially all of the debt service on the bonds, except storm water drainage bonds, is being paid from revenues derived by the District from water consumption charges, front foot benefit charges, and sewage usage charges. Notwithstanding the payment of principal of and interest on those bonds from those charges, the underlying security of all bonds of the District is the levy of ad valorem taxes on the assessable property as stated above.

Special Authority Debt. The State and local governments have created several special authorities with the power to issue debt on behalf of the State or local government for specific purposes, such as providing facilities for non-profit health care and higher educational institutions, facilities for the disposal of solid waste, funds to finance single family and low-to-moderate income housing, and similar purposes. The Maryland Health and Higher Educational Facilities Authority, the Northeast Maryland Waste Disposal Authority, the Housing Opportunities Commission of Montgomery County, and the Housing Authority of Prince George's County are some of the special authorities which have issued and have outstanding debt of this type.

The debts of the authorities issuing debt on behalf of the State and the local governments are limited obligations of the authorities payable solely from and secured by a pledge of the revenues derived from the facilities or loans financed with the proceeds of the debt and from any other funds and receipts pledged under an indenture with a corporate trustee. The debt does not constitute a debt, liability or pledge of the faith and credit of the State or of any political subdivision of either of the authorities. Neither the State nor any political subdivision thereof nor the authorities shall be obligated to pay the debt or the interest on the debt except from such revenues, funds and receipts. Neither the faith and credit nor the taxing power of the State or of any political subdivision of the State or the authorities is pledged to the payment

of the principal of or the interest on such debt. The issuance of the debt is not directly or indirectly an obligation, moral or other, of the State or of any political subdivision of the State or of the authority to levy or to pledge any form of taxation whatsoever, or to make any appropriation, for their payment. The authorities have no taxing power.

Hospital Bonds. The rates charged by non-governmental Maryland hospitals are subject to review and approval by the Maryland Health Services Cost Review Commission. Maryland hospitals subject to regulation by the Commission are not permitted to charge for services at rates other than those established by the Commission. In addition, the Commission is required to permit any nonprofit institution subject to its jurisdiction to charge reasonable rates which will permit the institution to provide, on a solvent basis, effective and efficient service in the public interest.

Under an agreement between Medicare and the Commission, Medicare agrees to pay Maryland hospitals on the basis of Commission-approved rates, less a 6% differential. Under this so-called "Medicare Waiver", Maryland hospitals are exempt from the Medicare Prospective Payment System which pays hospitals fixed amounts for specific services based upon patient diagnosis. No assurance can be given that Maryland will continue to meet any current or future tests for the continuation of the Medicare Waiver.

In setting hospital rates, the Commission takes into account each hospital's budgeted volume of services and cash financial requirements for the succeeding year. It then establishes the rates of the hospital for the succeeding year based upon the projected volume and those financial requirements of the institution which the Commission has deemed to be reasonable. Financial requirements allowable for inclusion in rates generally include budgeted operating costs, a "capital facilities allowance", other financial considerations (such as charity care and bad debts) and discounts allowed certain payors for prompt payment. Variations from projected volumes of services are reflected in the rates for the succeeding year. The Commission, on a selective basis by the application of established review criteria, grants Maryland hospitals increases in rates to compensate for inflation experienced by hospitals and for other factors beyond the hospitals' control.

Regulations of the Commission provide that overcharges will in certain circumstances be deducted from prospective rates. Similarly, undercharges will in certain circumstances not be recoverable through prospective rates.

The Commission has entered into agreements with certain hospitals to adjust rates in accordance with a prospectively approved, guaranteed inpatient revenue per admission program. Those agreements are in addition to the rate adjustment methodology discussed above. Under the program, a hospital's revenue per admission is compared to the revenue per admission, as adjusted, for a base year. Variations from the adjusted base year revenues per admission are added or deducted, as the case may be, from the hospital's gross revenue and rates for the following year.

There can be no assurance that the Commission will continue to utilize its present rate-setting methodology or approve rates which will be sufficient to ensure payment on an individual hospital's obligations. Future actions by the Commission or the loss of the Medicare Waiver may adversely affect the operations of individual hospitals.

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#### MARYLAND TAXES

In the opinion of Messrs. Weinberg & Green, special Maryland counsel on Maryland tax matters, under existing law applicable to individuals who are Maryland residents:

The Maryland Trust will not be treated as an association taxable as a corporation, and the income of the Maryland Trust will be treated as the income of the Holders. The Maryland Trust is not a "financial institution" subject to the Maryland Franchise Tax measured by net earnings. The Maryland Trust is not subject to Maryland property taxes imposed on the intangible personal property of certain corporations.

Except as described below in the case of interest paid on private activity bonds constituting a tax preference for Federal income tax purposes, a Holder will not be required to include such Holder's pro-rata share of the earnings of, or distributions from, the Maryland Trust in such Holder's Maryland taxable income to the extent that such earnings or distributions represent interest excludable from gross income for Federal income tax purposes received by the Maryland Trust on obligations of the State of Maryland, the Government of Puerto Rico, or the Government of Guam and their respective political subdivisions and authorities. Interest on Bonds is subject to the Maryland Franchise Tax imposed on "financial

institutions" and measured by net earnings.

In the case of taxpayers who are individuals, Maryland presently imposes an income tax on items of tax preference with reference to such items as defined in the Internal Revenue Code, as amended, for purposes of calculating the Federal alternative minimum tax. Interest paid on certain private activity bonds is a preference item for purposes of calculating the Federal alternative minimum tax. Accordingly, if the Maryland Trust holds such bonds, 50% of the interest on such bonds in excess of a threshold amount is taxable by Maryland.

A Holder will recognize taxable gain or loss, except in the case of an individual Holder who is not a Maryland resident, when the Holder disposes of all or part of such Holder's pro rata portion of the Bonds in the Maryland Trust. A Holder will be considered to have disposed of all or part of such Holder's pro rata portion of each Bond when the Holder sells or redeems all or some of such Holder's Units. A Holder will also be considered to have disposed of all or part of such Holder's pro rata portion of a Bond when all or part of the Bond is disposed of by the Maryland Trust or is redeemed or paid at maturity. Gain included in the gross income of Holders for federal income tax purposes is, however, subtracted from income for Maryland income tax purposes to the extent that the gain is derived from the disposition of Bonds issued by the State of Maryland and its political subdivisions. Profits realized on the sale or exchange of Bonds are subject to the Maryland Franchise Tax imposed on "financial institutions" and measured by net earnings.

Units of the Maryland Trust will be subject to Maryland inheritance and estate tax only if held by Maryland residents.

Neither the Bonds nor the Units will be subject to Maryland personal property tax.

The sales of Units in Maryland or the holding of Units in Maryland will not be subject to Maryland Sales or Use Tax.

#### NEW YORK TRUSTS

RISK FACTORS--Prospective investors should consider the financial difficulties and pressures which the State of New York and several of its public authorities and municipal subdivisions have undergone. The following briefly summarizes some of these difficulties and the current financial situation, based principally on certain official statements currently available; copies may be obtained without charge from the issuing entity.

New York State. In recent fiscal years, there have been extended delays in adopting the State's budget, repeated revisions of budget projections, significant revenue shortfalls (as well as increased expenses) and year-end borrowing to finance deficits. These developments reflect faster long-term growth in State spending than revenues and that the State was earlier and more severely affected by the recent economic recession than most of the rest of the country, as well as its substantial reliance on non-recurring revenue sources. The State's general fund incurred cash basis deficits of \$775 million, \$1,081 million and \$575 million, respectively, for the 1990-92 fiscal years. Measures to deal with deteriorating financial conditions included transfers from reserve funds, recalculating the State's pension fund obligations (recently ruled illegal), hiring freezes and layoffs, reduced aid to localities, sales of State property to State authorities, and additional borrowings (including issuance of additional short-term tax and revenue anticipation notes payable out of impounded revenues in the next fiscal year). The general fund realized a \$671 million surplus for the fiscal year ended March 31, 1993, and a \$299 million surplus is projected for the current fiscal year.

