

SECURITIES AND EXCHANGE COMMISSION

FORM N-1A/A

Initial registration statement filed on Form N-1A for open-end management investment companies
[amend]

Filing Date: **1994-08-02**
SEC Accession No. 0000950109-94-001346

([HTML Version](#) on [secdatabase.com](#))

FILER

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND OF MLMSMST

CIK: **925857** | Fiscal Year End: **1231**
Type: **N-1A/A** | Act: **33** | File No.: **033-54341** | Film No.: **94541299**

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 2, 1994

SECURITIES ACT FILE NO. 33-54341
INVESTMENT COMPANY ACT FILE NO. 811-4375

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-1A
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

PRE-EFFECTIVE AMENDMENT NO. 1 [X]

POST-EFFECTIVE AMENDMENT NO. [_]
AND/OR
REGISTRATION STATEMENT UNDER
THE INVESTMENT COMPANY ACT OF 1940 [X]

AMENDMENT NO. 80 [X]
(Check appropriate box or boxes)

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND
OF MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

800 SCUDDERS MILL ROAD
PLAINSBORO, NEW JERSEY 08536
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (609) 282-2800

ARTHUR ZEIKEL
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST
800 SCUDDERS MILL ROAD, PLAINSBORO, NEW JERSEY
MAILING ADDRESS: BOX 9011, PRINCETON, NEW JERSEY 08543-9011

COPIES TO:
COUNSEL FOR THE TRUST: BROWN & WOOD
PHILIP L. KIRSTEIN, ESQ.
FUND ASSET MANAGEMENT

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:

AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

AN INDEFINITE NUMBER OF CLASS A AND CLASS B SHARES OF BENEFICIAL INTEREST OF THE REGISTRANT IS BEING REGISTERED BY THIS REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 PURSUANT TO RULE 24F-2 UNDER THE INVESTMENT COMPANY ACT OF 1940.

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND OF
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST
REGISTRATION STATEMENT ON FORM N-1A
CROSS REFERENCE SHEET

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Item 5A.	Management's Discussion of Fund Performance.....	Not Applicable
Item 6.	Capital Stock and Other Securities.....	Cover Page; Additional Information
Item 7.	Purchase of Securities Being Offered	Cover Page; Fee Table; Alternative Sales Arrangements; Purchase of Shares; Shareholder Services; Additional Information; Inside Back Cover Page

Item 8. Redemption of Repurchase.....	Fee Table; Alternative Sales Arrangements; Purchase of Shares; Redemption of Shares
Item 9. Pending Legal Proceedings.....	Not Applicable
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Item 16. Investment Advisory and Other Services.....	Management of the Trust; Purchase of Shares; General Information
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PART C

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Registration Statement.

</TABLE>

PROSPECTUS

AUGUST , 1994

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST
BOX 9011, PRINCETON, NEW JERSEY 08543-9011 . PHONE NO. (609) 282-2800

Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") is a mutual fund seeking to provide shareholders with as high a level of income exempt from Federal and Arkansas income taxes as is consistent with prudent investment management. The Fund invests primarily in a non-diversified portfolio of long-term, investment grade obligations, the interest on which, in the opinion of

bond counsel to the issuer, is exempt from Federal and Arkansas income taxes. The Fund may invest in certain tax-exempt securities classified as "private activity bonds" that may subject certain investors in the Fund to an alternative minimum tax. At times, the Fund may seek to hedge its portfolio through the use of futures transactions and options. There can be no assurance that the investment objective of the Fund will be realized.

The Fund offers two classes of shares which may be purchased during the subscription offering at \$10.00 per share and during the continuous offering at a price equal to the next determined net asset value per share, plus in both cases a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares"), or (ii) on a deferred basis (the "Class B shares"). The deferred charges to which the Class B shares are subject shall consist of a contingent deferred sales charge which may be imposed on redemptions made within four years of purchase and an ongoing account maintenance fee and distribution fee. These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should understand that the purpose and function of the deferred sales charges with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares. Investors also should understand that over time the deferred charges related to Class B shares may exceed the initial sales charge with respect to Class A shares. See "Alternative Sales Arrangements" on page 4.

Each Class A share and Class B share represents identical interests in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance fee and distribution fee and certain other costs resulting from the deferred sales charge arrangement, which will cause Class B shares to have a higher expense ratio and to pay lower dividends than those related to Class A shares, and that Class B shares have exclusive voting rights with respect to the account maintenance fee and the distribution fee. The two classes also have different exchange privileges.

(continued on following page)

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.

This Prospectus is a concise statement of information about the Fund that is relevant to making an investment in the Fund. This Prospectus should be retained for future reference. A statement containing additional information about the Fund, dated August , 1994 (the "Statement of Additional Information"), has been filed with the Securities and Exchange Commission and is available, without charge, by calling or by writing Merrill Lynch Multi-State Municipal Series Trust (the "Trust") at the above telephone number or address. The Statement of Additional Information is hereby incorporated by reference into this Prospectus. The Fund is a separate series of the Trust, an open-end management investment company organized as a Massachusetts business trust.

FUND ASSET MANAGEMENT--MANAGER
MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

(continued from prior page)

Merrill Lynch Funds Distributor, Inc. (the "Distributor"), Box 9011, Princeton, New Jersey 08543-9011 [(609) 282-2800], and other securities dealers which have entered into selected dealer agreements with the Distributor, including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), will solicit subscriptions for shares of the Fund during a period expected to end on September 23, 1994, unless extended. On the fifth business day after the conclusion of this subscription period, the subscriptions will be payable, the shares will be issued and the Fund will commence operations. The public offering price of the shares during the subscription offering will be \$10.00 per share in the case of Class B shares and \$10.00 per share plus a sales charge of 4.00%, subject to reductions on purchases in single transactions of \$25,000 or more, in the case of Class A shares. After the completion of the initial subscription offering, the Fund will engage in a continuous offering of its shares at a price equal to the next determined net asset value per share in the case of Class B shares and the next determined net asset value per share, plus a sales charge subject to reductions as noted above, in the case of Class A shares. Shareholders may redeem their shares at any time at the next determined net asset value. The Class B shares may be subject to a contingent deferred sales charge if redeemed within four years of purchase and are subject to ongoing account maintenance and distribution fees. The minimum initial purchase during the subscription and continuous offerings is \$1,000 and the minimum subsequent purchase in the continuous offering is \$50. Merrill Lynch may charge its customers a processing fee (presently \$4.85) for confirming purchases and repurchases. Purchases and redemptions directly through the Fund's Transfer Agent are not subject to the processing fee. See "Purchase of Shares" and "Redemption of Shares".

FEE TABLE

A general comparison of the sales arrangements and other nonrecurring and recurring expenses applicable to Class A shares and Class B shares follows:

<TABLE>
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	CLASS A SHARES INITIAL SALES CHARGE ALTERNATIVE		CLASS B SHARES DEFERRED SALES CHARGE ALTERNATIVE	
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Shareholder Transaction Expenses:				
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price).....		4.00% (a)		None
Sales Charge Imposed on Dividend Reinvestments		None		None
Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, whichever is lower)		None	4.0%	during the first year,

decreasing
1.0%
annually
to
0.0% after
the fourth
year (b)

Exchange Fee	None		None
Annual Fund Operating Expenses (as a percentage of average net assets):			
Management Fees (c)	0.55%		0.55%
Rule 12b-1 Fees	None		0.50% (d)
Other Expenses			
Custodial Fees.....	0.04%	0.04%	
Shareholder Servicing Costs (e) .	0.08%	0.08%	
Miscellaneous.....	1.04%	1.04%	
	-----	----	
Total Other Expenses.....	1.16%		1.16%
	----		----
Total Fund Operating Expenses.....	1.71%		2.21%
	====		====

</TABLE>

- (a) Reduced for purchases of \$25,000 and over, decreasing to 0.50% for purchases of \$1,000,000 and over. Certain purchasers of Class A shares investing \$1,000,000 or more may in lieu of a front-end sales load, be assessed a deferred sales charge on redemptions within the first year of such investment. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares"--page 21.
- (b) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares"--page 22.
- (c) See "Management of the Trust--Management and Advisory Arrangements"--page 16.
- (d) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares--Distribution Plan"--page 23.
- (e) See "Management of the Trust--Transfer Agency Services"--page 17.

EXAMPLE:

<TABLE>

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CUMULATIVE EXPENSES PAID
FOR THE PERIOD OF:

	-----	-----	-----	-----
	1 YEAR	3 YEARS	5 YEARS	10 YEARS
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>

An investor would pay the following expenses on a \$1,000 investment including, for Class A shares, the maximum \$40 front-end sales charge and assuming (1) an operating expense ratio of 1.71% for Class A shares and 2.21% for Class B shares, (2) a 5% annual return throughout the periods and (3) redemption at the end of the period:

Class A	\$56.69	\$91.72	\$129.10	\$233.86
---------------	---------	---------	----------	----------

Class B	\$62.41	\$89.12	\$118.47	\$254.42
An investor would pay the following expenses on the same \$1,000 investment assuming no redemption at the end of the period:				
Class A	\$56.69	\$91.72	\$129.10	\$233.86
Class B	\$22.41	\$69.12	\$118.47	\$254.42

The foregoing Fee Table is intended to assist investors in understanding the costs and expenses that a shareholder in the Fund will bear directly or indirectly. The expenses set forth under "Other Expenses" are based on estimated amounts through the end of the Fund's first fiscal year on an annualized basis. The Example set forth above assumes reinvestment of all dividends and distributions and utilizes a 5% annual rate of return as mandated by Securities and Exchange Commission (the "Commission") regulations. THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OR ANNUAL RATE OF RETURN, AND ACTUAL EXPENSES OR ANNUAL RATE OF RETURN MAY BE MORE OR LESS THAN THOSE ASSUMED FOR PURPOSES OF THE EXAMPLE. Class B shareholders who hold their shares for an extended period of time may pay more in Rule 12b-1 distribution fees than the economic equivalent of the maximum front-end sales charges permitted under the Rules of Fair Practice of the National Association of Securities Dealers, Inc. Merrill Lynch may charge its customers a processing fee (presently \$4.85) for confirming purchases and repurchases. Purchases and redemptions directly through the Fund's Transfer Agent are not subject to the processing fee. See "Purchase of Shares" and "Redemption of Shares".

ALTERNATIVE SALES ARRANGEMENTS

Shares of the Fund may be purchased during the subscription offering at \$10.00 per share and during the continuous offering at a price equal to the next determined net asset value per share, plus in both cases a sales charge which, at the election of the purchaser, may be imposed either (i) at the time of the purchase (the "initial sales charge alternative"), or (ii) on a deferred basis (the "deferred sales charge alternative").

Class A Shares. An investor who elects the initial sales charge alternative acquires Class A shares. Although Class A shares incur a sales charge when they are purchased, they enjoy the benefit of not being subject to the ongoing account maintenance and distribution fees to which Class B shares are subject or any sales charge when they are redeemed. Certain purchasers of Class A shares qualify for reduced initial sales charges. See "Purchase of Shares".

Class B Shares. An investor who elects the deferred sales charge alternative acquires Class B shares. Class B shares do not incur a sales charge when they are purchased, but they are subject to ongoing account maintenance and distribution fees and a sales charge if they are redeemed within four years of purchase. Class B shares enjoy the benefit of permitting all of the investor's dollars to work from the time the investment is made. The ongoing account maintenance and distribution fees paid by Class B shares will cause such shares to have a higher expense ratio and to pay lower dividends than those related to Class A shares. Payment of the distribution fee is subject to certain limits as set forth under "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares".

As an illustration, investors who qualify for significantly reduced sales charges might elect the initial sales charge alternative because similar sales charge reductions are not available for purchases under the deferred sales charge alternative. Moreover, shares acquired under the initial sales charge alternative would not be subject to ongoing account maintenance and distribution fees. However, because initial sales charges are deducted at the time of purchase, such investors would not have all their funds invested initially. Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time also might elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees may exceed the initial sales charge. Again, however, such investors must weigh this consideration against the fact that not all of their funds will be invested initially.

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Furthermore, the ongoing account maintenance and distribution fees will be offset to the extent any return is realized on the additional funds initially invested under the deferred alternative. However, there can be no assurance as to the return, if any, which will be realized on such additional funds. Certain other investors might determine it to be more advantageous to have all of their funds invested initially, although remaining subject to continued account maintenance and distribution fees and, for a four-year period of time, a contingent deferred sales charge.

The distribution expenses incurred by the Distributor and dealers (primarily Merrill Lynch) in connection with the sale of the shares will be paid, in the case of the Class A shares, from the proceeds of the initial sales charge. In the case of the Class B shares, such distribution expenses will be paid from the proceeds of the ongoing distribution fee and, if applicable, the contingent deferred sales charge incurred upon redemption within four years of purchase. Sales personnel may receive different compensation for selling Class A or Class B shares. Investors should understand that the purpose and function of the deferred sales charges with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares.

Dividends paid by the Fund with respect to Class A and Class B shares, to the extent any dividends are paid, will be calculated in the same manner at the same time on the same day and will be in the same amount, except that account maintenance and distribution fees and any incremental transfer agency costs relating to Class B shares will be borne exclusively by that class. See "Additional Information--Determination of Net Asset Value". Class A and Class B shareholders of the Fund have an exchange privilege for Class A and Class B shares, respectively, of certain other mutual funds sponsored by Merrill Lynch. Class A and Class B shareholders of the Fund also may exchange their shares for shares of certain money market funds sponsored by Merrill Lynch. See "Shareholder Services--Exchange Privilege".

The Trustees of the Trust have determined that currently no conflict of interest exists between the Class A and Class B shares. On an ongoing basis, the Trustees of the Trust, pursuant to their fiduciary duties under the Investment Company Act of 1940 and state laws, will seek to assure that no such conflict arises.

The alternative sales arrangements permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the

purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should determine whether under their particular circumstances it is more advantageous to incur an initial sales charge and not be subject to ongoing charges, or to have the entire initial purchase price invested in the Fund with the investment thereafter being subject to ongoing account maintenance and distribution fees. To assist investors in making this determination, the Fee Table on page 3 sets forth the charges applicable to each class of shares and a discussion of relevant factors in making such determination is set forth under "Purchase of Shares--Alternative Sales Arrangements" on page 20.