Approximately \$5.3 billion of State general obligation debt was outstanding at December 31, 1993. The State's net tax-supported debt (restated to reflect LGAC's assumption of certain obligations previously funded through issuance of short-term debt) was \$23.4 billion at March 31, 1993, up from \$11.7 billion in 1984. A taxpayer filed various lawsuits challenging the constitutionality of appropriation-backed debt issues by State authorities without voter approval. A temporary restraining order against issuance of debt by the Metropolitan Transportation Authority and the New York State Thruway Authority was lifted in July 1993; an appeal is pending. A

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proposed constitutional amendment passed by the Legislature in 1993 would prohibit lease-purchase and contractual obligation financing for State facilities, but would authorize the State without voter referendum to issue revenue bonds within a formula-based cap, secured solely by a pledge of certain State tax receipts. It would also restrict State debt to capital projects included in a multi-year capital financing plan. The proposal is subject to approval by the next Legislature and then by voters. S&P reduced its ratings of

the State's general obligation bonds on January 13, 1992 to A-(its lowest rating for any state). Moody's reduced its ratings of State general obligation bonds from A1 to A on June 6, 1990 and to Baal, its rating of \$14.2 billion of appropriation-backed debt of the State and State agencies (over two-thirds of the total debt) on January 6, 1992.

In May 1991 (over 2 months after the beginning of the 1992 fiscal year), the State Legislature adopted a budget to close a projected \$6.5 billion gap (including repayment of \$905 million of fiscal 1991 deficit notes). Measures included \$1.2 billion in new taxes and fees, \$0.9 billion in non-recurring measures and about \$4.5 billion of reduced spending by State agencies (including layoffs), reduced aid to localities and school districts, and Medicaid cost containment measures. After the Governor vetoed \$0.9 billion in spending, the State adopted \$0.7 billion in additional spending, together with various measures including a \$100 million increase in personal income taxes and \$180 million of additional non-recurring measures. Due primarily to declining revenues and escalating Medicaid and social service expenditures, \$0.4 billion of administrative actions, \$531 million of year-end short-term borrowing and a \$44 million withdrawal from the Tax Stabilization Reserve Fund were required to meet the State's cash flow needs.

On April 2, 1992, the State adopted a budget to close a projected \$4.8 billion gap for the State's 1993 fiscal year (including repayment of the fiscal 1992 short-term borrowing) through a combination of \$3.5 billion of spending reductions (including measures to reduce Medicaid and social service spending, as well as further employee layoffs, reduced aid to municipalities and schools and reduced support for capital programs), deferral of scheduled tax reductions, and some new and increased fees. The State Comptroller concluded that the budget includes \$1.18 billion of nonrecurring measures (the Division of the Budget reported a figure of \$450 million). The City and its Board of Education sued the Governor and various other State officials in March 1993, claiming that the State's formula for allocating aid to education discriminated against City schools by at least \$274 million in the 1993 fiscal year.

To close a projected budget gap of nearly \$3 billion for the fiscal year ending March 31, 1994, the State budget contains various measures including deferral of scheduled income tax reductions for a fourth year, some tax increases, and \$1.6 billion in spending cuts, especially for Medicaid, and further reduction of the State's work force. The budget includes increased aid to schools, as well as a formula to channel more aid to districts with lower-income students and high property tax burdens. State legislation requires deposit of receipts from the petroleum business tax and certain other transportation-related taxes into funds dedicated to transportation purposes. Nevertheless, \$516 million of these monies were retained in the general fund during the fiscal year. The Division of the Budget has estimated that non-recurring income items other than the \$671 million surplus from the last fiscal year aggregate \$318 million. \$89 million savings from bond refinancings will be deposited in a reserve to fund litigation settlements, particularly to repay monies received under the State's abandoned property law, which the State will be required to give up as described below.

The Governor has proposed a budget for the fiscal year beginning April 1, 1994, which would increase spending by 3.8% (greater than inflation for the first time in six years). Tax revenue projections are based on assumed modest growth in the State economy. An estimated \$130 million would come from proposed lottery games and \$70 million, from requiring bottling companies to pay to the State unredeemed deposits on bottles and cans. The proposal would reduce or phase out certain business taxes over several years, provide a tax credit for low income families and increase aid to education by \$198 million (\$88 million to New York City), especially the poorer districts. The litigation fund would be increased to over \$300 million. However, the State would not increase its share of Medicaid costs and would reduce coverage and place additional restrictions on certain health care services. (The Governor in November proposed to close certain State psychiatric facilities over the next several years and apply most of the savings to additional clinical care, rehabilitation and vocational training.) Over \$1 billion would be saved by further postponement of scheduled reductions in personal income taxes and in taxes on hospital income; another \$300 million represents rolling over the projected surplus from the current fiscal year. Other non-recurring measures would be reduced to \$78 million. There can be no assurance that the Legislature will enact the budget as proposed. In November 1993 the State's Court of Appeals ruled unconstitutional 1990 legislation which postponed employee pension contributions by the State and localities (other than New York City). The amounts to be made up, estimated to aggregate \$4 billion (half from the State), would be repaid in increasing amounts over 12-20 years under a plan proposed by the State Comptroller, trustee of the State pension system, and previous contribution levels will not be exceeded until 1999. State and other estimates are subject to uncertainties including the effects of Federal tax legislation and economic developments. The Division of the Budget has cautioned that its projections are subject to risks including adverse decisions in pending litigations (particularly those involving Federal Medicaid reimbursements and payments by hospitals and health maintenance organizations), and that economic growth may be weaker than projected.

The State normally adjusts its cash basis balance by deferring until the

first quarter of the succeeding fiscal year substantial amounts of tax refunds and other disbursements. For many years, it also paid in that quarter more than 40% of its annual assistance to local governments. Payment of these annual deferred obligations and the State's accumulated deficit was substantially financed by

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issuance of short-term tax and revenue anticipation notes shortly after the beginning of each fiscal year. The New York Local Government Assistance Corporation ("LGAC") was established in 1990 to issue long-term bonds over several years, payable from a portion of the State sales tax, to fund certain payments to local governments traditionally funded through the State's annual seasonal borrowing. The legislation will normally limit the State's short-term borrowing, together with net proceeds of LGAC bonds (\$4.0 billion to date), to a total of \$4.7 billion. The State's latest seasonal borrowing, in May 1993, was \$850 million. The Governor's budget for the 1995 fiscal year would finally eliminate this seasonal borrowing program.

Generally accepted accounting principles ("GAAP") for municipal entities apply modified accrual accounting and give no effect to payment deferrals. On an audited GAAP basis, the State's government funds group recorded operating deficits of \$1.2 billion and \$1.4 billion for the 1990 and 1991 fiscal years. For the same periods the general fund recorded deficits (net of transfers from other funds) of \$0.7 billion and \$1.0 billion. Reflecting \$1.6 billion and \$881 million of payments by LGAC to local governments out of proceeds from bond sales, the general fund realized surpluses of \$1.7 billion and \$2.1 billion for the 1992 and 1993 fiscal years, respectively, leaving an accumulated deficit of \$2.551 billion.

For decades, the State's economy has grown more slowly than that of the rest of the nation as a whole. Part of the reason for this decline has been attributed to the combined State and local tax burden, which is the second highest in the nation (about 40% above the national average). The State's dependence on Federal funds and sensitivity to changes in economic cycles, as well as the high level of taxes, may continue to make it difficult to balance State and local budgets in the future. The total employment growth rate in the State has been below the national average since 1984. The State lost 524,000 jobs in 1990-1993. The jobless rate was 9.3% in January 1993 and 7.1% in January 1994.

New York City (the "City"). The City is the State's major political subdivision. In 1975, the City encountered severe financial difficulties, including inability to refinance \$6 billion of short-term debt incurred to meet prior annual operating deficits. The City lost access to the public credit markets for several years and depended on a variety of fiscal rescue measures including commitments by certain institutions to postpone demands for payment, a moratorium on note payment (later declared unconstitutional), seasonal loans from the Federal government under emergency congressional legislation, Federal guarantees of certain City bonds, and sales and exchanges of bonds by The Municipal Assistance Corporation for the City of New York ("MAC") to fund the City's debt.

MAC has no taxing power and pays its obligations out of sales taxes imposed within the City and per capita State aid to the City. The State has no legal obligation to back the MAC bonds, although it has a "moral obligation" to do so. MAC is now authorized to issue bonds only for refunding outstanding issues and up to \$1.5 billion should the City fail to fund specified transit and school capital programs. The State also established the Financial Control Board ("FCB") to review the City's budget, four-year financial plans, borrowings and major contracts. These were subject to FCB approval until 1986 when the City satisfied statutory conditions for termination of such review. The FCB is required to reimpose the review and approval process in the future if the City were to experience certain adverse financial circumstances. The City's fiscal condition is also monitored by a Deputy State Comptroller.

The City projects that it is beginning to emerge from four years of economic recession. Since 1989 the gross city product has declined by 10.1% and employment, by almost 11%, while the public assistance caseload has grown by over 25%. Unemployment averaged 10.8% in 1992, reaching 13.4% in January 1993, the highest level in 25 years. It dropped to 10.8% in January 1994. The number of persons on welfare exceed 1.1 million, the highest level since 1972, and one in seven residents is currently receiving some form of public assistance. The State Comptroller concluded that this recession "is clearly the worst the City has experienced since the 1970s".

While the City, as required by State law, has balanced its budgets in accordance with GAAP since 1981, this has required exceptional measures in recent years. The FCB has commented that City expenditures have grown faster than revenues each year since 1986, masked in part by a large number of non-recurring gap closing actions. To eliminate potential budget gaps of \$1-\$3 billion each year since 1988 the City has taken a wide variety of measures. In addition to increased taxes and productivity increases, these have included

hiring freezes and layoffs, reductions in services, reduced pension contributions, and a number of nonrecurring measures such as bond refundings, transfers of surplus funds from MAC, sales of City property and reduction of reserves. The FCB concluded that the City has neither the economy nor the revenues to do everything its citizens have been accustomed to expect. The current downturn in the real estate market could substantially lower the City's operating limit on real estate taxes in future years.

The City closed a budget gap for the 1993 fiscal year (estimated at \$1.2 billion) through actions including service reductions, productivity initiatives, transfer of \$0.5 billion surplus from the 1992 fiscal year and \$100 million from MAC. A November 1992 revision proposed to meet an additional \$561 million in projected expenditures through measures including a refunding to reduce current debt service costs, reduction in the reserve and an additional \$81 million of gap closing measures. Over half of the City's actions to balance that budget were non-recurring.

The Financial Plan for the City's current fiscal year (ending June 30, 1994): relies on increases in State and Federal aid, as well as the 1993 \$280 million surplus and a partial hiring freeze, to close a gap resulting primarily from recent labor settlements and declines in

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property tax revenues. However, overall spending would increase by about the rate of inflation. The Plan contains over \$1.3 billion of one-time revenue measures including bond refundings, sale of various City assets and borrowing against future property tax receipts. While the State budget for the current fiscal year increased aid to City schools, it failed to provide Medicaid and other requested mandate relief, cut back on State aid to other programs and anticipates increased City contributions to meet the New York City Transit Authority's current operations and capital program. The private-sector members of the FCB in May criticized reliance on questionable one-time revenues and unlikely additional state and Federal aid, and called for immediate actions toward achieving permanent structural balance. On July 2, 1993, the previous Mayor ordered spending reductions of about \$130 million for the current fiscal year and \$400 million for the 1995 fiscal year.

Various fiscal monitors have criticized increased reliance on non-recurring revenues in the current fiscal year, with attendant increases in the gaps for future years. They warn that in addition to the uncertainty of relying on projected increases in State and Federal aid, the principal risks are in debt service, funding for the Health and Hospitals Corporation and overtime costs. In December 1993, a report commissioned by the City was released, describing the nature of the City's structural deficit. It projects that the City will need to identify and implement \$5 billion in annual gap closing measures by 1998. The report suggests a variety of possible measures for City consideration. A new Mayor and City Comptroller assumed office in January 1994. While the Mayor rejected out of hand many of the proposals such as tax increases, the State Comptroller urged him to reconsider the report.

In February 1994, the new Mayor proposed a preliminary budget to eliminate a projected \$2.3 billion budget gap for the fiscal year beginning July 1, 1994, reduce overall spending for the first time in over a decade, reduce non-recurring revenue measures, and begin cutting taxes (to encourage job growth). Proposals include spending cuts including reduction of 15,000 jobs over the next 18 months (partially by using \$200 million of MAC surplus to encourage early retirements) unless equivalent productivity savings are negotiated with the unions, partial employee payment of health insurance costs, and further deferral of City pension fund contributions. It also projects increased aggregation about \$400 million in State and Federal aid, including the State's taking on the City's share of Medicaid costs. The previously proposed delay of \$3.2 billion in capital spending until fiscal 1998 would be retained. The Mayor is exploring the possibility of privatizing some of the City's services. The budget must be passed by the Democratic-controlled City council and many of the proposals also need approval by the State or others. Budget gaps of \$3.2 billion and \$3.3 billion are projected for the 1996 and 1997 fiscal years.

A major uncertainty is the City's labor costs, which represent about 50% of its total expenditures. The City's workforce grew by 34% during the 1980s. A January 1993 agreement covering approximately 44% of the City workers followed negotiations lasting nearly two years. Workers will receive wage and benefit raises totalling 8.25% over 39 months ending March 1995. Although this is less than the inflation rate, the settlement achieved neither any of the productivity savings that the previous Mayor had counted on to help balance the City's budget nor are the increases beyond those previously budgeted offset by labor concessions. An agreement announced in August provides wage increases for City teachers averaging 9% over the 48 1/2 months ending October 1995. The City is seeking to negotiate workforce productivity initiatives, savings from which would be shared with the workers involved. The Financial Plan assumes no further wage increases after the 1995 fiscal year. Also, costs of some previous wage increases were offset by reduced contributions to pension funds; if fund performance is less than the 9% annual earnings projected, the City could incur

increased expenses in future years.

Budget balance may also be adversely affected by the effect of the economy on economically sensitive taxes. Reflecting the downturn in real estate prices, estimates of property tax revenues have been reduced. Other uncertainties include additional expenditures to combat deterioration in the City's infrastructure (such as bridges, schools and water supply), costs of developing alternatives to ocean dumping of sewage sludge (which the City expects to defray through increased water and sewer charges), cost of the AIDS epidemic problems of drug addiction and homelessness and the impact of any future State assistance payment reductions. An independent report in 1991 concluded that 50% of City roads need resurfacing or reconstruction. In September 1993 the City reported that 56.4% of its bridges are structurally deficient and need repairs; some repairs have been halted due to environmental concerns. In response to evidence of widespread errors and falsification in 1986-89 inspections of City schools for presence of asbestos, the City in August 1993 conducted an emergency reinspection program. The costs of additional asbestos removal, at least \$119 million, may require curtailment or deferral of other school repairs and maintenance. The City, to avoid capital expenditures of an estimated \$4-\$5 billion on water filtration facilities, is increasing regulatory, enforcement and other efforts to protect the watershed area that is the source of most of the City's drinking water. In early 1993, the U.S. Environmental Protection Agency granted an interim exemption, but there can be no assurance that these efforts will result in continued exemption. Recent court decisions found that the City has failed to provide adequate shelter for many homeless persons and fined and held several City officials in contempt for failure to comply with a State rule requiring provision of immediate shelter for homeless persons. In late February, the State's Court of Appeals ruled that the City's recycling program does not comply with City law; although the costs cannot presently be estimated as the program's implementation schedule is being renegotiated, additional expenditures by the City will probably be needed. Elimination of any additional budget gaps will require various actions, including by the State, a number of which are beyond the City's control. State issued voters in 1993 approved a proposed charter under which Staten Island would secede from the City. Secession will require enabling legislation by the State Legislature; it would also be

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subject to legal challenge by the City. The effects of secession on the City cannot be determined at this time, but questions include responsibility for outstanding debt, a diminished tax base, and continued use of the Fresh Kills landfill, the City's only remaining garbage dump. A similar measure with respect to Queens was approved by the New York State Senate.

The City sold \$2.3 billion, \$1.4 billion and \$1.8 billion of short-term notes, respectively, during 1992, 1993 and current fiscal years. At September 30 1993, there were outstanding \$20.0 billion of City bonds (not including City debt held by MAC), \$4.5 billion of MAC bonds and \$0.8 billion of City-related public benefit corporation indebtedness, each net of assets held for debt service. Standard & Poor's and Moody's during the 1975-80 period either withdrew or reduced their ratings of the City's bonds. S&P currently rates the City's debt A- with a negative outlook while Moody's rates City bonds Baa1. City-related debt almost doubled since 1987, although total debt declined as a percentage of estimated full value of real property. The City's financing program projects long-term financing during fiscal years 1994-1997 to aggregate \$18.5 billion. The City's latest Ten Year Capital Strategy plans capital expenditures of \$51.6 billion during 1994-2003 (93% of be City funded). The State Comptroller has criticized recent City bond refinancings for producing short-term savings at the expense of greater overall costs, especially in future years. Annual debt service is projected to increase to about \$3.2 billion by fiscal 1997 (from \$1.2 billion in fiscal 1990).