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to provide shareholders with as high a level of income exempt from Federal and Arkansas income taxes as is consistent with prudent investment management. The Fund seeks to achieve its objective while providing investors with the opportunity to invest in a non-diversified portfolio of securities consisting primarily of long-term obligations issued by or on behalf of the State of Arkansas, its political subdivisions, agencies and instrumentalities and obligations of other qualifying issuers, such as issuers located in Puerto Rico, the Virgin Islands and Guam, which pay interest exempt, in the opinion of bond counsel to the issuer, from Federal and Arkansas income taxes. Obligations exempt from Federal income taxes are referred to herein as "Municipal Bonds" and obligations exempt from both Federal and Arkansas income taxes are referred to as "Arkansas Municipal Bonds". Unless otherwise indicated, references to Municipal Bonds shall be deemed to include Arkansas Municipal Bonds. The Fund at all times, except during temporary defensive periods, will maintain at least 65% of its total assets invested in Arkansas Municipal Bonds. The investment objective of the Fund as set forth in the first sentence of this paragraph is a fundamental policy and may not be changed without shareholder approval. At times, the Fund may seek to hedge its portfolio through the use of futures transactions to reduce volatility in the net asset value of Fund shares.

Municipal Bonds may include several types of bonds. The risks and special considerations involved in investments in Municipal Bonds vary with the types of instruments being acquired. Investments in Non-Municipal Tax-Exempt Securities, as defined herein, may present similar risks, depending on the particular product. See "Description of Municipal Bonds". The interest on Municipal Bonds may bear a fixed rate or be payable at a variable or floating rate. At least 80% of the Municipal Bonds purchased by the Fund primarily will be what are commonly referred to as "investment grade" securities, which are obligations rated at the time of purchase within the four highest quality ratings as determined by either Moody's Investors Service, Inc. ("Moody's") (currently Aaa, Aa, A and Baa), Standard & Poor's Corporation ("Standard & Poor's") (currently AAA, AA, A and BBB) or Fitch Investors Service, Inc. ("Fitch") (currently AAA, AA, A and BBB). If Municipal Bonds are unrated, such securities will possess creditworthiness comparable, in the opinion of the manager of the Fund, Fund Asset Management, L.P. (the "Manager"), to obligations in which the Fund may invest. Municipal Bonds rated in the fourth highest rating category, while considered "investment grade", have certain speculative characteristics and are more likely to be downgraded to non-investment grade than obligations rated in one of the top three rating

categories. See Appendix II--"Ratings of Municipal Bonds"--in the Statement of Additional Information for more information regarding ratings of debt securities. An issue of rated Municipal Bonds may cease to be rated or its rating may be reduced below "investment grade" subsequent to its purchase by the Fund. If an obligation is downgraded below investment grade, the Manager will consider factors such as price, credit risk, market conditions, financial condition of the issuer and interest rates to determine whether to continue to hold the obligation in the Fund's portfolio.

The Fund may invest up to 20% of its total assets in Municipal Bonds that are rated below Baa by Moody's or below BBB by Standard & Poor's or Fitch, or which in the Manager's judgment, possess similar credit characteristics. Such securities, sometimes referred to as "high-yield" or "junk" bonds, are predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of the security and generally involve a greater volatility of price than securities in higher rating categories. The market prices of high-yielding, lower-rated securities may fluctuate more than higher-rated securities and may decline significantly in periods of general economic difficulty, which may follow periods of rising interest rates. In purchasing such securities, the Fund will rely on the Manager's judgment, analysis

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and experience in evaluating the creditworthiness of the issuer of such securities. The Manager will take into consideration, among other things, the issuer's financial resources, its sensitivity to economic conditions and trends, its operating history, the quality of its management and regulatory matters. See "Investment Objective and Policies" in the Statement of Additional Information for a more detailed discussion of the pertinent risk factors involved in investing in "high yield" or "junk" bonds and Appendix II--"Ratings of Municipal Bonds"--in the Statement of Additional Information for additional information regarding ratings of debt securities. The Fund does not intend to purchase debt securities that are in default or which the Manager believes will be in default.

Certain Municipal Bonds may be entitled to the benefits of letters of credit or similar credit enhancements issued by financial institutions. In such instances, the Trustees and the Manager will take into account in assessing the quality of such bonds not only the creditworthiness of the issuer of such bonds but also the creditworthiness of the financial institution. Certain instruments in which the Fund may invest may be characterized as derivative instruments. See "Description of Municipal Bonds" and "Financial Futures Transactions and Options".

The Fund's investments may also include variable rate demand obligations ("VRDOs") and VRDOs in the form of participation interests ("Participating VRDOs") in variable rate tax-exempt obligations held by a financial institution. The VRDOs in which the Fund will invest are tax-exempt obligations which contain a floating or variable interest rate adjustment formula and an unconditional right of demand on the part of the holder thereof to receive payment of the unpaid principal balance plus accrued interest on a short notice period not to exceed seven days. Participating VRDOs provide the Fund with a specified undivided interest (up to 100%) of the underlying obligation and the right to demand payment of the unpaid principal balance plus accrued interest on the Participating VRDOs from the financial institution on a specified number

of days' notice, not to exceed seven days. There is, however, the possibility that because of a default or insolvency, the demand feature of VRDOs or Participating VRDOs may not be honored. The Fund has been advised by its counsel that the Fund should be entitled to treat the income received on Participating VRDOs as interest from tax-exempt obligations.

VRDOs that contain an unconditional right of demand to receive payment of the unpaid principal balance plus accrued interest on a notice period exceeding seven days may be deemed illiquid securities. A VRDO with a demand notice period exceeding seven days will therefore be subject to the Fund's restriction on illiquid investments unless, in the judgment of the Trustees, such VRDO is liquid. The Trustees may adopt guidelines and delegate to the Manager the daily function of determining and monitoring liquidity of such VRDOs. The Trustees, however, will retain sufficient oversight and be ultimately responsible for such determinations.

The Fund ordinarily does not intend to realize investment income not exempt from Federal and Arkansas income taxes. However, to the extent that suitable Arkansas Municipal Bonds are not available for investment by the Fund, the Fund may purchase Municipal Bonds issued by other states, their agencies and instrumentalities, the interest income on which is exempt, in the opinion of bond counsel, from Federal, but not Arkansas, taxation. The Fund also may invest in securities not issued by or on behalf of a state or territory or by an agency or instrumentality thereof, if the Fund nevertheless believes such securities to be exempt from Federal income taxation ("Non-Municipal Tax-Exempt Securities"). Non-Municipal Tax-Exempt Securities may include securities issued by other investment companies that invest in municipal bonds, to the extent such investments are permitted by the Investment Company Act of 1940, as amended (the "1940 Act"). Other Non-Municipal Tax-Exempt Securities could include trust certificates or other derivative instruments evidencing interests in one or more Municipal Bonds.

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Under normal circumstances, except when acceptable securities are unavailable as determined by the Manager, the Fund will invest at least 65% of its total assets in Arkansas Municipal Bonds. For temporary defensive periods or to provide liquidity, the Fund has the authority to invest as much as 35% of its total assets in tax-exempt or taxable money market obligations with a maturity of one year or less (such short-term obligations being referred to herein as "Temporary Investments"), except that taxable Temporary Investments shall not exceed 20% of the Fund's net assets. The Temporary Investments, VRDOs and Participating VRDOs in which the Fund may invest also will be in the following rating categories at the time of purchase: MIG-1/VMIG-1 through MIG-4/VMIG-4 for notes and VRDOs and Prime-1 through Prime-3 for commercial paper (as determined by Moody's), SP-1 and SP-2 for notes and A-1 through A-3 for VRDOs and commercial paper (as determined by Standard & Poor's), or F-1 through F-3 for notes, VRDOs and commercial paper (as determined by Fitch) or, if unrated, of comparable quality in the opinion of the Manager. The Fund at all times will have at least 80% of its net assets invested in securities the interest on which is exempt from Federal taxation. However, interest received on certain otherwise tax-exempt securities which are classified as "private activity bonds" (in general, bonds that benefit non-governmental entities), may be subject to a Federal alternative minimum tax. The percentage of the Fund's net assets invested in "private activity bonds" will vary during the year. See "Distributions and Taxes". In addition, the Fund

reserves the right to invest temporarily a greater portion of its assets in Temporary Investments for defensive purposes, when, in the judgment of the Manager, market conditions warrant. The investment objective of the Fund is a fundamental policy of the Fund which may be not changed without a vote of a majority of the outstanding shares of the Fund. The Fund's hedging strategies, which are described in more detail under "Financial Futures Transactions and Options", are not fundamental policies and may be modified by the Trustees of the Trust without the approval of the Fund's shareholders.

POTENTIAL BENEFITS

Investment in shares of the Fund offers several benefits. The Fund offers investors the opportunity to receive income exempt from Federal and Arkansas income taxes by investing in a professionally managed portfolio consisting primarily of long-term Arkansas Municipal Bonds. The Fund also provides liquidity because of its redemption features and relieves the investor of the burdensome administrative details involved in managing a portfolio of tax-exempt securities. The benefits of investing in the Fund are at least partially offset by the expenses involved in operating an investment company. Such expenses primarily consist of the management fee and operational costs, and in the case of Class B shares, account maintenance and distribution fees.

SPECIAL AND RISK CONSIDERATIONS RELATING TO ARKANSAS MUNICIPAL BONDS

The Fund ordinarily will invest at least 65% of its total assets in Arkansas Municipal Bonds, and therefore it is more susceptible to factors adversely affecting issuers of Arkansas Municipal Bonds than is a tax-exempt mutual fund that is not concentrated in issuers of Arkansas Municipal Bonds to this degree.

Many different economic and social conditions may affect the financial condition of Arkansas and its political subdivisions in the future. Although the general economy of the State is presently improving, future events which could negatively impact the State include: the effects of inflation, decreases in tax collections due to recessionary trends such as increased unemployment, slowdowns in business activity generally and the cyclical nature of some manufacturing sectors. Standard & Poor's lowered its rating of the Arkansas Development Finance Authority's Guaranty Revenue Bond program from A+ to A- on June 24, 1994.

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The rating change reflects a substantial drop in interest earnings on state treasury fund balances since the program was originally rated in 1987. Treasury earnings are a backup source of bond repayment in the event that the Guaranty Revenue Fund is ever exhausted. The Manager does not believe that the current economic conditions in Arkansas will have a significant adverse effect on the Fund's ability to invest in high quality Arkansas Municipal Bonds. See Appendix I, "Economic and Financial Conditions in Arkansas," in the Statement of Additional Information.

DESCRIPTION OF MUNICIPAL BONDS

Municipal Bonds include debt obligations issued to obtain funds for various public purposes, including construction and equipping of a wide range of public facilities (including water, sewer, gas, electricity, solid waste, health care,

transportation, education and housing facilities), refunding of outstanding obligations and obtaining funds for general operating expenses and loans to other public institutions and facilities. In addition, certain types of bonds are issued by or on behalf of public authorities to finance various privately operated facilities, including certain facilities for the local furnishing of electric energy or gas, sewage facilities, solid waste disposal facilities and other specialized facilities. For purposes of this Prospectus, such obligations are referred to as Municipal Bonds if the interest paid thereon is exempt from Federal income tax, and, as Arkansas Municipal Bonds if the interest thereon is exempt from Federal and Arkansas income taxes, even though such bonds may be "private activity bonds" as discussed below.

The two principal classifications of Municipal Bonds are "general obligation" bonds and "revenue" bonds which latter category includes industrial development bonds ("IDBs") and, for bonds issued after August 15, 1986, private activity bonds. General obligation bonds are secured by the issuer's pledge of its faith, credit and taxing power for the payment of principal and interest. The taxing power of any governmental entity may be limited, however, by provisions of state constitutions or laws, and an entity's creditworthiness will depend on many factors, including potential 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, state legislative proposals or voter initiatives to limit ad valorem real property taxes and the extent to which the entity relies on Federal or state aid, access to capital markets or other factors beyond the state or entity's control. Accordingly, the capacity of the issuer of a general obligation bond as to the timely payment of interest and the repayment of principal when due is affected by the issuer's maintenance of its tax base.

Revenue bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source such as payments from the user of the facility being financed; accordingly, the timely payment of interest and the repayment of principal in accordance with the terms of the revenue or special obligation bond is a function of the economic viability of such facility or such revenue source. The Fund will not invest more than 10% of its total assets (taken at market value at the time of each investment) in industrial revenue bonds where the entity supplying the revenues from which the issuer is paid, including predecessors, has a record of less than three years of continuous business operations. Investments involving entities with less than three years of continuous business operations may pose somewhat greater risks due to the lack of a substantial operating history for such entities. The Manager believes, however, that the potential benefits of such investments outweigh the potential risks, particularly given the Fund's limitations on such investments.

The Fund may purchase IDBs and private activity bonds. IDBs and private activity bonds are tax-exempt securities issued by states, municipalities or public authorities to provide funds, usually through a loan or lease arrangement, to a private entity for the purpose of financing construction or improvement of a facility to be used by the entity. Such bonds are secured primarily by revenues derived from loan repayments or lease payments due from the entity which may or may not be guaranteed by a parent company or otherwise

secured. Neither IDBs nor private activity bonds are secured by a pledge of the taxing power of the issuer of such bonds. Therefore, an investor should be aware that repayment of such bonds depends on the revenues of a private entity and be aware of the risks that such an investment may entail. Continued ability of an entity to generate sufficient revenues for the payment of principal and interest on such bonds will be affected by many factors including the size of the entity, capital structure, demand for its products or services, competition, general economic conditions, governmental regulation and the entity's dependence on revenues for the operation of the particular facility being financed. The Fund may also invest in so-called "moral obligation" bonds. If an issuer of such bonds is unable to meet its obligations, repayment of such bonds becomes a moral commitment, but not a legal obligation, of the issuer.