OTHER NEW YORK LOCALITIES. In 1992, other localities had an aggregate of approximately \$15.7 billion of indebtedness outstanding. In recent years, several experienced financial difficulties. A March 1993 report by Moody's Investors Service concluded that the decline in ratings of most of the State's largest cities in recent years resulted from the decline in the State's manufacturing economy. Seventeen localities had outstanding indebtedness for deficit financing at the close of their respective 1992 fiscal years. On October 19, 1992, citing a "protracted and contentious political stalemate" leaving Nassau County with six to eight weeks before running out of cash, Moody's reduced the County's general obligation rating from A to Baa. A budget adopted in December 1992 after a prolonged stalemate plans to eliminate the \$121 million cumulative deficit without increasing property taxes or the mortgage tax. The budget includes \$65 million of long-term borrowing authorized by State legislation, transfer of a \$31 million surplus from the police budget and sale of some real estate. Several of the projections are subject to uncertainties. In response to requests from an unprecedented 10 local government units (including Nassau and Suffolk counties) in 1992 for legislative authority to issue bonds to fund deficits, the State Comptroller recommended legislation to establish earlier State oversight of municipal deficits. In September, 1992, the Comptroller proposed regulations which would



prohibit use of certificates of participation by municipalities for deficit financing or refundings. Some local leaders complained that the deficits resulted from reduced State aid accompanied by increases in State-mandated expenditures. Any reductions in State aid to localities may cause additional localities to experience difficulty in achieving balanced budgets. If special local assistance were needed from the State in the future, this could adversely affect the State's as well as the localities financial condition. Most localities depend on substantial annual State appropriations. Legal actions by utilities to reduce the valuation of their municipal franchises, if successful, could result in localities becoming liable for substantial tax refunds.

STATE PUBLIC AUTHORITIES. In 1975, after the Urban Development Corporation ("UDC"), with \$1 billion of outstanding debt, defaulted on certain short-term notes, it and several other State authorities became unable to market their securities. Since 1975 the State has provided substantial direct and indirect financial assistance to UDC, the Housing Finance Agency ("HFA"), the Environmental Facilities Corporation and other authorities. Practical and legal limitations on these agencies' ability to pass on rising costs through rents and fees could require further State appropriations. 18 State authorities had an aggregate of \$63.5 billion of debt outstanding at September 30, 1993. At September 30, 1993, approximately \$0.5 billion of State public authority obligations was State-guaranteed, \$7.7 billion was moral obligation debt (including \$4.8 billion of MAC debt) and \$19.5 billion was financed under lease-purchase or contractual obligation financing arrangements with the State. Various authorities continue to depend on State appropriations or special legislation to meet their budgets.

The Metropolitan Transportation Authority ("MTA"), which oversees operation of the City's subway and bus system by the City Transit Authority (the "TA") and operates certain commuter rail lines, has required substantial State and City subsidies, as well as assistance from several special State taxes. Projections of TA revenues were reduced due to declining ridership, increasing fare evasion, reductions in State and City aid and declining revenues from City real estate taxes. It was reported in December 1993 that a 20-year trend in declining bus ridership is expected to continue. While the MTA used bond refinancings and other measures to avert a commuter rail line fare increase in 1992, measures including a fare increase eliminated the TA's 1992 budget gap. Measures to balance the TA's 1993 budget included increased funding by the City, increased bridge and tunnel tolls and allocation of part of the revenues from the Petroleum Business Tax. Cash basis gaps of \$500-800 million are projected for each of the 1995, 1996 and 1997 years. Measures proposed to close these gaps include various additional State aid and possible fare increases.

The MTA's Chairman recently proposed a financial strategy for the next five years, including a variety of fare changes; however, even if these are approved, an estimated \$700 million in additional funds will be needed from State and City financial assistance. Substantial claims have been made against the TA and the City for damages from a 1990 subway fire and a 1991 derailment. The MTA infrastructure, especially in the City, needs substantial rehabilitation. A one-year \$1.6 billion 1992 MTA Capital Plan was approved. In December 1993, a \$9.5 billion MTA Capital Plan was finally approved for 1992-1996, although \$500 million is contingent on increased

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contributions from the City; the City has until late 1994 to decide if it will make these contributions. In response to a constitutional challenge to implementing a \$6 billion State transportation borrowing plan without voter approval, a temporary restraining order was issued in May 1993, but was lifted in July. It is anticipated that the MTA and the TA will continue to require significant State and City support. Moody's reduced its rating of certain MTA obligations to Baa on April 14, 1992.

Because of reduced rates under the State's revised medical reimbursement programs, as well as proposals to reduce reimbursement of hospital capital costs and to change Medicaid funding, New York hospitals have experienced increasing financial pressure. To mitigate unprecedented rate increases by Empire State Blue Cross, the State in January 1993 made available \$100 million from the medical malpractice fund. A Federal District Court ruled in February 1993 that State surcharges of up to 24% on hospital bills paid by commercial insurance companies and health maintenance organizations, much of which is used to subsidize care of uninsured patients, violate Federal law; however, the Court permitted continuance of the system pending appeal of the ruling.

LITIGATION. The State and the City are defendants in numerous legal proceedings, including challenges to the constitutionality and effectiveness of various welfare programs, alleged torts and breaches of contract, condemnation proceedings and other alleged violations of laws. Adverse judgments in these matters could require substantial financing not currently budgeted. For example, in addition to real estate certiorari proceedings, claims in excess of \$343 billion were outstanding against the City at June 30, 1993, for which it estimated its potential future liability at \$2.2 billion. Another action seeks a judgment that, as a result of an overestimate by the State Board of Equalization and Assessment, the City's 1992 real estate tax levy exceeded

constitutional limits. In March 1993, the U.S. Supreme Court ruled that if the last known address of a beneficial owner of accounts held by banks and brokerage firms cannot be ascertained, unclaimed funds therein belong to the state of the broker's incorporation rather than where its principal office is located. New York has obtained about \$350 million of abandoned funds that could have to be paid to other States. (It has agreed to pay Delaware \$200 million over a 5-year period.) The case has been remanded to a special master to determine disposition of these monies.

Final adverse decisions in any of these cases could require extraordinary appropriations at either the State or City level or both.

#### NEW YORK TAXES

In the opinion of Davis Polk & Wardwell, special counsel for the Sponsors, under existing New York law:

Under the income tax laws of the State and City of New York, a Trust is not an association taxable as a corporation and income received by a Trust will be treated as the income of the Holders in the same manner as for Federal income tax purposes. Accordingly, each Holder will be considered to have received the interest on his pro rata portion of each Bond when interest on the Bond is received by a Trust. In the opinion of bond counsel delivered on the date of issuance of the Bond, such interest will be exempt from New York State and City personal income taxes except where such interest is subject to Federal income taxes (see Taxes). A noncorporate Holder of Units of a Trust who is a New York State (and City) resident will be subject to New York State (and City) personal income taxes on any gain recognized when he disposes of all or part of his pro rata portion of a Bond. A noncorporate Holder who is not a New York State resident will not be subject to New York State or City personal income taxes on any such gain unless such Units are attributable to a business, trade, profession or occupation carried on in New York. A New York State (and City) resident should determine his tax basis for his pro rata portion of each Bond for New York State (and City) income tax purposes in the same manner as for Federal income tax purposes. Interest income on a Holder's pro rata portion of the Bonds is generally not excludable from income in computing New York State and City corporate franchise taxes.

#### OHIO TRUST

RISK FACTORS--As described above, the Ohio Trust will invest most of its net assets in securities issued by or on behalf of (or in certificates of participation in lease-purchase obligations of) the State of Ohio, political subdivisions of the State, 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 many complex factors that may have an effect. The 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 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 of 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 that the investment may be in particular Ohio Obligations, or in those 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 obligation or issuer.

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The timely payment of principal of and interest on Ohio Obligations has been guaranteed by bond insurance purchased by the issuers, the Ohio Trust or other parties. The timely payment of debt service on Ohio Obligations that are so insured may not be subject to the factors referred to in this section of the Prospectus.

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 is an important segment of the economy, with over half the State's area devoted to farming and approximately 15% of total employment in agribusiness.

In prior years, 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 7.2%) 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 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 ending FY 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 ensure resource/expenditure balances during less favorable economic periods. These procedures 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 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 economic forecasts 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 spending in the last six months of 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 addressed 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 service 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 service 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 Constitutional 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 is made in both cases for any debt incurred 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 the payment of 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. 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 sale or 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 constitutional 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 agency'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 totalled \$68.6 million (including \$46.6 million for one district). FY 1993 loans totalled \$94.5 million for 43 districts (including \$75 million for one). FY 1994 loan approvals totalled 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 to eliminate deficits and cure any defaults. Since inception in 1979, these procedures have been applied to 23 cities and villages; for 18 of them the fiscal situation was resolved and the procedures terminated.

At present the State itself does not levy ad valorem taxes on real 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 that are unlimited as to amount or rate.

The Ohio Trust is comprised primarily of interest-bearing obligations issued by or on behalf of the State of Ohio, political subdivisions thereof, or agencies or instrumentalities thereof ("Ohio Obligations") or by the Commonwealth of Puerto Rico or the governments of the Virgin Islands or Guam.

In the opinion of Squire, Sanders & Dempsey, special Ohio counsel on Ohio tax matters, provided that at all times at least fifty percent of the value of the total assets of the Ohio Trust consist of Ohio Obligations or similar obligations of other states or their subdivisions, under existing Ohio law;

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1. The 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 the Ohio Trust will be treated as the income of the Unit holders 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 Unit holder.

3. Interest on Ohio Obligations or obligations issued by the Commonwealth of Puerto Rico or the governments of the Virgin Islands or Guam held by the Ohio Trust is exempt from the Ohio personal income tax, Ohio municipal income taxes 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 Unit holders.

4. Gains and losses realized on the sale, exchange or other disposition by the 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 Unit holders.

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## TAX FREE VS. TAXABLE INCOME

The following tables show the approximate yields which taxable securities must earn in various income brackets to equal tax exempt yields under combined Federal and state individual income tax rates. This table reflects Federal income tax rates and tax brackets for the 1994 taxable year under the Code as in effect on the date of this Prospectus and state income tax rates that were available on the date of the Prospectus. Because the Federal rate brackets are subject to adjustment based on changes in the Consumer Price Index, the taxable equivalent yields for subsequent years may be lower than indicated. A table is computed on the theory that the taxpayer's highest bracket tax rate is applicable to the entire amount of any increase or decrease in taxable income (after allowance for any resulting change in state income tax) resulting from a switch from taxable to tax-free securities or vice versa. Variations between state and Federal allowable deductions and exemptions are generally ignored. The state tax is thus computed by applying to the Federal taxable income bracket amounts shown in the table the appropriate state rate for those same dollar amounts. For example, a married couple living in the State of Maryland and filing a Joint Return with \$53,000 in taxable income for the 1994 tax year would need a taxable investment yielding 9.057% in order to equal a tax-free return of 6.00%. Use the appropriate table to find your tax bracket. Read across to determine the approximate taxable yield you would need to equal a return free of Federal income tax and state income tax.

## STATE OF MARYLAND\*

1994 TAX YEAR

<TABLE>  
<CAPTION>

TAXABLE INCOME BRACKET**	APPROX. COMBINED FEDERAL, STATE AND LOCAL TAX RATE	TAX EXEMPT YIELD							
		3.50	4.00	4.50	5.00	5.50	6.00	6.50	7.00
		TAXABLE EQUIVALENT YIELD JOINT RETURN							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 20,000 to 36,900	21.800%	4.475	5.115	5.754	6.393	7.033	7.672	8.312	8.951
\$ 36,900 to 89,150	33.760%	5.283	6.038	6.793	7.548	8.303	9.057	9.812	10.567

\$ 89,150 to 140,000	36.520%	5.513	6.301	7.088	7.876	8.664	9.451	10.239	11.027
\$140,000 to 150,000	41.120%	5.944	6.793	7.642	8.491	9.341	10.190	11.039	11.888
\$150,000 to 250,000	41.760%	6.009	6.868	7.726	8.585	9.443	10.302	11.160	12.019
Over \$250,000	45.036%	6.367	7.277	8.187	9.096	10.006	10.916	11.825	12.735

<CAPTION>

<S>	<C>	SINGLE RETURN							
		<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 15,000 to 22,100	21.800%	4.475	5.115	5.754	6.393	7.033	7.672	8.312	8.951
\$ 22,100 to 53,500	33.760%	5.283	6.038	6.793	7.548	8.303	9.057	9.812	10.567
\$ 53,500 to 100,000	36.520%	5.513	6.301	7.088	7.876	8.664	9.451	10.239	11.027
\$100,000 to 115,000	37.210%	5.574	6.370	7.166	7.955	8.759	9.555	10.351	11.148
\$115,000 to 250,000	41.760%	6.009	6.868	7.726	8.585	9.443	10.302	11.160	12.019
Over \$250,000	45.036%	6.367	7.277	8.187	9.096	10.006	10.916	11.825	12.735

</TABLE>

- - - - -

\* The combined tax rate in the table includes local income taxes imposed by Maryland counties and the city of Baltimore at a rate of 60% of the state income tax liability with respect to taxable income of \$150,000 or below in the case of a joint return and \$100,000 or below in the case of a single return and 50% of the state income tax liability with respect to taxable income in excess of \$150,000 in the case of a joint return and \$100,000 in the case of a single return. Investors who are residents of Maryland counties that impose county income tax at a rate that is less than these rates will have a taxable equivalent yield that is less than that indicated in the table.

\*\* The income amount shown is income subject to Federal income tax reduced by adjustments to income, exemptions, and itemized deductions (including the deductions for state and local income taxes). If the standard deduction had been taken for Federal income tax purposes, the taxable equivalent yield required to equal a specified tax-exempt yield would be at least as great as that shown in the table. It is assumed that the investor is not subject to the alternative minimum tax. Where applicable, investors should take into account the provisions of the Code under which the benefit of certain itemized deductions and the benefit of personal exemptions are limited in the case of higher income individuals. Under the Code, an individual taxpayer with adjusted gross income in excess of a \$111,800 threshold amount is subject to an overall limitation on certain itemized deductions, requiring a reduction equal to the lesser of (i) 3% of adjusted gross income in excess of the \$111,800 threshold amount or (ii) 80% of the amount of such itemized deductions otherwise allowable. The benefit of each personal exemption is phased out for married taxpayers filing a joint return with adjusted gross income in excess of \$167,700 and for single taxpayers with adjusted gross income in excess of \$111,800. Personal exemptions are phased out at the rate of two percentage points for each \$2,500 (or fraction thereof) of adjusted gross income in excess of the applicable threshold amount. The 15%, 28% and 31% Federal tax brackets, the threshold amounts at which itemized deductions are subject to reduction, and the range over which personal exemptions are phased out will be adjusted for inflation. The 36% and 39.6% Federal tax brackets will be adjusted for inflation for each year after 1994. The 6% Maryland state income tax rate with respect to taxable income in excess of \$150,000 in the case of a joint return and \$100,000 in the case of a single return is scheduled to revert to 5% after 1994.