The Fund may invest in Municipal Bonds (and Non-Municipal Tax-Exempt Securities) the return on which is based on a particular index of value or interest rates. For example, the Fund may invest in Municipal Bonds that pay interest based on an index of Municipal Bond interest rates or based on the value of gold or some other commodity. The principal amount payable upon maturity of certain Municipal Bonds also may be based on the value of an index. Also, the Fund may invest in so-called "inverse floating obligations" or "residual interest bonds" on which the interest rates typically decline as market rates increase and increase as market rates decline. To the extent the Fund invests in these types of Municipal Bonds, the Fund's return on such Municipal Bonds will be subject to risk with respect to the value of the particular index. Such securities have the effect of providing a degree of investment leverage, since they may increase or decrease in value in response to changes, as an illustration, in market interest rates at a rate which is a multiple (typically two) of the rate at which fixed-rate long-term tax-exempt securities increase or decrease in response to such changes. As a result, the market values of such securities will generally be more volatile than the market values of fixed-rate tax-exempt securities. To seek to limit the volatility of these securities, the Fund may purchase inverse floating obligations with shorter term maturities or which contain limitations on the extent to which the interest rate may vary. The Manager believes that indexed and inverse floating obligations represent a flexible portfolio management instrument for the Fund which allows the Manager to vary the degree of investment leverage relatively efficiently under different market conditions. Certain investments in such obligations may be illiquid. The Fund may not invest in such illiquid obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets.

Also included within the general category of Municipal Bonds are participation certificates issued by government authorities or entities to finance the acquisition or construction of equipment, land and/or facilities. The certificates represent participations in a lease, an installment purchase contract or a conditional sales contract (hereinafter collectively called "lease obligations") relating to such equipment, land or facilities. Although lease obligations do not constitute general obligations of the issuer for which the issuer's unlimited taxing power is pledged, a lease obligation frequently is backed by the issuer's covenant to budget for, appropriate and make the payments due under the lease obligation. However, certain lease obligations contain "non-appropriation" clauses which provide that the issuer has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. Although "non-appropriation" lease obligations are secured by the leased property, disposition of the property in the event of foreclosure might prove difficult. These securities represent a type of financing that has not yet

developed the depth of marketability associated with more conventional securities. Certain investments in lease obligations may be illiquid. The Fund may not invest in illiquid lease obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets. The Fund may, however, invest without regard to such limitation in lease obligations which the Manager, pursuant to guidelines which have been adopted by the Board of Trustees and subject to the supervision of the Board, determines to be liquid. The Manager will deem lease obligations liquid if they are publicly offered and have received an investment grade rating of Baa or better by Moody's, or BBB or better by Standard & Poor's or Fitch. Unrated lease obligations, or those rated below investment grade, will be considered liquid if the obligations come to the market through an underwritten public offering and at least two dealers are willing to give competitive bids. In reference to the latter, the Manager must, among other things, also review the creditworthiness of the municipality obligated to make payment under the lease obligation and make certain specified determinations based on such factors as the existence of a rating or credit enhancement such as insurance, the frequency of trades or quotes for the obligation and the willingness of dealers to make a market in the obligation.

Federal tax legislation has limited the types and volume of bonds the interest on which qualifies for a Federal income tax exemption. As a result, this legislation and legislation which may be enacted in the future may affect the availability of Municipal Bonds for investment by the Fund.

WHEN-ISSUED SECURITIES AND DELAYED DELIVERY TRANSACTIONS

The Fund may purchase or sell Municipal Bonds on a delayed delivery basis or a when-issued basis at fixed purchase terms. These transactions arise when securities are purchased or sold by the Fund with payment and delivery taking place in the future. The purchase will be recorded on the date the Fund enters into the commitment and the value of the obligation will thereafter be reflected in the calculation of the Fund's net asset value. The value of the obligation on the delivery date may be more or less than its purchase price. A separate account of the Fund will be established with its custodian consisting of cash, cash equivalents or high grade, liquid Municipal Bonds having a market value at all times at least equal to the amount of the forward commitment.

CALL RIGHTS

The Fund may purchase a Municipal Bond issuer's right to call all or a portion of such Municipal Bond for mandatory tender for purchase (a "Call Right"). A holder of a Call Right may exercise such right to require a mandatory tender for the purchase of related Municipal Bonds, subject to certain conditions. A Call Right that is not exercised prior to the maturity of the related Municipal Bond will expire without value. The economic effect to holding both the Call Right and the related Municipal Bond is identical to holding a Municipal Bond as a non-callable security. Certain investments in such obligations may be illiquid. The Fund may not invest in such illiquid obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets.

FINANCIAL FUTURES TRANSACTIONS AND OPTIONS

The Fund is authorized to purchase and sell certain exchange traded financial futures contracts ("financial futures contracts") solely for the purpose of hedging its investments in Municipal Bonds against declines in value and to hedge against increases in the cost of securities it intends to purchase. However, any

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transactions involving financial futures or options (including puts and calls associated therewith) will be in accordance with the Fund's investment policies and limitations. A financial futures contract obligates the seller of a contract to deliver and the purchaser of a contract to take delivery of the type of financial instrument covered by the contract, or in the case of index-based futures contracts to make and accept a cash settlement, at a specific future time for a specified price. A sale of financial futures contracts may provide a hedge against a decline in the value of portfolio securities because such depreciation may be offset, in whole or in part, by an increase in the value of the position in the financial futures contracts. A purchase of financial futures contracts may provide a hedge against an increase in the cost of securities intended to be purchased, because such appreciation may be offset, in whole or in part, by an increase in the value of the position in the futures contracts. Distributions, if any, of net long-term capital gains from certain transactions in futures or options are taxable at long-term capital gains rates for Federal income tax purposes, regardless of the length of time the shareholder has owned Fund shares. See "Distributions and Taxes--Taxes".

The Fund deals in financial futures contracts traded on the Chicago Board of Trade based on The Bond Buyer Municipal Bond Index, a price-weighted measure of the market value of 40 large, recently issued tax-exempt bonds. There can be no assurance, however, that a liquid secondary market will exist to terminate any particular financial futures contract at any specific time. If it is not possible to close a financial futures position entered into by the Fund, the Fund would continue to be required to make daily cash payments of variation margin in the event of adverse price movements. In such a situation, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. The inability to close financial futures positions also could have an adverse impact on the Fund's ability to hedge effectively. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in a financial futures contract.

The Fund may purchase and sell financial futures contracts on U.S. Government securities and write and purchase put and call options on such futures contracts as a hedge against adverse changes in interest rates as described more fully in the Statement of Additional Information. With respect to U.S. Government securities, currently there are financial futures contracts based on long-term U.S. Treasury bonds, Treasury notes, Government National Mortgage Association ("GNMA") Certificates and three-month U.S. Treasury bills.

Subject to policies adopted by the Trustees, the Fund also may engage in other financial futures contracts transactions and options thereon, such as financial futures contracts or options on other municipal bond indexes which may become available if the Manager of the Fund and the Trustees of the Trust should determine that there is normally a sufficient correlation between the prices of such futures contracts and the Municipal Bonds in which the Fund

invests to make such hedging appropriate.

Utilization of futures transactions and options thereon involves the risk of imperfect correlation in movements in the price of futures contracts and movements in the price of the security which is the subject of the hedge. If the price of the futures contract moves more or less than the price of the security that is the subject of the hedge, the Fund will experience a gain or loss which will not be completely offset by movements in the price of such security. There is a risk of imperfect correlation where the securities underlying futures contracts have different maturities, ratings or geographic mixes than the security being hedged. In addition, the correlation may be affected by additions to or deletions from the index which serves as a basis for a financial futures contract. Finally, in the case of futures contracts on U.S. Government securities and options

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on such futures contracts, the anticipated correlation of price movements between the U.S. Government securities underlying the futures or options and Municipal Bonds may be adversely affected by economic, political, legislative or other developments which have a disparate impact on the respective markets for such securities.

Under regulations of the Commodity Futures Trading Commission, the futures trading activities described herein will not result in the Fund being deemed to be a "commodity pool," as defined under such regulations, provided that the Fund adheres to certain restrictions. In particular, the Fund may purchase and sell futures contracts and options thereon (i) for bona fide hedging purposes, and (ii) for non-hedging purposes, if the aggregate initial margins and premiums required to establish positions in such contracts and options does not exceed 5% of the liquidation value of the Fund's portfolio assets after taking into account unrealized profits and unrealized losses on any such contracts and options. (However, as stated above, the Fund intends to engage in options and futures transactions only for hedging purposes.) Margin deposits may consist of cash or securities acceptable to the broker and the relevant contract market.

When the Fund purchases a futures contract, or writes a put option or purchases a call option thereon, it will maintain an amount of cash, cash equivalents (e.g., high grade commercial paper and daily tender adjustable notes) or short-term, high-grade, fixed-income securities in a segregated account with the Fund's custodian, so that the amount so segregated plus the amount of initial and variation margin held in the account of its broker equals the market value of the futures contracts, thereby ensuring that the use of such futures contract is unleveraged. It is not anticipated that transactions in futures contracts will have the effect of increasing portfolio turnover.

Although certain risks are involved in options and futures transactions, the Manager believes that, because the Fund will engage in futures transactions only for hedging purposes, the futures portfolio strategies of the Fund will not subject the Fund to certain risks frequently associated with speculation in futures transactions. The Fund must meet certain Federal income tax requirements under the Internal Revenue Code of 1986, as amended (the "Code"), in order to qualify for the special tax treatment afforded regulated investment companies, including a requirement that less than 30% of its gross income be derived from the sale or other disposition of securities held for less than three months. Additionally, the Fund is required to meet certain

diversification requirements under the Code.

The liquidity of a secondary market in a futures contract may be adversely affected by "daily price fluctuation limits" established by commodity exchanges which limit the amount of fluctuation in a futures contract price during a single trading day. Once the daily limit has been reached in the contract, no trades may be entered into at a price beyond the limit, thus preventing the liquidation of open futures positions. Prices have in the past moved beyond the daily limit on a number of consecutive trading days.

The successful use of transactions in futures also depends on the ability of the Manager to forecast correctly the direction and extent of interest rate movements within a given time frame. To the extent these rates remain stable during the period in which a futures contract is held by the Fund or moves in a direction opposite to that anticipated, the Fund may realize a loss on the hedging transaction which is not fully or partially offset by an increase in the value of portfolio securities. As a result, the Fund's total return for such period may be less than if it had not engaged in the hedging transaction. Furthermore, the Fund will only engage in hedging transactions from time to time and may not necessarily be engaging in hedging transactions when movements in interest rates occur.

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Reference is made to the Statement of Additional Information for further information on financial futures contracts and certain options thereon.

REPURCHASE AGREEMENTS AND PURCHASE AND SALE CONTRACTS

As Temporary Investments, the Fund may invest in securities pursuant to repurchase agreements or purchase and sale contracts. Repurchase agreements and purchase and sale contracts may be entered into only with a member bank of the Federal Reserve System or primary dealer in U.S. Government securities. Under such agreements, the bank or primary dealer agrees, upon entering into the contract, to repurchase the security at a mutually agreed upon time and price, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect accrued interest on the underlying obligations; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, such as under one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In the case of a repurchase agreement, the Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under the repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but only constitute collateral for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the

contractual fixed rate of return, the rate of return to the Fund shall be dependent upon intervening fluctuations of the market value of such security and the accrued interest on the security. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform. The Fund may not invest in repurchase agreements or purchase and sale contracts maturing in more than seven days if such investments, together with all other illiquid investments, would exceed 15% of the Fund's net assets.

INVESTMENT RESTRICTIONS

The Fund's investment activities are subject to further restrictions that are described in the Statement of Additional Information. Investment restrictions and policies which are fundamental policies may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities, as defined in the 1940 Act. Among its fundamental policies, the Fund may not: (i) invest more than 25% of its assets, taken at market value, in the securities of issuers in any particular industry (excluding the U.S. Government and its agencies and instrumentalities) [For purposes of this restriction, states, municipalities and their political subdivisions are not considered to be part of any industry]; and (ii) borrow money, except that (a) the Fund may borrow from banks (as defined in the 1940 Act) in amounts up to 33 1/3% of its total assets (including the amount borrowed), (b) the Fund may borrow up to an additional 5% of its total assets for temporary purposes, (c) the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities and (d) the Fund may purchase securities on margin to the extent permitted by applicable law. The Fund may not pledge its assets other than to secure such borrowings or, to the extent permitted by the Fund's investment policies as set forth in the Prospectus and Statement of

Additional Information, as they may be amended from time to time, in connection with hedging transactions, short sales, when-issued and forward commitment transactions and similar investment strategies.

Among its non-fundamental policies, the Fund may not (i) purchase securities of other investment companies, except to the extent such purchases are permitted by applicable law; (ii) invest in securities which cannot be readily resold because of legal or contractual restrictions or which cannot otherwise be marketed, redeemed or put to the issuer or a third party, if at the time of acquisition more than 15% of its total assets would be invested in such securities [This restriction shall not apply to securities which mature within seven days or securities which the Board of Trustees of the Fund has otherwise determined to be liquid pursuant to applicable law]; and (iii) invest in securities of companies having a record, together with predecessors, of less than three years of continuous operation, if more than 5% of the Fund's total assets would be invested in such securities. This restriction shall not apply to mortgaged-backed securities, asset-backed securities or obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

The Fund is classified as non-diversified within the meaning of the 1940 Act, which means that the Fund is not limited by the 1940 Act in the proportion of

its assets that it may invest in obligations of a single issuer. However, the Fund's investments will be limited so as to qualify as a "regulated investment company" for purposes of the Internal Revenue Code. See "Taxes". To qualify, among other requirements, the Trust will limit the Fund's investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of the Fund's total assets will be invested in the securities of a single issuer, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer and the Fund will not own more than 10% of the outstanding voting securities of a single issuer. For purposes of this restriction, the Fund will regard each state and each political subdivision, agency or instrumentality of such state and each multi-state agency of which such state is a member and each public authority which issues securities on behalf of a private entity as a separate issuer, except that if the security is backed only by the assets and revenues of a non-government entity then the entity with the ultimate responsibility for the payment of interest and principal may be regarded as the sole issuer. These tax-related limitations may be changed by the Trustees of the Trust to the extent necessary to comply with changes to the Federal tax requirements. A fund which elects to be classified as "diversified" under the 1940 Act must satisfy the foregoing 5% and 10% requirements with respect to 75% of its total assets. To the extent that the Fund assumes large positions in the obligations of a small number of issuers, the Fund's total return may fluctuate to a greater extent than that of a diversified company as a result of changes in the financial condition or in the market's assessment of the issuers.