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STATE OF NEW YORK\*\*

1994 TAX YEAR

<TABLE>

<CAPTION>

TAXABLE INCOME BRACKET*	APPROX. COMBINED FEDERAL & STATE TAX RATE	TAX EXEMPT YIELD							
		3.50	4.00	4.50	5.00	5.50	6.00	6.50	7.00
		TAXABLE EQUIVALENT YIELD							
		JOINT RETURN							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 22,000 to 26,000	20.950%	4.427	5.060	5.692	6.325	6.957	7.590	8.222	8.855
\$ 26,000 to 36,900	21.693%	4.469	5.108	5.746	6.385	7.023	7.662	8.300	8.939
\$ 36,900 to 89,150	33.670%	5.276	6.030	6.784	7.538	8.291	9.045	9.799	10.553
\$ 89,150 to 140,000	36.433%	5.506	6.292	7.079	7.865	8.652	9.438	10.225	11.012
\$140,000 to 250,000	41.040%	5.936	6.784	7.632	8.480	9.328	10.176	11.024	11.872
Over \$250,000	44.356%	6.289	7.188	8.087	8.985	9.884	10.782	11.681	12.579

<CAPTION>

<S>	<C>	SINGLE RETURN							
		<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 15,000 to 22,100	21.693%	4.469	5.108	5.746	6.385	7.023	7.662	8.300	8.939
\$ 22,100 to 53,500	33.670%	5.276	6.030	6.784	7.538	8.291	9.045	9.799	10.553
\$ 53,500 to 115,000	36.433%	5.506	6.292	7.079	7.865	8.652	9.438	10.225	11.012
\$115,000 to 250,000	41.040%	5.936	6.784	7.632	8.480	9.328	10.176	11.024	11.872

Over \$250,000 44.356% 6.289 7.188 8.087 8.985 9.884 10.782 11.681 12.579  
 </TABLE>

CITY OF NEW YORK\*\*\*

<TABLE>  
 <CAPTION>

TAXABLE INCOME BRACKET*	APPROX. COMBINED FEDERAL, STATE & NEW YORK CITY TAX RATE	TAX EXEMPT YIELD									
		3.50	4.00	4.50	5.00	5.50	6.00	6.50	7.00		
		TAXABLE EQUIVALENT YIELD JOINT RETURN									
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
\$ 22,000 to 26,000	24.061%	4.608	5.267	5.925	6.584	7.242	7.901	8.559	9.217		
\$ 26,000 to 27,000	24.804%	4.654	5.319	5.984	6.649	7.314	7.979	8.644	9.309		
\$ 27,000 to 36,900	25.331%	4.687	5.356	6.026	6.696	7.365	8.035	8.705	9.374		
\$ 36,900 to 45,000	36.751%	5.533	6.324	7.114	7.905	8.695	9.486	10.276	11.067		
\$ 45,000 to 89,150	36.838%	5.541	6.332	7.124	7.916	8.707	9.499	10.290	11.082		
\$ 89,150 to 108,000	39.469%	5.782	6.608	7.434	8.260	9.086	9.912	10.738	11.564		
\$108,000 to 140,000	39.511%	5.786	6.612	7.439	8.265	9.092	9.919	10.745	11.572		
\$140,000 to 250,000	43.894%	6.238	7.129	8.020	8.911	9.802	10.694	11.585	12.476		
Over \$250,000	47.050%	6.610	7.554	8.498	9.442	10.387	11.331	12.275	13.220		

<CAPTION>

TAXABLE INCOME BRACKET*	APPROX. COMBINED FEDERAL, STATE & NEW YORK CITY TAX RATE	SINGLE RETURN								
		3.50	4.00	4.50	5.00	5.50	6.00	6.50	7.00	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 15,000 to 22,100	25.331%	4.687	5.356	6.026	6.696	7.365	8.035	8.705	9.374	
\$ 22,100 to 25,000	36.751%	5.533	6.324	7.114	7.905	8.695	9.486	10.276	11.067	
\$ 25,000 to 53,500	36.838%	5.541	6.332	7.124	7.916	8.707	9.499	10.290	11.082	
\$ 53,500 to 60,000	39.469%	5.782	6.608	7.434	8.260	9.086	9.912	10.738	11.564	
\$ 60,000 to 115,000	39.511%	5.786	6.612	7.439	8.265	9.092	9.919	10.745	11.572	
\$115,000 to 250,000	43.894%	6.238	7.129	8.020	8.911	9.802	10.694	11.585	12.476	
Over \$250,000	47.050%	6.610	7.554	8.498	9.442	10.387	11.331	12.275	13.220	

</TABLE>

- - - - -

- \* The income amount shown is income subject to Federal income tax reduced by adjustments to income, exemptions, and itemized deductions (including the deductions for state and local income taxes). If the standard deduction had been taken for Federal income tax purposes, the taxable equivalent yield required to equal a specified tax-exempt yield would be at least as great as that shown in the table. It is assumed that the investor is not subject to the alternative minimum tax.
- \*\* The New York State personal income tax rates are currently scheduled to change in 1994 and later years. For example, the highest New York State tax for 1993 is 7.875% and is scheduled to decrease to 7.59375% for 1994, 7.125% for 1995 and 7% for later years. The scheduled reductions in the New York State top bracket rates will, if implemented, result in taxable equivalent yields for 1993 and later years that are somewhat lower than those indicated in the above tables.
- \*\*\* The City of New York table reflects the surcharges of between .51% and .55% applicable to City of New York residents in certain instances and the additional tax equal to 14% of the sum of the income tax and surcharge.

Note:  
 Where applicable, investors should take into account the provisions of the Code under which the benefit of certain itemized deductions and the benefit of personal exemptions are limited in the case of higher income individuals. Under the Code, an individual taxpayer with adjusted gross income in excess of a \$111,800 threshold amount is subject to an overall limitation on certain itemized deductions, requiring a reduction equal to the lesser of (i) 3% of adjusted gross income in excess of the \$111,800 threshold amount or (ii) 80% of the amount of such itemized deductions otherwise allowable. The benefit of each personal exemption is phased out for married taxpayers filing a joint return with adjusted gross income in excess of \$167,700 and for single taxpayers with adjusted gross income in excess of \$111,800. Personal exemptions are phased out at the rate of two percentage points for each \$2,500 (or fraction thereof) of adjusted gross income in excess of the applicable threshold amount. The 15%, 28% and 31% Federal tax brackets, the threshold amounts at which itemized deductions are subject to reduction, and the range over which personal exemptions are phased out will be adjusted for inflation for each year. The 36% and the 39.6% Federal tax brackets will be adjusted for inflation for each year after 1994. For New York State tax purposes, the benefit of tax rates below 7.875% on taxable income amounts up to \$26,000 in the case of a joint return and \$13,000 in the case of a single return is phased out for a taxpayer with adjusted gross income in excess of a \$100,000 threshold amount. The benefit is phased out pro rata over the first \$50,000 of adjusted gross income in excess of \$100,000 and the phase out is complete when New York adjusted gross income equals \$150,000. The tables assume that New York adjusted gross income does not exceed \$100,000 in every case in which a phase out of the benefit of the rate on taxable income below \$26,000 would affect the computation.

1994 TAX YEAR

<TABLE>  
<CAPTION>

TAXABLE INCOME BRACKET*	APPROX. COMBINED FEDERAL, STATE AND LOCAL TAX RATE	TAX EXEMPT YIELD								
		3.50	4.00	4.50	5.00	5.50	6.00	6.50	7.00	
		TAXABLE EQUIVALENT YIELD JOINT RETURN								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 20,000 to 36,000	18.79%	4.31	4.93	5.54	6.16	6.77	7.39	8.00	8.62	
\$ 38,001 to 40,000	31.21%	5.09	5.82	6.54	7.27	8.00	8.72	9.45	10.18	
\$ 40,001 to 80,000	31.75%	5.13	5.86	6.59	7.33	8.06	8.79	9.52	10.26	
\$ 80,001 to 91,850	32.28%	5.17	5.91	6.65	7.38	8.12	8.86	9.60	10.34	
\$ 91,851 to 100,000	35.10%	5.39	6.16	6.93	7.70	8.48	9.25	10.02	10.79	
\$100,001 to 140,000	35.76%	5.45	6.23	7.01	7.78	8.56	9.34	10.12	10.90	
\$140,001 to 200,000	40.42%	5.87	6.71	7.55	8.39	9.23	10.07	10.91	11.75	
\$200,001 to 250,000	40.80%	5.91	6.76	7.60	8.45	9.29	10.14	10.98	11.82	
Over \$250,000	44.13%	6.27	7.16	8.05	8.95	9.84	10.74	11.63	12.53	

<CAPTION>

TAXABLE INCOME BRACKET*	APPROX. COMBINED FEDERAL, STATE AND LOCAL TAX RATE	SINGLE RETURN								
		3.50	4.00	4.50	5.00	5.50	6.00	6.50	7.00	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 20,001 to 23,750	18.79%	4.31	4.93	5.54	6.15	6.77	7.39	8.00	8.62	
\$ 22,751 to 41,000	31.21%	5.09	5.82	6.54	7.27	8.00	8.72	9.45	10.18	
\$ 40,001 to 51,100	31.75%	5.13	5.86	6.59	7.33	8.06	8.79	9.52	10.26	
\$ 55,101 to 80,000	34.59%	5.35	6.12	6.88	7.64	8.41	9.17	9.94	10.70	
\$ 80,001 to 101,000	35.10%	5.39	6.16	6.93	7.70	8.48	9.25	10.02	10.79	
\$100,001 to 111,000	35.76%	5.45	6.23	7.01	7.78	8.56	9.34	10.12	10.90	
\$150,001 to 200,000	40.42%	5.87	6.71	7.55	8.39	9.23	10.07	10.91	11.75	
\$200,001 to 250,000	40.80%	5.91	6.76	7.60	8.45	9.29	10.14	10.98	11.82	
Over \$250,000	44.13%	6.27	7.16	8.05	8.95	9.84	10.74	11.63	12.53	

</TABLE>

-----

\* The income amount shown is income subject to Federal income tax reduced by adjustments to income, exemptions and itemized deductions (including the deduction for state income tax). If the standard deduction had been taken for Federal income tax purposes in order to reach the amount shown in the table, the taxable equivalent yield required to equal a specified tax-exempt yield would be at least as great as that shown in the table. It is assumed that the investor is not subject to the alternative minimum tax. Where applicable, investors should take into account the provisions of the Code under which the benefit of certain itemized deductions and the benefit of personal exemptions are limited in the case of higher income individuals. Under the Code, an individual taxpayer with adjusted gross income in excess of a \$111,800 threshold amount is subject to an overall limitation on certain itemized deductions, requiring a reduction equal to the lesser of (i) 3% of adjusted gross income in excess of the \$111,800 threshold amount or (ii) 80% of the amount of such itemized deductions otherwise allowable. The benefit of each personal exemption is phased out for married taxpayers filing a joint return with adjusted gross income in excess of \$167,700 and for single taxpayers with adjusted gross income in excess of \$111,800. Personal exemptions are phased out at the rate of two percentage points for each \$2,500 (or fraction thereof) of adjusted gross income in excess of the applicable threshold amount. The Federal and Ohio tax brackets, the threshold amounts at which itemized deductions are subject to reduction, and the range over which personal exemption are phased out will be adjusted for inflation for each year after 1994.

PROSPECTUS  
THIS PROSPECTUS CONTAINS INFORMATION CONCERNING THE TRUST AND THE SPONSORS, BUT DOES NOT CONTAIN ALL THE INFORMATION SET FORTH IN THE REGISTRATION STATEMENTS AND EXHIBITS RELATING THERETO, WHICH THE TRUST HAS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D.C., UNDER THE SECURITIES ACT OF 1933 AND THE INVESTMENT COMPANY ACT OF 1940, AND TO WHICH REFERENCE IS HEREBY MADE.

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THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, SECURITIES IN ANY STATE TO ANY PERSON TO WHOM IT IS NOT LAWFUL TO MAKE SUCH OFFER IN SUCH STATE.

TAX EXEMPT SECURITIES TRUST

-----  
12,000 UNITS  
-----  
Prospectus  
Dated March 2, 1994  
-----

SPONSORS

SMITH BARNEY  
SHEARSON INC.  
1345 AVENUE OF THE AMERICAS  
NEW YORK, NEW YORK 10105  
(212) 698-5300  
-----

KIDDER, PEABODY & CO.

INCORPORATED

60 BROAD STREET  
NEW YORK, NEW YORK 10004  
(212) 656-1609

PART II. ADDITIONAL INFORMATION NOT REQUIRED IN PROSPECTUS

A. The following information relating to the Depositors is incorporated by reference to the SEC filings indicated and made a part of this Registration Statement.

SEC FILE OR  
IDENTIFICATION NO.  
-----

I. Bonding Arrangements and Date of Organization of the Depositors filed pursuant to Items A and B of Part II of the Registration Statement on Form S-6 under the Securities Act of 1993:

Smith Barney Shearson Inc.  
Kidder, Peabody & Co. Incorporated

2-55436

- II. Information as to Officers and Directors of the Depositors filed pursuant to Schedules A and D of Form BD under Rules 15b1-1 and 15b3-1 of the Securities Exchange Act of 1934:
- |                                    |        |
|------------------------------------|--------|
| Smith Barney Shearson Inc.         | 8-8177 |
| Kidder, Peabody & Co. Incorporated | 8-4831 |
- III. Charter documents of the Depositors filed as Exhibits to the Registration Statement on Form S-6 under the Securities Act of 1933 (Charter, By-Laws):
- |                                    |                    |
|------------------------------------|--------------------|
| Smith Barney Shearson Inc.         | 33-65332, 33-36037 |
| Kidder, Peabody & Co. Incorporated | 33-17979, 33-20499 |

B. The Internal Revenue Service Employer Identification Numbers of the Sponsors and Trustee are as follows:

Smith Barney Shearson Inc.	13-1912900
Kidder, Peabody & Co. Incorporated	13-5650440
United States Trust Company of New York, Trustee	13-5459866

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#### CONTENTS OF REGISTRATION STATEMENT

THE REGISTRATION STATEMENT ON FORM S-6 COMPRISES THE FOLLOWING PAPERS AND DOCUMENTS:

The facing sheet of Form S-6.  
 The Cross-Reference Sheet (incorporated by reference to the Cross-Reference Sheet to the Registration Statement of Tax Exempt Securities Trust, Series 384, 1933 Act File No. 33-50915).  
 The Prospectus.  
 Additional Information not included in the Prospectus (Part II).  
 Consent of Independent Auditors.

The following exhibits:

<TABLE>  
 <C> <S>  
 1.1 --Form of Trust Indenture and Agreement (incorporated by reference to Exhibit 4.a to the Registration Statement of Tax Exempt Securities Trust, Series 265, 1933 Act File No. 33-15123).  
 1.1.1 --Form of Reference Agreement Trust (incorporated by reference to Exhibit 4.b to the Registration Statement of Tax Exempt Securities Trust, Series 384, 1993 Act File No. 33-50915).  
 1.2 --Form of Agreement Among Underwriters (incorporated by reference to Exhibit 99 to the Registration Statement of Tax Exempt Securities Trust, Series 384, 1933 Act File No. 33-50915).  
 2.1 --Form of Certificate of Beneficial Interest (included in Exhibit 1.1).  
 3.1 --Opinion of counsel as to the legality of the securities being issued including their consent to the use of their name under the headings "Taxes", "Legal Opinion" and "New York Taxes" in the Prospectus.  
 4.1 --Consent of the Evaluator.  
 24 --Powers of Attorney  
 </TABLE>

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#### SIGNATURES

The registrant, Tax Exempt Securities Trust, Series 388, hereby identifies Series 1 and Series 357 of the Trust for purposes of the representations required by Rule 487 and represents the following:

(1) That the portfolio securities deposited in the series as to the securities of which this Registration Statement is being filed do not differ materially in type or qualify from those deposited in such previous series;

(2) That, except to the extent necessary to identify the specific portfolio securities deposited in, and to provide essential financial information for, the series with respect to the securities of which this Registration Statement is being filed, this Registration Statement is being filed, this Registration Statement does not contain disclosures that differ in any material respect from those contained in the registration statements for such previous series as to which the effective date was determined by the Commission or the staff; and

(3) That is has complied with Rule 460 under the Securities Act of 1933.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT HAS DULY CAUSED THIS REGISTRATION STATEMENT OR AMENDMENT THERETO TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED, IN THE CITY OF NEW YORK, AND STATE OF NEW YORK, ON THE 2ND DAY OF MARCH, 1994.

A majority of the members of the Board of Directors of Smith Barney Shearson Inc. has signed this Registration Statement or Amendment to the Registration Statement pursuant to Powers of Attorney authorizing the person signing this Registration Statement or Amendment to the Registration Statement to do so on behalf of such members.

A majority of the members of the Board of Directors of Kidder, Peabody & Co. Incorporated has signed this Registration Statement or Amendment to the Registration Statement pursuant to Powers of Attorney authorizing the person signing this Registration Statement or Amendment to the Registration Statement to do so on behalf of such members.

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Smith Barney Shearson Inc., Depositor

/s/ George S. Michinard, Jr.  
By .....  
(GEORGE S. MICHINARD, JR.)