Investors are referred to the Statement of Additional Information for a complete description of the Fund's investment restrictions.

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MANAGEMENT OF THE TRUST

TRUSTEES

The Trustees of the Trust consist of six individuals, five of whom are not "interested persons" of the Trust as defined in the 1940 Act. The Trustees are responsible for the overall supervision of the operations of the Trust and the Fund and perform the various duties imposed on the directors or trustees of investment companies by the 1940 Act.

The Trustees are:

Arthur Zeikel*--President and Chief Investment Officer of Fund Asset Management, L.P. and Merrill Lynch Asset Management, L.P. ("MLAM"); President and Director of Princeton Services, Inc.; Executive Vice President of Merrill Lynch & Co., Inc. since 1990; Executive Vice President of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") since 1990 and a Senior Vice President thereof from 1985 to 1990; Director of Merrill Lynch Funds Distributor, Inc.

Kenneth S. Axelson--Former Executive Vice President and Director, J.C. Penney Company, Inc.

Herbert I. London--John M. Olin Professor of Humanities, New York

University.

Robert R. Martin--Chairman, WTC Industries, Inc. and former Chairman and Chief Executive Officer, Kinnard Investments, Inc.

Joseph L. May--Attorney in private practice.

Andre F. Perold--Professor, Harvard Business School.

*Interested person, as defined in the 1940 Act, of the Trust.

MANAGEMENT AND ADVISORY ARRANGEMENTS

Fund Asset Management, L.P. (the "Manager"), which is an affiliate of MLAM and is owned and controlled by Merrill Lynch & Co., Inc., acts as the manager for the Fund and provides the Fund with management services. The Manager or MLAM acts as the investment adviser for over 90 other registered investment companies. MLAM also offers portfolio management and portfolio analysis services to individuals and institutions. As of June 29, 1994, the Manager and MLAM had a total of approximately \$161.4 billion in investment company and other portfolio assets under management, including accounts of certain affiliates of the Manager.

Subject to the direction of the Trustees, the Manager is responsible for the actual management of the Fund's portfolio and constantly reviews the Fund's holdings in light of its own research analysis and that from other relevant sources. The responsibility for making decisions to buy, sell or hold a particular security rests with the Manager. The Manager performs certain of the other administrative services and provides all the office space, facilities, equipment and necessary personnel for management of the Fund.

Vincent R. Giordano and Kenneth A. Jacob are the Portfolio Managers for the Fund. Vincent R. Giordano has been a Portfolio Manager of the Manager and MLAM since 1977 and a Senior Vice President of the Manager and MLAM since 1984. Kenneth A. Jacob has been a Vice President of the Manager and MLAM since 1984.

Pursuant to the management agreement between the Manager and the Trust on behalf of the Fund (the "Management Agreement"), the Manager is entitled to receive from the Fund a monthly fee based upon the average daily net assets of the Fund at the following annual rates: 0.55% of the average daily net assets not

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exceeding \$500 million; 0.525% of the average daily net assets exceeding \$500 million but not exceeding \$1.0 billion; and 0.50% of the average daily net assets exceeding \$1.0 billion.

The Management Agreement obligates the Fund to pay certain expenses incurred in the Fund's operations, including, among other things, the management fee, legal and audit fees, unaffiliated Trustees' fees and expenses, registration fees, custodian and transfer agency fees, accounting and pricing costs, and certain of the costs of printing proxies, shareholder reports, prospectuses and statements of additional information. Accounting services are provided to the Fund by the Manager, and the Fund reimburses the Manager for its costs in connection with such services. The Manager may waive all or a portion of its

management fee and may voluntarily assume all or a portion of the Fund's expenses.

TRANSFER AGENCY SERVICES

Financial Data Services, Inc. (the "Transfer Agent"), which is a wholly-owned subsidiary of Merrill Lynch & Co., Inc., acts as the Trust's transfer agent pursuant to a transfer agency, dividend disbursing agency and shareholder servicing agency agreement (the "Transfer Agency Agreement"). Pursuant to the Transfer Agency Agreement, the Transfer Agent is responsible for the issuance, transfer and redemption of shares and the opening and maintenance of shareholder accounts. Pursuant to the Transfer Agency Agreement, the Fund pays the Transfer Agent an annual fee of \$10.00 per Class A shareholder account and \$12.00 per Class B shareholder account, and the Transfer Agent is entitled to reimbursement from the Fund for out-of-pocket expenses incurred by the Transfer Agent under the Transfer Agency Agreement.

PURCHASE OF SHARES

SUBSCRIPTION OFFERING

Merrill Lynch Funds Distributor, Inc. (the "Distributor"), a subsidiary of MLAM and an affiliate of Merrill Lynch, acts as the distributor of Class A and Class B shares of the Fund.

The Distributor, Merrill Lynch and other securities dealers which have entered into selected dealer agreements with the Distributor will solicit subscriptions for shares of the Fund during a period expected to end on September 23, 1994. The subscription period may be extended for up to an additional 30 days upon agreement between the Trust on behalf of the Fund and the Distributor. On the fifth business day after the conclusion of the subscription period, the subscriptions will be payable, the Class A and Class B shares will be issued and the Fund will commence operations. The subscription offering may be terminated by the Trust or the Distributor at any time, in which event no Class A and Class B shares will be issued (and, therefore, the Fund will not commence operations and no amounts will be payable by subscribers, and no sales charges will be assessed) or a limited number of shares will be issued.

The public offering price of the Class A shares during the subscription offering is set forth in the table below:

<TABLE>
<CAPTION>

		SUBSCRIPTION PERIOD	
		SALES CHARGE	SECURITIES DEALERS' CONCESSION
		PERCENTAGE*	PERCENTAGE*
PUBLIC OFFERING PRICE	DOLLAR AMOUNT	OF PUBLIC OFFERING PRICE	OF PUBLIC OFFERING PRICE

<S>	<C>	<C>	<C>	<C>	<C>
Less than \$25,000.....	\$10.417	\$.417	4.00%	\$.417	4.00%
\$25,000 but less than \$50,000.....	10.390	.390	3.75	.390	3.75
\$50,000 but less than \$100,000.....	10.336	.336	3.25	.336	3.25
\$100,000 but less than \$250,000.....	10.256	.256	2.50	.256	2.50
\$250,000 but less than \$1,000,000.....	10.152	.152	1.50	.152	1.50
\$1,000,000 and over.....	10.050	.050	0.50	.050	0.50

</TABLE>

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* Rounded to the nearest one-hundredth percent.

Initial sales charges may be waived for shareholders purchasing \$1 million or more in a single transaction (other than a tax qualified retirement plan under Section 401 of the Code, a deferred compensation plan under Section 403(b) and Section 457 of the Code, or employer sponsored non-qualified After-Tax Savings and Investment programs maintained on the Merrill Lynch Group Employee Services system), or a purchase by a TMSM Managed Trust, of Class A shares of the Fund. In addition, purchases of Class A shares of the Fund made in connection with a single investment of \$1 million or more under the Merrill Lynch Mutual Fund Adviser Program will not be subject to an initial sales charge. Purchases described in this paragraph will be subject instead to a contingent deferred sales charge ("CDSC") if the shares are redeemed within one year after purchase at the following rates:

<TABLE>

<CAPTION>

AMOUNT OF PURCHASE -----	CDSC AS A PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHARGE -----
<S>	<C>
\$1 million up to \$2.5 million.....	0.75%
Over \$2.5 million up to \$3.5 million.....	0.40%
Over \$3.5 million up to \$5 million.....	0.25%
Over \$5 million.....	0.20%

</TABLE>

The Distributor may reallocate discounts to selected dealers and retain the balance over such discounts. At times the Distributor may reallocate the entire sales charge to such dealers. Since securities dealers selling Class A shares of the Fund will receive a concession equal to most of the sales charge, they may be deemed to be underwriters under the Securities Act of 1933, as amended.

The proceeds per share to the Fund from the sale of all Class A shares sold during the subscription period will be \$10.00.

The public offering price of the Class B shares during the subscription offering will be \$10.00 per share. However, the Class B shares may be subject to a contingent deferred sales charge described below under "Deferred Sales Charge Alternative--Class B Shares--CDSC" if redeemed within four years of purchase and are subject to ongoing account maintenance and distribution fees as described below.

The minimum initial purchase for both Class A and Class B shares during the subscription period is \$1,000.

CONTINUOUS OFFERING

Commencing immediately after completion of the subscription offering, Class A and Class B shares of the Fund will be offered continuously for sale by the Distributor and other eligible securities dealers (including Merrill Lynch). During the continuous offering, shares of the Fund may be purchased from securities dealers or by mailing a purchase order directly to the Transfer Agent. The minimum initial purchase during the continuous offering is \$1,000. The minimum subsequent purchase is \$50.

The Fund will offer its shares during the continuous offering at a public offering price equal to the next determined net asset value per share plus sales charges which, at the option of the purchaser, may be imposed either at the time of purchase (the "initial sales charge alternative") or on a deferred basis (the "deferred sales charge alternative"), as described below. The applicable offering price for purchase orders is based upon the net asset value of the Fund next determined after receipt of the purchase orders by the Distributor. As to purchase orders received by securities dealers prior to 4:15 P.M., New York time, which includes orders received after the determination of net asset value on the previous day, the applicable offering price will be based on the net asset value determined as of 4:15 P.M. on the day the order is placed with the Distributor, provided the order is received by the Distributor prior to 4:30 P.M., New York time, on that day. If the purchase orders are not received by the Distributor prior to 4:30 P.M., New York time, such orders shall be deemed received on the next business day. Any order may be rejected by the Distributor or the Trust. The Trust or the Distributor may suspend the continuous offering of the Fund's shares at any time in response to conditions in the securities markets or otherwise and may thereafter resume such offering from time to time. Neither the Distributor nor the dealers are permitted to withhold placing orders to benefit themselves by a price change. Merrill Lynch may charge its customers a processing fee (presently \$4.85) to confirm a sale of shares to such customers. Purchases directly through the Fund's Transfer Agent are not subject to the processing fee.

The Fund presently issues two classes of shares: Class A shares are sold to investors choosing the initial sales charge alternative, and Class B shares are sold to investors choosing the deferred sales charge alternative. Each class of shares represents an interest in the same portfolio of investments of the Fund, has the same rights and is identical to the other class in all respects, except that Class B shares bear the expenses of the deferred sales arrangements, any expenses (including incremental transfer agency costs) resulting from such sales arrangements and the expenses paid by the account maintenance fee and have exclusive voting rights with respect to the Rule 12b-1 distribution plan pursuant to which the account maintenance and distribution fees are paid. The two classes also have different exchange privileges. See "Shareholder Services-- Exchange Privilege". The net income attributable to Class B shares and the dividends payable on Class B shares will be reduced by the amount of the account maintenance and distribution fees and incremental transfer agency

costs relating to Class B shares; accordingly, the net asset value of the Class B shares will be reduced by such amount to the extent the Fund has undistributed net income. Sales personnel may receive different compensation for selling Class A or Class B shares. Investors are advised that only Class A shares may be available for purchase through securities dealers, other than Merrill Lynch, that are eligible to sell shares.

It is contemplated that the boards of directors or trustees of each of the mutual funds advised by the Manager or MLAM and presently offering two classes of shares, including the Fund, will consider in August, 1994 whether to approve a new distribution system for shares of the funds, which will be named the Merrill Lynch Select PricingSM System. Under the Select PricingSM System, as presently contemplated, eligible

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investors would be permitted to choose from different sales charge alternatives offered through four classes of shares. It is currently anticipated that, subject to the approvals of the fund boards and of the shareholders of the funds, the Select PricingSM System will be implemented for all of such mutual funds, including the Fund.

ALTERNATIVE SALES ARRANGEMENTS

The alternative sales arrangements of the Fund permit investors to choose the method of purchasing shares that is most beneficial given the amount of their purchase, the length of time the investor expects to hold his shares and other relevant circumstances. INVESTORS SHOULD DETERMINE WHETHER UNDER THEIR PARTICULAR CIRCUMSTANCES IT IS MORE ADVANTAGEOUS TO INCUR AN INITIAL SALES CHARGE AND NOT BE SUBJECT TO ONGOING CHARGES, AS DISCUSSED BELOW, OR TO HAVE THE ENTIRE INITIAL PURCHASE PRICE INVESTED IN THE FUND WITH THE INVESTMENT THEREAFTER BEING SUBJECT TO ONGOING CHARGES.

As an illustration, investors who qualify for significantly reduced sales charges, as described below, might elect the initial sales charge alternative because similar sales charge reductions are not available for purchases under the deferred sales charge alternative. Moreover, shares acquired under the initial sales charge alternative would not be subject to ongoing account maintenance and distribution fees as described below. However, because initial sales charges are deducted at the time of purchase, such investors would not have all their funds invested initially.

Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time also might elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees may exceed the initial sales charge. Again, however, such investors must weigh this consideration against the fact that not all their funds will be invested initially. Furthermore, the ongoing account maintenance and distribution fees will be offset to the extent that any return is realized on the additional funds initially invested under the deferred alternative. Another factor that may be applicable under certain circumstances is that the payment of the Class B distribution fee and CDSC is subject to certain limits as set forth below under "Deferred Sales Charge Alternative--Class B Shares".

Certain other investors might determine it to be more advantageous to have all their funds invested initially, although remaining subject to continued account maintenance and distribution fees and, for a four-year period of time, a CDSC as described below. For example, an investor subject to the 4.0% initial sales charge will have to hold his investment at least 8 years for the 0.25% account maintenance fee and 0.25% distribution fee to exceed the initial sales charge of Class A shares. This example does not take into account the time value of money which further reduces the impact of the ongoing account maintenance and distribution fees on the investment, fluctuations in the net asset value, the effect of the return on the investment over this period of time or the effect of any limits that may be imposed upon the payment of the distribution fee and the CDSC.

INITIAL SALES CHARGE ALTERNATIVE--CLASS A SHARES

The public offering price of Class A shares for purchasers choosing the initial sales charge alternative is the next determined net asset value plus varying sales charges (i.e., sales loads), as set forth below.

<TABLE>
<CAPTION>

AMOUNT OF PURCHASE	SALES CHARGE AS PERCENTAGE OF OFFERING PRICE	SALES CHARGE AS PERCENTAGE* OF THE NET AMOUNT INVESTED	DISCOUNT TO SELECTED DEALERS AS PERCENTAGE OF THE OFFERING PRICE
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Less than \$25,000.....	4.00%	4.17%	3.75%
\$25,000 but less than \$50,000.....	3.75	3.90	3.50
\$50,000 but less than \$100,000.....	3.25	3.36	3.00
\$100,000 but less than \$250,000.....	2.50	2.56	2.25
\$250,000 but less than \$1,000,000.....	1.50	1.52	1.25
\$1,000,000 and over.....	0.50	0.50	0.40

</TABLE>

* Rounded to the nearest one-hundredth percent.

Initial sales charges may be waived for shareholders purchasing \$1 million or more in a single transaction (other than a tax qualified retirement plan under Section 401 of the Code, a deferred compensation plan under Section 403(b) and Section 457 of the Code, or employer sponsored non-qualified After-Tax Savings and Investment programs maintained on the Merrill Lynch Group Employee Services system), or a purchase by a TMASM Managed Trust, of Class A shares of the Fund. In addition, purchases of Class A shares of the Fund made in connection with a single investment of \$1 million or more under the Merrill Lynch Mutual Fund Adviser Program will not be subject to an initial sales charge. Purchases described in this paragraph will be subject instead to a CDSC if the shares are redeemed within one year after purchase at the following rates:

<TABLE>

<CAPTION>

AMOUNT OF PURCHASE -----	CDSC AS A PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHARGE -----
<S>	<C>
\$1 million up to \$2.5 million.....	0.75%
Over \$2.5 million up to \$3.5 million.....	0.40%
Over \$3.5 million up to \$5 million.....	0.25%
Over \$5 million.....	0.20%

</TABLE>

The Distributor may reallocate discounts to selected dealers and retain the balance over such discounts. At times the Distributor may reallocate the entire sales charge to such dealers. Since securities dealers selling Class A shares of the Fund will receive a concession equal to most of the sales charge, they may be deemed to be underwriters under the Securities Act of 1933, as amended.

Reduced Initial Sales Charges. Sales charges are reduced under a Right of Accumulation and a Letter of Intention. Class A shares of the Fund are offered at net asset value to Trustees of the Trust, to directors or trustees of certain other Merrill Lynch-sponsored investment companies, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase if certain conditions set forth in the Statement of Additional Information are met, to directors of Merrill Lynch & Co., Inc. and to employees of Merrill Lynch & Co., Inc. and its subsidiaries. Also, Class A shares may be offered at net asset value in connection with the acquisition of assets of other investment companies. No initial sales charges are imposed upon Class A shares issued as a result of the automatic reinvestment of dividends or capital gains distributions. Class A shares are offered to TMASM

Managed Trusts to which Merrill Lynch Trust Company provides discretionary trustee services at net asset value plus a reduced sales charge. Class A shares of the Fund are offered at net asset value to certain employer sponsored non-qualified After Tax Savings and Investment programs, provided such plans meet the required minimum number of eligible employees or required amount of assets advised by the Fund's investment adviser or any of its affiliates. Class A shares of the Fund also are offered at net asset value to shareholders of certain closed-end funds advised by the Manager or MLAM who wish to reinvest the net proceeds from a sale of their closed-end fund shares of common stock in shares of the Fund, provided certain conditions are met. Thus, for example, Class A shares of the Fund are offered at net asset value to shareholders of Merrill Lynch Senior Floating Rate Fund, Inc. (formerly known as Merrill Lynch Prime Fund, Inc.) ("Senior Floating Rate Fund") who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Senior Floating Rate Fund in shares of the Fund. In order to exercise this investment option, Senior Floating Rate Fund shareholders must sell their Senior Floating Rate Fund shares to the Senior Floating Rate Fund in connection with a tender offer conducted by the Senior Floating Rate Fund and reinvest the proceeds immediately in the Fund. This investment option is available only with respect to the proceeds of Senior Floating Rate Fund shares as to which no Early Withdrawal Charge (as defined in the Senior Floating Rate Fund prospectus) is applicable. Purchase orders from Senior

Floating Rate Fund shareholders wishing to exercise this investment option will be accepted only on the day that the related Senior Floating Rate Fund tender offer terminates and will be effected at the net asset value of the Fund at such day. Class A shares of the Fund may be purchased at net asset value, without a sales charge, by programs associated with professional athletic players' associations which have invested in the aggregate more than \$10 million in Merrill Lynch-sponsored investment companies. Additional information concerning these reduced initial sales charges is set forth in the Statement of Additional Information.

DEFERRED SALES CHARGE ALTERNATIVE--CLASS B SHARES

Investors choosing the deferred sales charge alternative purchase Class B shares at net asset value per share without the imposition of a sales charge at the time of purchase. The Class B shares are being sold without an initial sales charge so that the Fund will receive the full amount of the investor's purchase payment. Merrill Lynch compensates its financial consultants for selling Class B shares at the time of purchase from its own funds. The proceeds of the CDSC and the ongoing distribution fee discussed below are used to defray Merrill Lynch's distribution expenses, including compensating its financial consultants. The proceeds from the ongoing account maintenance fee are used to compensate Merrill Lynch for providing continuing account maintenance activities.

Proceeds from the CDSCs are paid to the Distributor and are used in whole or in part by the Distributor to defray the expenses of dealers (including Merrill Lynch) related to providing distribution-related services to the Fund in connection with the sale of the Class B shares, such as the payment of compensation to financial consultants for selling Class B shares, from the dealer's own funds. Payments by the Fund to the Distributor of the distribution fee under the distribution plan described below also may be used in whole or in part by the Distributor for this purpose. The combination of the CDSC and the ongoing distribution fee facilitates the ability of the Fund to sell the Class B shares without a sales charge being deducted at the time of purchase. Class B shareholders of the Fund exercising the exchange privilege described under "Shareholder Services--Exchange Privilege" will continue to be subject to the Fund's CDSC schedule, if such schedule is higher than the deferred sales charge schedule relating to the Class B shares acquired as a result of the exchange.

CDSC. Class B shares which are redeemed within four years of purchase may be subject to a CDSC at the rates set forth below charged as a percentage of the dollar amount subject thereto. The charge will be assessed on an amount equal to the lesser of the current market value or the cost of the shares being redeemed.

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Accordingly, no CDSC will be imposed on increases in net asset value above the initial purchase price. In addition, no CDSC will be assessed on shares derived from reinvestment of dividends or capital gains distributions.

The following table sets forth the rates of the CDSC:

<TABLE>

<CAPTION>

CDSC AS A

YEAR SINCE PURCHASE PAYMENT MADE -----	PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHARGE -----
<S>	<C>
0-1.....	4.0%
1-2.....	3.0%
2-3.....	2.0%
3-4.....	1.0%
4 and thereafter.....	None

</TABLE>

In determining whether a CDSC is applicable to a redemption, the calculation will be determined in the manner that results in the lowest possible applicable rate being charged. Therefore, it will be assumed that the redemption is first of shares until such time as the CDSC is no longer applicable or shares acquired pursuant to reinvestment of dividends or distributions and then of shares held longest during the four-year period. The charge will not be applied to dollar amounts representing an increase in the net asset value since the time of purchase. A transfer of shares from a shareholder's account to another account will be assumed to be made in the same order as redemption.

To provide an example, assume an investor purchased 100 Class B shares at \$10 per share (at a cost of \$1,000) and in the third year after purchase, the net asset value per share is \$12 and, during such time, the investor has acquired 10 additional shares upon dividend reinvestment. If at such time the investor makes his first redemption of 50 shares (proceeds of \$600), 10 shares will not be subject to charge because of dividend reinvestment. With respect to the remaining 40 shares, the CDSC is applied only to the original cost of \$10 per share and not to the increase in net asset value of \$2 per share. Therefore, \$400 of the \$600 redemption proceeds will be charged at a rate of 2.0% (the applicable rates in the third year after purchase). The CDSC is waived on redemptions of shares following the death or disability (as defined in the Code) of a shareholder.

Distribution Plan. Pursuant to a distribution plan adopted by the Fund under Rule 12b-1 under the 1940 Act (the "Distribution Plan"), the Fund pays the Distributor an ongoing account maintenance fee and distribution fee relating to Class B shares, which are accrued daily and paid monthly, at the annual rates of 0.25% and 0.25%, respectively, of the average daily net assets of the Class B shares of the Fund. Pursuant to a sub-agreement with the Distributor, Merrill Lynch also provides account maintenance and distribution services to the Fund. The ongoing account maintenance fee compensates the Distributor and Merrill Lynch for providing account maintenance services to Class B shareholders. The ongoing distribution fee compensates the Distributor and Merrill Lynch for providing distribution services and bearing certain distribution-related expenses of the Fund, including payments to financial consultants for selling Class B shares of the Fund.

The Distribution Plan is designed to permit an investor to purchase Class B shares through dealers without the assessment of a front-end sales charge and at the same time permit the dealer to compensate its financial consultants in connection with the sale of the Class B shares. In this regard, the purpose and function of the ongoing distribution fee under the Distribution Plan and the CDSC are the same as those of the initial sales charge with respect to the Class A shares of the Fund in that the deferred sales charges provide for the

The payments under the Distribution Plan are based on a percentage of average daily net assets of Class B shares regardless of the amount of expenses incurred, and, accordingly, distribution-related revenues may be more or less than distribution-related expenses. Information with respect to the distribution-related revenues and expenses is presented to the Trustees for their consideration in connection with their deliberations as to the continuance of the Distribution Plan. This information is presented annually as of December 31 of each year on a "fully allocated accrual" basis and quarterly on a "direct expense and revenue/cash" basis. On the fully allocated accrual basis, revenues consist of the account maintenance fees, distribution fees, the CDSCs and certain other related revenues, and expenses consist of financial consultant compensation, branch office and regional operation center selling and transaction processing expenses, advertising, sales promotion and market expenses, corporate overhead and interest expense. On the direct expense and revenue/cash basis, revenues consist of the account maintenance fees, distribution fees and CDSCs, and the expenses consist of financial consultant compensation.

The Fund has no obligation with respect to distribution-related expenses incurred by the Distributor and Merrill Lynch in connection with the Class B shares, and there is no assurance that the Trustees of the Trust will approve the continuance of the Distribution Plan from year to year. However, the Distributor intends to seek annual continuation of the Distribution Plan. In their review of the Distribution Plan, the Trustees will not be asked to take into consideration expenses incurred in connection with the distribution of Class A shares or of shares of other funds for which the Distributor acts as distributor. The account maintenance fee, the distribution fee and the CDSC in the case of Class B shares will not be used to subsidize the sale of Class A shares.

Limitations on the Payment of Deferred Sales Charges. The maximum sales charge rule in the Rules of Fair Practice of the National Association of Securities Dealers, Inc. ("NASD") imposes a limitation on certain asset-based sales charges such as the Fund's distribution fee and the CDSC, but not the account maintenance fee. As applicable to the Fund, the maximum sales charge rule limits the aggregate of distribution fee payments and CDSCs payable by the Fund to (1) 6.25% of eligible gross sales of Class B shares (defined to exclude shares issued pursuant to dividend reinvestments and exchanges) plus (2) interest on the unpaid balance at the prime rate plus 1% (the unpaid balance being the maximum amount payable minus amounts received from the payment of the distribution fee and the CDSC). The Distributor has voluntarily agreed to waive interest charges on the unpaid balance in excess of 0.50% of eligible gross sales. Consequently, the maximum amount payable to the Distributor (referred to as the "voluntary maximum") is 6.75% of eligible gross sales. The Distributor retains the right to stop waiving the interest charges at any time. To the extent payments would exceed the voluntary maximum, the Fund will not make further payments of the distribution fee and any CDSCs will be paid to the Fund rather than to the Distributor; however, the Fund will continue to make payments of the account maintenance fee. In certain circumstances the amount payable pursuant to the voluntary maximum may exceed the amount payable under the NASD formula. In such circumstances, payments in excess of the amount payable under the NASD formula will not be made.

REDEMPTION OF SHARES

The Trust is required to redeem for cash all full and fractional shares of the Fund upon receipt of a written request in proper form. The redemption price is the net asset value per share next determined after the initial receipt of proper notice of redemption. Except for any CDSC which may be applicable to Class B shares, there will be no charge for redemption if the redemption request is sent directly to the Transfer Agent. Shareholders liquidating their holdings will receive upon redemption all dividends reinvested through the date of redemption. The value of shares at the time of redemption may be more or less than the shareholder's cost, depending on the market value of the securities held by the Fund at such time.

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REDEMPTION

A shareholder wishing to redeem shares may do so by tendering the shares directly to the Transfer Agent, Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, P.O. Box 45289, Jacksonville, Florida 32232-5289. Redemption requests delivered other than by mail should be delivered to Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484. Proper notice of redemption in the case of shares deposited with the Transfer Agent may be accomplished by a written letter requesting redemption. Proper notice of redemption in the case of shares for which certificates have been issued may be accomplished by a written letter as noted above accompanied by certificates for the shares to be redeemed. Redemption requests should not be sent to the Trust. The notice in either event requires the signature(s) of all persons in whose name(s) the shares are registered, signed exactly as such name(s) appear(s) on the Transfer Agent's register. The signature(s) on the redemption request must be guaranteed by an "eligible guarantor institution" as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, the existence and validity of which may be verified by the Transfer Agent through the use of industry publications. Notarized signatures are not sufficient. In certain instances, the Transfer Agent may require additional documents such as, but not limited to, trust instruments, death certificates, appointments as executor or administrator, or certificates of corporate authority. For shareholders redeeming directly with the Transfer Agent, payments will be mailed within seven days of receipt of a proper notice of redemption.