By the following persons, who  
constitute a majority of the  
directors of Smith Barney Shearson  
Inc.:

- Steven D. Black\*
- James S. Boshart III
- Robert A. Case
- Robert K. Difazio
- James Dimon\*
- Robert Druskin\*
- Herbert Dunn
- Toni A. Elliot\*
- Lewis L. Glucksman\*
- Robert F. Greenhill
- John B. Hoffmann\*
- A. Richard Janiak, Jr.\*
- Robert Q. Jones\*
- Robert B. Kane
- Robert H. Lessen
- Jeffrey B. Lane\*
- Thomas A. Maguire, Jr.
- Howard D. Marsh\*
- John F. McCann
- William J. Mills, II\*
- John C. Morris\*
- Charles O'Connor
- Hugh J. O'Hare
- Joseph J. Plumeri II
- Jack L. Rivkin
- A. George Saks\*
- Bruce D. Sargent\*
- Don M. Shagrin
- David M. Standridge

Jacques S. Theriot\*

Melvin B. Taub\*

Stephen Treadway\*

Paul Underwood\*

Philip M. Waterman, Jr.

/s/ George S. Michinard, Jr.

By .....  
(GEORGE S. MICHINARD, JR.,  
ATTORNEY-IN-FACT)

-----  
\* Pursuant to Powers of Attorney filed under the 1933 Act file Number 33-56722.

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Kidder, Peabody & Co. Incorporated,  
Depositor

/s/ Gilbert R. Ott, Jr.

By .....  
(GILBERT R. OTT, JR.)

By the following persons,\* who  
constitute a majority of the Board  
of Directors of Kidder, Peabody &  
Co. Incorporated:

Michael A. M. Keehner

John M. Liftin

James A. Mullin

Richard W. O'Donnell

Thomas F. Ryan, Jr.

/s/ Gilbert R. Ott, Jr.

By .....  
(GILBERT R. OTT, JR., ATTORNEY-IN-  
FACT)

-----  
\* Pursuant to Powers of Attorney filed under the 1933 Act File Number 33-37951.

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CONSENT OF INDEPENDENT AUDITORS

To the Sponsors and Unit Holders of  
Tax Exempt Securities Trust, Series 388:

We consent to the use of our report dated March 1, 1994 included herein and  
to the reference to our firm under the heading "Auditors" in the Prospectus.

KPMG Peat Marwick

New York, N.Y.  
March 1, 1994

DAVIS POLK & WARDWELL  
450 LEXINGTON AVENUE  
NEW YORK, NEW YORK 10017  
(212) 450-4000

March 1, 1994

Tax Exempt Securities Trust,  
Series 388

Smith Barney Shearson Inc.  
Kidder, Peabody & Co., Incorporated  
c/oSmith Barney Shearson Inc.  
1345 Avenue of the Americas  
New York, New York 10105

Dear Sirs:

We have acted as special counsel for you, as sponsors (the "Sponsors") of Series 388 of Tax Exempt Securities Trust (the "Trusts"), in connection with the issuance of units of fractional undivided interest in the Trusts (the "Units") in accordance with the Trust Indenture and Agreement and related Reference Trust Agreement relating to the Trusts (the "Indenture").

We have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of such documents and instruments as we have deemed necessary or advisable for the purpose of this opinion.

Based upon the foregoing, we are of the opinion that (i) the execution and delivery of the Indenture and the issuance of the Units have been duly authorized by the Sponsors and (ii) the Units, when duly issued and delivered by the Sponsors and the Trustee in accordance with the Indenture, will be legally issued, fully paid and non-assessable.

We hereby consent to the use of this opinion as Exhibit 3.1 to the Registration Statement relating to the Units filed under the Securities Act of 1933 and to the use of our name in such Registration Statement and in the related prospectus under the headings "Taxes", "New York Taxes" and "Legal Opinion".

Very truly yours,

Davis Polk & Wardwell

KENNY S&P EVALUATION SERVICES  
A Division of Kenny Information Systems, Inc.  
65 Broadway  
New York, New York 10006-2511  
Telephone: 212/770-4900  
F. A. Shinal  
Senior Vice President  
Chief Financial Officer

March 1, 1994

Smith Barney Shearson Inc.  
1345 Avenue of the Americas  
New York, N.Y. 10105

United States Trust Company  
114 W. 47th Street  
New York, NY 10036

Re: Tax-Exempt Securities Trust, Series 388

Gentlemen:

We have examined Registration Statement File No. 33-51999 for the above-captioned trust. We hereby acknowledge that Kenny S&P Evaluation Services, a division of Kenny Information Systems, Inc. is currently acting as the evaluator for the trust. We hereby consent to the use in the Registration Statement of the reference to Kenny S&P Evaluation Services, a division of Kenny Information Systems, Inc. as evaluator.

In addition, we hereby confirm that the ratings indicated in the Registration Statement for the respective bonds comprising the trust portfolio are the ratings indicated in our KENNYBASE database.

You are hereby authorized to file a copy of this letter with the Securities and Exchange Commission.

Sincerely,

F. A. Shinal  
Senior Vice President  
Chief Financial Officer

SMITH BARNEY SHEARSON INC.  
-----

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 21 day of December, 1993.

/s/Robert A. Case  
Name: Robert A. Case

SMITH BARNEY SHEARSON INC.  
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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 21 day of December, 1993.

/s/Robert K. Difazio  
Name: Robert K. Difazio

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY



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IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 21 day of December, 1993.

/s/Herbert Dunn  
Name: Herbert Dunn

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to

act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 21 day of December, 1993.

/s/Robert F. Greenhill  
Name: Robert F. Greenhill

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration

under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 31 day of December, 1993.

/s/Robert B. Kane  
Name: Robert B. Kane

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid

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IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 31 day of December, 1993.

/s/Robert H. Lessin  
Name: Robert H. Lessin

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements,

schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 22 day of December, 1993.

/s/John F. McCann  
Name: John F. McCann

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 22 day of December, 1993.

/s/Thomas A. Maguire, Jr.  
Name: Thomas A. Maguire, Jr.

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 22 day of December, 1993.

/s/Charles O'Connor  
Name: Charles O'Connor

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 22 day of December, 1993.

/s/Hugh J. O'Hare  
Name: Hugh J. O'Hare

SMITH BARNEY SHEARSON INC.  
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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 24 day of December, 1993.

/s/Joseph J. Plumeri II  
Name: Joseph J. Plumeri II

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"),



does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 22 day of December, 1993.

/s/Jack L. Rivkin  
Name: Jack L. Rivkin

SMITH BARNEY SHEARSON INC.  
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#### POWER OF ATTORNEY

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the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 22 day of December, 1993.

/s/Don M. Shagrin  
Name: Don M. Shagrin

SMITH BARNEY SHEARSON INC.  
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POWER OF ATTORNEY

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Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 31 day of December, 1993.

/s/David M. Standridge  
Name: David M. Standridge

SMITH BARNEY SHEARSON INC.  
-----

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or

application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 31 day of December, 1993.

/s/Philip M. Waterman, Jr.  
Name: Philip M. Waterman, Jr.

SMITH BARNEY SHEARSON INC.  
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POWER OF ATTORNEY

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shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 31 day of December, 1993.

/s/Henry U. Harris  
Name: Henry U. Harris

SMITH BARNEY SHEARSON INC.  
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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Smith Barney Shearson Inc., a Delaware corporation (hereinafter called the "Corporation"), does hereby constitute and appoint George S. Michinard, Jr. and Frank Porcelli, and each of them, his true and lawful attorneys and agents, with full power to act without the others, for him and in his name, place and stead, in any and all capacities, to do any and all acts and things, and execute in his name any and all instruments, which said attorneys and agents may deem necessary or advisable in order to enable the Corporation to comply with the Securities Act of 1933 and the Investment Company Act of 1940, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Acts of (i) units of fractional undivided interest in one or more series of Smith Barney Shearson Unit Trusts, Tax Exempt Securities Trust; or any other unit investment trust fund (or other unit based investment vehicles not involving active management) established in accordance with the Investment Company Act of 1940 for which Smith Barney Shearson Inc., alone or with others, will act as Depositor or Sponsor and/or Underwriter, and (ii) the aforesaid trusts, including specifically power and authority to sign his name to any and all Notifications of Registration and/or Registration Statements to be filed with the Securities and Exchange Commission under either of said Acts in respect to such units and trusts, any amendment (including post-effective amendment) or application for amendment of such Notifications of Registration and/or Registration Statements, and any Prospectuses, exhibits, financial statements, schedules or any other documents filed therewith, and to file the same with the Securities and Exchange Commission; and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said agents and attorneys shall have, and may exercise, without the others, all the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has signed his name hereto in the City of New York as of this 22 day of January, 1994.

/s/James Boshart III  
Name: James Boshart III