At various times the Trust may be requested to redeem Fund shares for which it has not yet received good payment (e.g., cash, Federal funds or certified check drawn on a United States bank). The Trust may delay or cause to be delayed the mailing of a redemption check until such time as it has assured itself that good payment has been collected for the purchase of such Fund shares, which may take up to 10 days.

REPURCHASE

The Trust also will repurchase Fund shares through a shareholder's listed securities dealer. The Trust normally will accept orders to repurchase Fund shares by wire or telephone from dealers for their customers at the net asset value next computed after receipt of the order by the dealer, provided that the request for repurchase is received by the dealer prior to the close of business

on the New York Stock Exchange on the day received and is received by the Fund from such dealer not later than 4:30 P.M., New York time, on the same day.

Dealers have the responsibility of submitting such repurchase requests to the Trust not later than 4:30 P.M., New York time, in order to obtain that day's closing price. The repurchase arrangements are for the convenience of shareholders and do not involve a charge by the Trust (other than the applicable CDSC in the case of Class B shares); securities firms which do not have selected dealer agreements with the Distributor, however, may impose a charge on the shareholder for transmitting the notice of repurchase to the Trust. Merrill Lynch may charge its customers a processing fee (presently \$4.85) to confirm a repurchase of shares of such customers. Redemptions directly through the Fund's Transfer Agent are not subject to the processing fee. The Trust reserves the right to reject any order for repurchase, which right of rejection might adversely affect shareholders seeking redemption through the repurchase procedure. However, a shareholder whose order for repurchase is rejected by the Trust may redeem Fund shares as set forth above.

REINSTATEMENT PRIVILEGE -- CLASS A SHARES

Shareholders who have redeemed their Class A shares have a one-time privilege to reinstate their accounts by purchasing Class A shares of the Fund at net asset value without a sales charge up to the dollar amount redeemed. The reinstatement privilege may be exercised by sending a notice of exercise along with a check for the amount to be reinstated to the Transfer Agent within 30 days after the date the request for redemption was accepted by the Transfer Agent or the Distributor. The reinstatement will be made at the net asset value per share next determined after the notice of reinstatement is received and cannot exceed the amount of the redemption proceeds. The reinstatement is a one-time privilege and may be exercised by the Class A shareholder only the first time such shareholder makes a redemption.

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SHAREHOLDER SERVICES

The Trust offers a number of shareholder services and investment plans designed to facilitate investment in shares of the Fund. Full details as to each of such services and instructions as to how to participate in the various services or plans, or to change options with respect thereto can be obtained from the Trust by calling the telephone number on the cover page hereof or from the Distributor or Merrill Lynch. Included in such services are the following:

Investment Account. Each shareholder whose account (an "Investment Account") is maintained at the Transfer Agent has an Investment Account and will receive quarterly statements from the Transfer Agent. These quarterly statements will serve as transaction confirmations for automatic investment purchases and the reinvestment of income dividends and long-term capital gain distributions. The quarterly statements will also show any other activity in the account since the preceding statement. Shareholders will receive separate transaction confirmations for each purchase or sale transaction other than automatic investment purchases and the reinvestment of income dividends and long-term capital gain distributions. A shareholder may make additions to his Investment Account at any time by mailing a check directly to the Transfer Agent. Shareholders may also maintain their accounts through Merrill Lynch. Upon the transfer of shares out of a Merrill Lynch brokerage account, an Investment

Account in the transferring shareholder's name will be opened automatically, without charge, at the Transfer Agent. Shareholders considering transferring their Class A shares from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the Class A shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A shares so that the cash proceeds can be transferred to the account at the new firm or such shareholder must continue to maintain an Investment Account at the Transfer Agent for those Class A shares. Shareholders interested in transferring their Class B shares from Merrill Lynch and who do not wish to have an Investment Account maintained for such shares at the Transfer Agent may request their new brokerage firm to maintain such shares in an account registered in the name of the brokerage firm for the benefit of the shareholder. If the new brokerage firm is willing to accommodate the shareholder in this manner, the shareholder must request that he be issued certificates for his shares and then must turn the certificates over to the new firm for re-registration as described in the preceding sentence.

Exchange Privilege. Shareholders of the Fund each have an exchange privilege with certain other mutual funds sponsored by Merrill Lynch. There is currently no limitation on the number of times a shareholder may exercise the exchange privilege. The exchange privilege may be modified or terminated at any time in accordance with the rules of the Commission. Class A shareholders of the Fund may exchange their shares ("outstanding Class A shares") for Class A shares of another fund ("new Class A shares") on the basis of relative net asset value per Class A share, plus an amount equal to the difference, if any, between the sales charge previously paid on the outstanding Class A shares and the sales charge payable at the time of the exchange on the new Class A shares. However, the Fund's exchange privilege is modified with respect to purchases of Class A shares under the Merrill Lynch Mutual Fund Adviser program. First, the initial allocation of assets is made under the program. Then, any subsequent exchange under the program of Class A shares of a fund for Class A shares of the Fund will be made solely on the basis of the relative net asset values of the shares being exchanged. Therefore, there will not be a charge for any difference between the sales charge previously paid on the shares of the other fund and the sales charge payable on the shares of the Fund being acquired in the exchange under this program. The exchange privilege is available only to U.S. shareholders in states where the exchange legally may be made. The exchange privilege also may be modified if the Merrill Lynch Select Pricing SM System is adopted. See "Purchase of Shares--Continuous Offering."

Class B shareholders of the Fund may exchange their shares ("outstanding Class B shares") for Class B shares of another fund ("new Class B shares") on the basis of relative net asset value per share, without the

payment of any CDSC that might otherwise be due upon the redemption of the outstanding Class B shares. Class B shareholders of the Fund exercising the exchange privilege will continue to be subject to the Fund's CDSC schedule if such schedule is higher than the deferred sales charge schedule relating to the new Class B shares. In addition, Class B shares of the Fund acquired through use of the exchange privilege will be subject to the Fund's CDSC schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares of the fund from which the exchange has been made. For purposes of computing the CDSC that may be payable upon a disposition of the new Class B shares, the holding period for the outstanding Class B shares is "tacked" to

the holding period of the new Class B shares. Class A and Class B shareholders of the Fund may also exchange their shares for shares of certain money market funds, but in the case of an exchange from Class B shares the period of time that shares are held in a money market fund will not count toward satisfaction of the holding period requirement for purposes of reducing the CDSC. Exercise of the exchange privilege is treated as a sale for Federal income tax purposes. For further information, see "Shareholder Services -- Exchange Privilege" in the Statement of Additional Information.

The Fund's exchange privilege is modified with respect to purchases of Class A shares under the Merrill Lynch Mutual Fund Adviser program. First, the initial allocation of assets is made under the program. Then, any subsequent exchange under the program of Class A shares of a fund for Class A shares of the Fund will be made solely on the basis of the relative net asset values of the shares being exchanged. Therefore, there will not be a charge for any difference between the sales charge previously paid on the shares of the other fund and the sales charge payable on the shares of the Fund being acquired in the exchange under this program.

Automatic Reinvestment of Dividends and Capital Gains Distributions. All dividends and capital gains distributions are reinvested automatically in full and fractional shares of the Fund, without a sales charge, at the net asset value per share at the close of business on the monthly payment date for such dividends and distributions. A shareholder may at any time, by written notification or by telephone (1-800-MER-FUND) to the Transfer Agent, elect to have subsequent dividends or both dividends and capital gains distributions paid in cash, rather than reinvested, in which event payment will be mailed monthly. No deferred sales charge will be imposed upon redemption of shares issued as a result of the automatic reinvestment of dividends or capital gains distributions.

Systematic Withdrawal and Automatic Investment Plans. A Class A shareholder may elect to receive systematic withdrawal payments from his Investment Account in the form of payment by check or through automatic payment by direct deposit to his bank account on either a monthly or quarterly basis. A Class A shareholder whose shares are held within a CMA(R), CBA(R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption Program, subject to certain conditions. Regular additions of both Class A and Class B shares may be made to an investor's Investment Account by prearranged charges of \$50 or more to his regular bank account. The Fund's Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch. Alternatively, investors who maintain CMA(R) accounts may arrange to have periodic investments made in the Fund in their CMA(R) account or in certain related accounts in amounts of \$100 or more through the CMA(R) Automatic Investment Program.

PORTFOLIO TRANSACTIONS

The Trust has no obligation to deal with any dealer or group of dealers in the execution of transactions in portfolio securities of the Fund. Municipal Bonds and other securities in which the Fund invests are traded primarily in the over-the-counter market. Where possible, the Trust deals directly with the dealers who make a market in the securities involved except in those

circumstances where better prices and execution are available elsewhere. It is the policy of the Trust to obtain the best net results in conducting portfolio transactions for the Fund, taking into account such factors as price (including the applicable dealer spread), the size, type and difficulty of the transactions involved, the firm's general execution and operations facilities, and the firm's risk in positioning the securities involved and the provision of supplemental investment research by the firm. While reasonably competitive spreads or commissions are sought, the Fund will not necessarily be paying the lowest spread or commission available. The sale of shares of the Fund may be taken into consideration as a factor in the selection of brokers or dealers to execute portfolio transactions for the Fund. The portfolio securities of the Fund generally are traded on a net basis and normally do not involve either brokerage commissions or transfer taxes. The cost of portfolio securities transactions of the Fund primarily consists of dealer or underwriter spreads. Under the 1940 Act, persons affiliated with the Trust, including Merrill Lynch, are prohibited from dealing with the Trust as a principal in the purchase and sale of securities unless such trading is permitted by an exemptive order issued by the Commission. The Trust has obtained an exemptive order permitting it to engage in certain principal transactions with Merrill Lynch involving high quality short-term municipal bonds subject to certain conditions. In addition, the Trust may not purchase securities, including Municipal Bonds, for the Fund during the existence of any underwriting syndicate of which Merrill Lynch is a member except pursuant to procedures approved by the Trustees of the Trust which comply with rules adopted by the Commission. Affiliated persons of the Trust may serve as its broker in over-the-counter transactions conducted for the Fund on an agency basis only.

DISTRIBUTIONS AND TAXES

DISTRIBUTIONS

The net investment income of the Fund is declared as dividends daily following the normal close of trading on the New York Stock Exchange (currently 4:00 P.M.) prior to the determination of the net asset value on that day. The net investment income of the Fund for dividend purposes consists of interest earned on portfolio securities, less expenses, in each case computed since the most recent determination of the net asset value. Expenses of the Fund, including the management fees and Class B account maintenance and distribution fees, are accrued daily. Dividends of net investment income are declared daily and reinvested monthly in the form of additional full and fractional shares of the Fund at net asset value as of the close of business on the "payment date" unless the shareholder elects to receive such dividends in cash. Shares will accrue dividends as long as they are issued and outstanding. Shares are issued and outstanding from the settlement date of a purchase order to the day prior to settlement date of a redemption order.

All net realized long- or short-term capital gains, if any, are declared and distributed to the Fund's shareholders at least annually. Capital gains distributions will be reinvested automatically in shares unless the shareholder elects to receive such distributions in cash.

The per share dividends and distributions on Class B shares will be lower than per share dividends and distributions on Class A shares as a result of the distribution and transfer agency fees applicable with respect to the Class B shares. See "Additional Information--Determination of Net Asset Value".

See "Shareholder Services" for information as to how to elect either dividend reinvestment or cash payments. Portions of dividends and distributions which are taxable to shareholders as described below are subject to income tax whether they are reinvested in shares of the Fund or received in cash.

TAXES

The Trust intends to elect and to qualify the Fund for the special tax treatment afforded regulated investment companies ("RICs") under the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, in any taxable year in which it distributes at least 90% of its taxable net income and 90% of its tax-exempt net income (see below), the Fund (but not its shareholders) will not be subject to Federal income tax to the extent that it distributes its net investment income and net realized capital gains. The Trust intends to cause the Fund to distribute substantially all of such income.

Arkansas has incorporated the special Federal tax provisions affecting regulated investment companies into state income tax law. Consequently, for Arkansas income tax purposes, the Fund will be treated as a RIC to the extent it qualifies as such under the Code.

To the extent that the dividends distributed to the Fund's Class A and Class B shareholders (together, the "shareholders") are derived from interest income exempt from Federal income tax under Code Section 103(a) and are properly designated as "exempt-interest dividends" by the Trust, they will be excludable from a shareholder's gross income for Federal income tax purposes. Exempt-interest dividends are included, however, in determining the portion, if any, of a person's social security benefits and railroad retirement benefits subject to Federal income taxes. The portion of such exempt-interest dividends paid from interest received by the Fund from Arkansas Municipal Bonds will not be subject to Arkansas income taxes. Shareholders subject to income taxation by states other than Arkansas will realize a lower after-tax rate of return than Arkansas shareholders since the dividends distributed by the Fund generally will not be exempt, to any significant degree, from income taxation by such other states. The Trust will inform shareholders annually as to the portion of the Fund's distributions which constitutes exempt-interest dividends and the portion which is exempt from Arkansas income tax. Interest on indebtedness incurred or continued to purchase or carry Fund shares is not deductible for Federal or Arkansas income tax purposes to the extent attributable to exempt-interest dividends. Persons who may be "substantial users" (or "related persons" of substantial users) of facilities financed by industrial development bonds or private activity bonds held by the Fund should consult their tax advisers before purchasing Fund shares.

To the extent that the Fund's distributions are derived from interest on its taxable investments or from an excess of net short-term capital gains over net long-term capital losses ("ordinary income dividends"), such distributions are considered ordinary income for Federal income tax purposes. Such distributions are not eligible for the dividends received deduction for corporations. Distributions, if any, of net long-term capital gains from the sale of securities or from certain transactions in futures or options ("capital gain dividends") are taxable as long-term capital gains for Federal income tax purposes, regardless of the length of time the shareholder has owned Fund shares. Under the Revenue Reconciliation Act of 1993, all or a portion of the Fund's gain from the sale or redemption of tax-exempt obligations purchased at a market discount will be treated as ordinary income rather than capital gain.

This rule may increase the amount of ordinary income dividends received by shareholders. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to such holder (assuming the shares are held as a capital asset). Any loss upon the sale or exchange of Fund shares held for six months or less will be treated as long-term capital loss to the extent of any capital gain dividends received by the shareholder. In addition, such loss will be disallowed to the extent of any exempt-interest dividends received by the shareholder. If the Fund pays a

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dividend in January which was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

In 1991, Arkansas enacted legislation adopting certain sections of the Code and related regulations in effect on January 1, 1991, which apply to the computation of capital gains and losses. For individuals, net capital gains are taxed at a maximum of 6% (as compared with the maximum rate of 7% for ordinary income). Special capital gains treatment is not available in Arkansas for corporate taxpayers.

The Code subjects interest received on certain otherwise tax-exempt securities to an alternative minimum tax. This alternative minimum tax applies to interest received on "private activity bonds" issued after August 7, 1986. Private activity bonds are bonds which, although tax-exempt, are used for purposes other than those generally performed by governmental units and which benefit non-governmental entities (e.g., bonds used for industrial development or housing purposes). Income received on such bonds is classified as an item of "tax preference," which could subject investors in such bonds, including shareholders of the Fund, to an alternative minimum tax. The Fund will purchase such "private activity bonds," and the Trust will report to shareholders within 60 days after the Fund's taxable year-end the portion of the Fund's dividends declared during the year which constitutes an item of tax preference for alternative minimum tax purposes. The Code further provides that corporations are subject to an alternative minimum tax based, in part, on certain differences between taxable income as adjusted for other tax preferences and the corporation's "adjusted current earnings," which more closely reflect a corporation's economic income. Because an exempt-interest dividend paid by the Fund will be included in adjusted current earnings, a corporate shareholder may be required to pay alternative minimum tax on exempt-interest dividends paid by the Fund.

The Revenue Reconciliation Act of 1993 has added new marginal tax brackets of 36% and 39.6% for individuals and has created a graduated structure of 26% and 28% for the alternative minimum tax applicable to individual taxpayers. These rate increases may affect an individual investor's after-tax return from an investment in the Fund as compared with such investor's return from taxable investments.

If a Class A shareholder exercises the exchange privilege within 90 days of acquiring the shares, then the loss the shareholder can recognize on the exchange will be reduced (or the gain increased) to the extent the sales charge

paid to the Fund reduces any sales charge such shareholder would have owed upon purchase of the new Class A shares in the absence of the exchange privilege. Instead, such sales charge will be treated as an amount paid for the new Class A shares.

A loss realized on a sale or exchange of shares of the Fund will be disallowed if other Fund shares are acquired (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

Under certain Code provisions, some shareholders may be subject to a 31% withholding tax on certain ordinary income dividends and capital gain dividends and on redemption payments ("backup withholding"). Generally, shareholders subject to backup withholding will be those for whom no certified taxpayer identification number is on file with the Trust or who, to the Trust's knowledge, have furnished an incorrect number. When establishing an account, an investor must certify under penalty of perjury that such number is correct and that such investor is not otherwise subject to backup withholding.

The Code provides that every person required to file a tax return must include for information purposes on such return the amount of exempt-interest dividends received from all sources (including the Fund) during the taxable year.

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The foregoing is a general and abbreviated summary of the applicable provisions of the Code, Treasury regulations and Arkansas tax laws presently in effect. For the complete provisions, reference should be made to the pertinent Code sections, the Treasury regulations promulgated thereunder and the applicable Arkansas income tax laws. The Code and the Treasury regulations, as well as the Arkansas tax laws, are subject to change by legislative, judicial or administrative action either prospectively or retroactively.

Shareholders are urged to consult their tax advisers regarding the availability of any exemptions from state or local taxes (other than those imposed by Arkansas) and with specific questions as to Federal, foreign, state or local taxes.

PERFORMANCE DATA

From time to time the Fund may include its average annual total return and yield and tax equivalent yield for various specified time periods in advertisements or information furnished to present or prospective shareholders. Average annual total return, yield and tax equivalent yield are computed in accordance with formulas specified by the Commission.

Average annual total return quotations for the specified periods will be computed by finding the average annual compounded rates of return (based on net investment income and any realized and unrealized capital gains or losses on portfolio investments over such periods) that would equate the initial amount invested to the redeemable value of such investment at the end of each period. Average annual total return will be computed assuming all dividends and distributions are reinvested and taking into account all applicable recurring

and nonrecurring expenses, including the maximum sales charge in the case of Class A shares and the contingent deferred sales charge that would be applicable to a complete redemption of the investment at the end of the specified period in the case of Class B shares. Dividends paid by the Fund with respect to Class A and Class B shares, to the extent any dividends are paid, will be calculated in the same manner at the same time on the same day and will be in the same amount, except that account maintenance and distribution charges and any incremental transfer agency costs relating to Class B shares will be borne exclusively by that Class. The Fund will include performance data for both Class A and Class B shares of the Fund in any advertisement or information including performance data of the Fund.

The Fund also may quote total return and aggregate total return performance data for various specified time periods. Such data will be calculated substantially as described above, except that (1) the rates of return calculated will not be average annual rates, but rather, actual annual, annualized or aggregate rates of return and (2) the maximum applicable sales charges will not be included with respect to annual or annualized rates of return calculations. Aside from the impact on the performance data calculations of including or excluding the maximum applicable sales charges, actual annual or annualized total return data generally will be lower than average annual total return data since the average annual rates of return reflect compounding, aggregate total return data generally will be higher than average annual total return data since the aggregate rates of return reflect compounding over a longer period of time. In advertisements distributed to investors whose purchases are subject to reduced sales charges in the case of Class A shares or waiver of the CDSC in the case of Class B shares (such as investors in certain retirement plans), the performance data may take into account the reduced, and not the maximum, sales charge or may not take into account the CDSC and therefore may reflect greater total return since, due to the reduced sales charges or waiver of the CDSC, a lower amount of expenses is deducted. See "Purchase of Shares". The Fund's total return may be expressed either as a percentage or as a dollar amount in order to illustrate such total return on a hypothetical \$1,000 investment in the Fund at the beginning of each specified period.

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Yield quotations will be computed based on a 30-day period by dividing (a) the net income based on the yield of each security earned during the period by (b) the average daily number of shares outstanding during the period that were entitled to receive dividends multiplied by the maximum offering price per share on the last day of the period. Tax equivalent yield quotations will be computed by dividing (a) the part of the Fund's yield that is tax-exempt by (b) one minus a stated tax rate and (c) adding the result to that part, if any, of the Fund's yield that is not tax-exempt.

Total return and yield figures are based on the Fund's historical performance and are not intended to indicate future performance. The Fund's total return and yield will vary depending on market conditions, the securities comprising the Fund's portfolio, the Fund's operating expenses and the amount of realized and unrealized net capital gain or losses during the period. The value of an investment in the Fund will fluctuate and an investor's shares, when redeemed, may be worth more or less than their original cost.

On occasion, the Fund may compare its performance to performance data

published by Lipper Analytical Services, Inc., Morningstar Publications, Inc. ("Morningstar") and CDA Investment Technology, Inc., or to data contained in publications such as Money Magazine, U.S. News & World Report, Business Week, Forbes Magazine and Fortune Magazine. From time to time, the Fund may include the Fund's Morningstar risk-adjusted performance ratings in advertisements or supplemental sales literature. As with other performance data, performance comparisons should not be considered representative of the Fund's relative performance for any future period.

ADDITIONAL INFORMATION

DETERMINATION OF NET ASSET VALUE

The net asset value of the Fund is determined by the Manager once daily as of 4:15 P.M., New York time, on each day during which the New York Stock Exchange is open for trading. The net asset value per share is computed by dividing the sum of the value of the securities held by the Fund plus any cash or other assets minus all liabilities by the total number of shares outstanding at such time, rounded to the nearest cent. Expenses, including the fees payable to the Manager and the Distributor, are accrued daily.

The net asset value per share of the Class A shares and the net asset value per share of the Class B shares are expected to be equivalent. Under certain circumstances, however, the per share net asset value of the Class B shares may be lower than the per share net asset value of the Class A shares reflecting the higher daily expense accruals of the deferred charges (and incremental transfer agency costs) applicable with respect to the Class B shares. Even under those circumstances, the per share net asset value of the two classes eventually will tend to converge immediately after the payment of dividends, which will differ by approximately the amount of the expense accrual differential between the classes.

ORGANIZATION OF THE TRUST

The Trust is an unincorporated business trust organized on August 2, 1985 under the laws of Massachusetts. On October 1, 1987, the Trust changed its name from "Merrill Lynch Multi-State Tax-Exempt Series Trust" to "Merrill Lynch Multi-State Municipal Bond Series Trust" and on December 22, 1987 the Trust changed its name to "Merrill Lynch Multi-State Municipal Series Trust". The Trust is an open-end management investment company comprised of separate series ("Series"), each of which is a

separate portfolio offering shares to selected groups of purchasers. Each of the Series is to be managed independently in order to provide to shareholders who are residents of the state to which such Series relates as high a level of income exempt from Federal, state and local income taxes as is consistent with prudent investment management. The Trustees are authorized to create an unlimited number of Series and, with respect to each Series, to issue an unlimited number of full and fractional shares of beneficial interest of \$.10 par value of different classes. Shareholder approval is not required for the authorization of additional Series or classes of a Series of the Trust. At the date of this Prospectus, the shares of the Fund are divided into Class A shares and Class B shares. Both Class A and Class B shares represent an interest in the same assets of the Fund and have identical voting, dividend, liquidation

and other rights and the same terms and conditions except that expenses related to the account maintenance and distribution of the Class B shares are borne solely by such class and Class B shares have exclusive voting rights with respect to matters relating to such distribution expenditures. See "Purchase of Shares". The Trust has received an order (the "Order") from the Commission permitting the issuance and sale of multiple classes of shares. The Order permits the Trust to issue additional classes of shares of any Series if the Board of Trustees deems such issuance to be in the best interest of the Trust.

Shareholders are entitled to one vote for each full share and to fractional votes for fractional shares held in the election of Trustees (to the extent hereinafter provided) and on other matters submitted to the vote of shareholders. All shares of the Trust have equal voting rights, except that only shares of the respective Series are entitled to vote on matters concerning only that Series and, as noted above, only Class B shares of a Series will have exclusive voting rights with respect to matters relating to the account maintenance and distribution expenses being borne solely by such class. There normally will be no meeting of shareholders for the purpose of electing Trustees unless and until such time as less than a majority of the Trustees holding office have been elected by shareholders, at which time the Trustees then in office will call a shareholders' meeting for the election of Trustees. Shareholders may, in accordance with the terms of the Declaration of Trust, cause a meeting of shareholders to be held for the purpose of voting on the removal of Trustees. Also, the Trust will be required to call a special meeting of shareholders of a Series in accordance with the requirements of the 1940 Act to seek approval of new management and advisory arrangements, of a material increase in distribution fees or of a change in the fundamental policies, objectives or restrictions of a Series. Except as set forth above, the Trustees shall continue to hold office and appoint successor Trustees. Each issued and outstanding share is entitled to participate equally in dividends and distributions declared by the respective Series and in net assets of such Series upon liquidation or dissolution remaining after satisfaction of outstanding liabilities except that, as noted above, expenses related to the distribution of the Class B shares of a Series will be borne solely by such class. The obligations and liabilities of a particular Series are restricted to the assets of that Series and do not extend to the assets of the Trust generally. The shares of each Series, when issued, will be fully-paid and non-assessable by the Trust.

SHAREHOLDER REPORTS

Only one copy of each shareholder report and certain shareholder communications will be mailed to each identified shareholder regardless of the number of accounts such shareholder has. If a shareholder wishes to receive separate copies of each report and communication for each of the shareholder's related accounts, the shareholder should notify in writing:

Financial Data Services, Inc.
Attn: Document Evaluation Unit
P.O. Box 45290
Jacksonville, FL 32232-5290

The written notification should include the shareholder's name, address, tax identification number and Merrill Lynch, Pierce, Fenner & Smith Incorporated

and/or mutual fund account numbers. If you have any questions regarding this matter please call your Merrill Lynch financial consultant or Financial Data Services, Inc. at 800-637-3863.

SHAREHOLDER INQUIRIES

Shareholder inquiries may be addressed to the Trust at the address or telephone number set forth on the cover page of this Prospectus.

The Declaration of Trust establishing the Trust, dated August 2, 1985, a copy of which together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of the Commonwealth of Massachusetts, provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust shall be held to any personal liability, nor shall resort be had to such person's private property for the satisfaction of any obligation or claim of the Trust, but the "Trust Property" only shall be liable.

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND--AUTHORIZATION FORM

NOTE: THIS FORM MAY NOT BE USED FOR PURCHASES THROUGH THE MERRILL LYNCH BLUEPRINTSM PROGRAM. YOU MAY REQUEST A MERRILL LYNCH BLUEPRINTSM PROGRAM APPLICATION BY CALLING (800) 637-2434.

1. SHARE PURCHASE APPLICATION

I, being of legal age, wish to purchase Class A shares or Class B shares (choose one) of Merrill Lynch Arkansas Municipal Bond Fund and establish an Investment Account as described in the Prospectus.

Basis for establishing an Investment Account:

A. I enclose a check for \$ payable to Financial Data Services, Inc., as an initial investment (minimum \$1,000) (subsequent investment \$50 or more). I understand that this purchase will be executed at the applicable offering price next to be determined after this Application is received by you.

B. I already own shares of the following Merrill Lynch mutual funds that would qualify for the right of accumulation as outlined in the Statement of Additional Information:

- 1. 4.
2. 5.
3. 6.

(Please list all Funds. Use a separate sheet of paper if necessary.)

Until you are notified by me in writing, the following options with

respect to dividends and distributions are elected:

Distribution Elect[_] reinvest dividends Elect[_] reinvest capital gains
Options One [_] pay dividends in cash One [_] pay capital gains in cash

If no election is made, dividends and capital gains will be reinvested automatically at net asset value without a sales charge.

(Please Print)

Name
First NameInitialLast Name

Name of Co-Owner (if any) Social Security
First NameInitialLast Name No. or Taxpayer
Identification
No.

Address

....., 19. .
(Zip Code) Date

Occupation Name and Address.....
of Employer.....
.....

Under penalty of perjury, I certify (1) that the number set forth above is my correct Social Security No. or Taxpayer Identification No. and (2) that I am not subject to backup withholding (as discussed under "Distribution and Taxes--Taxes" in the Prospectus) either because I have not been notified that I am subject thereto as a result of a failure to report all interest or dividends, or the Internal Revenue Service ("IRS") has notified me that I am no longer subject thereto.

INSTRUCTION: YOU MUST STRIKE OUT THE LANGUAGE IN (2) ABOVE IF YOU HAVE BEEN NOTIFIED THAT YOU ARE SUBJECT TO BACKUP WITHHOLDING DUE TO UNDER-REPORTING, AND IF YOU HAVE NOT RECEIVED A NOTICE FROM THE IRS THAT BACKUP WITHHOLDING HAS BEEN TERMINATED.

SIGNATURE OF OWNER SIGNATURE OF CO-OWNER (IF ANY)
In the case of co-owners, a joint tenancy with right of survivorship will be presumed unless otherwise specified.

2. LETTER OF INTENTION--CLASS A SHARES ONLY (SEE TERMS AND CONDITIONS IN THE STATEMENT OF ADDITIONAL INFORMATION)
....., 19...

Gentlemen:

Date of initial purchase

Although I am not obligated to do so, I intend to purchase shares of Merrill Lynch Arkansas Municipal Bond Fund or any other investment company with an initial sales charge or deferred sales charge for which the Merrill Lynch Funds Distributor, Inc. acts as a distributor over the next 13-month period which will equal or exceed:

[] \$25,000 [] \$50,000 [] \$100,000 [] \$250,000 [] \$1,000,000

Each purchase will be made at the then reduced offering price applicable to the amount checked above, as described in the Fund prospectus.

I agree to the terms and conditions of the Letter of Intention. I hereby irrevocably constitute and appoint Merrill Lynch Funds Distributor, Inc., my attorney, with full power of substitution, to surrender for redemption any or all shares of Merrill Lynch Arkansas Municipal Bond Fund held as security.

By Signature of Owner Signature (If registered in joint names, both must sign)

In making purchases under this letter, the following are the related accounts on which reduced offering prices are to apply: (1) Name (2) Name

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND--AUTHORIZATION FORM

3.SYSTEMATIC WITHDRAWAL PLAN--CLASS A SHARES ONLY (SEE TERMS AND CONDITIONS IN THE STATEMENT OF ADDITIONAL INFORMATION)

Minimum Requirements: \$10,000 for monthly disbursements, \$5,000 for quarterly, of shares in Merrill Lynch Arkansas Municipal Bond Fund at cost or current offering price.

Withdrawals to be made either (check one) [] Monthly [] Quarterly. Quarterly withdrawals are made on the 24th day of March, June, September and December.

Begin systematic withdrawal on , 19. . [date]

Specify withdrawal amount (check one): [] \$ or []% of the current value of Class A shares in the account

Specify withdrawal method: [] check or [] direct deposit to bank account (CHECK ONE AND COMPLETE PART (A) OR (B) BELOW):

(A) I HEREBY AUTHORIZE PAYMENT BY CHECK

(B) I HEREBY AUTHORIZE PAYMENT BY DIRECT DEPOSIT TO BANK ACCOUNT and (if necessary) debit entries and adjustments for any credit entries made in error to my account

Draw checks payable
(check one)
 as indicated in item 1.
 to the order of

Specify type of account (check one): checking savings
I agree that this authorization will remain in effect until I provide written notification to Financial Data Services, Inc. amending or terminating this service.

Mail to (check one)
 the address indicated in item 1.
 Name (Please Print)

Name on your Account
Bank
Bank # Account #
Bank Address

Address

Signature of Depositor .. Date

Signature of Owner.....

Signature of Depositor (if joint account)
NOTE: IF AUTOMATIC DIRECT DEPOSIT IS ELECTED, YOUR BLANK, UNSIGNED CHECK MARKED "VOID" OR A DEPOSIT SLIP FROM YOUR SAVINGS ACCOUNT SHOULD ACCOMPANY THIS APPLICATION.

Signature of Co-Owner (if any)...

4. APPLICATION FOR AUTOMATIC INVESTMENT PLAN

I hereby request that Financial Data Services, Inc. draw a check or an automated clearing house ("ACH") debit on my checking account as described below each month to purchase Class A shares or Class B shares of Merrill Lynch Arkansas Municipal Bond Fund subject to the terms set forth below.

FINANCIAL DATA SERVICES, INC.

AUTHORIZATION TO HONOR CHECKS OR ACH DEBITS

You are hereby authorized to draw a check or an ACH debit each month on my bank account for investment in Merrill Lynch Arkansas Municipal Bond Fund as indicated below:

DRAWN BY FINANCIAL DATA SERVICES, INC.
ToBank
(Investor's Bank)
Bank Address
City State Zip Code.....

Amount of each check or ACH debit \$

Account No.
Please date and invest checks or draw ACH debits on the 20th of each month beginning

(Month)
or as soon thereafter as possible.

As a convenience to me, I hereby request and authorize you to pay and charge to my account checks or ACH debits drawn on my account by and payable to Financial Data Services, Inc. I agree that your rights in respect to each such check or debit shall be the same as if it were a check drawn on you and signed personally by me. This authority is to remain in effect until revoked personally by me in writing.

I agree that you are preparing these checks or drawing these debits voluntarily at my request and that you shall not be liable for any loss arising from any delay in preparing or failure to prepare any such check or debit. If I change banks or desire to terminate or suspend this program, I agree to notify you promptly in writing.

I further agree that if a check or debit is not honored upon presentation, Financial Data Services, Inc. is authorized to discontinue immediately the Automatic Investment Plan and to liquidate sufficient shares held in my account to offset the purchase made with the returned check or dishonored debit.

.....
 Date Signature of Depositor

 Signature of Depositor
 (If joint account, both must sign)

Until you receive such notice, you shall be fully protected in honoring any such check or debit. I further agree that if any such check or debit be dishonored, whether with or without cause and whether intentionally or inadvertently, you shall be under no liability.

.....
 Date Signature of Depositor

 Bank Signature of Depositor
 Account (If joint account, both must sign)
 Number

NOTE: IF AUTOMATIC INVESTMENT PLAN IS ELECTED, YOUR BLANK, UNSIGNED CHECK MARKED "VOID" SHOULD ACCOMPANY THIS APPLICATION.

5. FOR DEALER ONLY

Branch Office, Address, Stamp

+++++ +++++
 + +
 + +
 + +
 + +
 + +
 +++++ +++++

We hereby authorize Merrill Lynch Funds Distributor, Inc. to act as our agent in connection with transactions under this authorization form and agree to notify the Distributor of any purchases made under a Letter of Intention or Systematic Withdrawal Plan. We guarantee the Shareholder's Signature.

.....
 Dealer Name and Address

This form when completed should be mailed to:

By
 Authorized Signature of Dealer

Merrill Lynch Arkansas
 Municipal Bond Fund c/o
 Financial Data Services, Inc.
 Transfer Agency Mutual Fund
 Operations P.O. Box
 45289 Jacksonville, FL 32232-
 5289

[][][] [][][][]
 Branch-Code F/C No. F/C Last Name

[][][] [][][][][]
 Dealer's Customer A/C No.

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MANAGER

Fund Asset Management, L.P.
Administrative Offices:
800 Scudders Mill Road
Plainsboro, New Jersey
Mailing Address:
Box 9011
Princeton, New Jersey 08543-9011

DISTRIBUTOR

Merrill Lynch Funds Distributor, Inc.
Administrative Offices:
800 Scudders Mill Road
Plainsboro, New Jersey
Mailing Address:
Box 9011
Princeton, New Jersey 08543-9011

CUSTODIAN

National Westminster Bank NJ

100 Wall Street

20th Floor

New York, New York 10005

TRANSFER AGENT

Financial Data Services, Inc.
Administrative Offices:
Transfer Agency Mutual Fund Operations
4800 Deer Lake Drive East
Jacksonville, Florida 32246-6484
Mailing Address:
P.O. Box 45289
Jacksonville, Florida 32232-5289

INDEPENDENT AUDITORS

Deloitte & Touche

117 Campus Drive

Princeton, New Jersey 08540

COUNSEL

Brown & Wood

One World Trade Center

New York, New York 10048-0557

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, IN CONNECTION WITH THE OFFER CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE TRUST, THE MANAGER OR THE DISTRIBUTOR. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFERING IN ANY STATE IN WHICH SUCH OFFERING MAY NOT LAWFULLY BE MADE.

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Code # 18321-0894

Prospectus

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MERRILL LYNCH
ARKANSAS
MUNICIPAL BOND
FUND
MERRILL LYNCH MULTI-STATE
MUNICIPAL SERIES TRUST

August , 1994

Distributor:
Merrill Lynch
Funds Distributor, Inc.

This prospectus should be
retained for future reference.

STATEMENT OF ADDITIONAL INFORMATION

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST
BOX 9011, PRINCETON, NEW JERSEY 08543-9011--PHONE NO. (609) 282-2800

Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") is a series of Merrill Lynch Multi-State Municipal Series Trust (the "Trust"), an open-end management investment company organized as a Massachusetts business trust. The investment objective of the Fund is to provide shareholders with as high a level of income exempt from Federal and Arkansas income taxes as is consistent with prudent investment management. The Fund invests primarily in a non-diversified portfolio of long-term investment grade obligations the interest on which is exempt from Federal and Arkansas income taxes in the opinion of bond counsel to the issuer ("Arkansas Municipal Bonds"). There can be no assurance that the investment objective of the Fund will be realized.

The Fund offers two classes of shares which may be purchased during the subscription offering at \$10.00 per share and during the continuous offering at a price equal to the next determined net asset value per share, plus in both cases a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares"), or (ii) on a deferred basis (the "Class B shares"). These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should understand that the purpose and function of the deferred sales charge with respect to the Class B shares are the same as the purpose and function of the initial sales charge with respect to the Class A shares. Each Class A share and Class B share represents an identical interest in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance and distribution fees and certain other costs resulting from the deferred sales charge arrangement and have exclusive voting rights with respect to the account maintenance and distribution fees. The two classes also have different exchange privileges.

The Statement of Additional Information of the Fund is not a prospectus and should be read in conjunction with the prospectus of the Fund, dated August , 1994 (the "Prospectus"), which has been filed with the Securities and Exchange Commission and can be obtained, without charge, by calling or by writing the Fund at the above telephone number or address. This Statement of Additional Information has been incorporated by reference into the Prospectus. Capitalized terms used but not defined herein have the same meanings as in the Prospectus.

FUND ASSET MANAGEMENT--MANAGER
MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

The date of this Statement of Additional Information is August , 1994

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to provide shareholders with as high a level of income exempt from Federal and Arkansas personal income taxes as is consistent with prudent investment management. The Fund seeks to achieve its objective by investing primarily in a portfolio of long-term obligations issued by or on behalf of the State of Arkansas, its political subdivisions, agencies and instrumentalities and obligations of other qualifying issuers, such as issuers located in Puerto Rico, the Virgin Islands and Guam, which pay interest exempt, in the opinion of bond counsel to the issuer, from Federal and Arkansas income taxes. Obligations exempt from Federal income taxes are referred to herein as "Municipal Bonds" and obligations exempt from both Federal and Arkansas income taxes are referred to as "Arkansas Municipal Bonds". Unless otherwise indicated, references to Municipal Bonds shall be deemed to include Arkansas Municipal Bonds. The Fund anticipates that at all times, except during temporary defensive periods, it will maintain at least 65% of its total assets invested in Arkansas Municipal Bonds. At times, the Fund will seek to hedge its portfolio through the use of futures transactions to reduce volatility in the net asset value of Fund shares. Reference is made to "Investment Objective and Policies" in the Prospectus for a discussion of the investment objective and

policies of the Fund.

Municipal Bonds may include general obligation bonds of the State and its political subdivisions, revenue bonds of utility systems, highways, bridges, port and airport facilities, colleges, hospitals, housing facilities, etc., and industrial development bonds or private activity bonds. The interest on such obligations may bear a fixed rate or be payable at a variable or floating rate. The Municipal Bonds purchased by the Fund will be primarily what are commonly referred to as "investment grade" securities, which are obligations rated at the time of purchase within the four highest quality ratings as determined by either Moody's Investors Service, Inc. ("Moody's") (currently Aaa, Aa, A and Baa), Standard & Poor's Corporation ("Standard & Poor's") (currently AAA, AA, A and BBB) or Fitch Investors Service, Inc. ("Fitch") (currently AAA, AA, A and BBB). If unrated, such securities will possess creditworthiness comparable, in the opinion of the manager of the Fund, Fund Asset Management, L.P. (the "Manager"), to other obligations in which the Fund may invest.

The Fund ordinarily does not intend to realize investment income not exempt from Federal and Arkansas income taxes. However, to the extent that suitable Arkansas Municipal Bonds are not available for investment by the Fund, the Fund may purchase Municipal Bonds issued by other states, their agencies and instrumentalities, the interest income on which is exempt, in the opinion of bond counsel, from Federal but not Arkansas taxation. The Fund also may invest in securities not issued by or on behalf of a state or territory or by an agency or instrumentality thereof, if the Fund nevertheless believes such securities to be exempt from Federal income taxation ("Non-Municipal Tax-Exempt Securities"). Non-Municipal Tax-Exempt Securities may include securities issued by other investment companies that invest in municipal bonds, to the extent permitted by applicable law. Other Non-Municipal Tax-Exempt Securities also could include trust certificates or other instruments evidencing interests in one or more long-term municipal securities.

Except when acceptable securities are unavailable as determined by the Manager, the Fund, under normal circumstances, will invest at least 65% of its total assets in Arkansas Municipal Bonds. For temporary periods or to provide liquidity, the Fund has the authority to invest as much as 35% of its total assets in tax-exempt or taxable money market obligations with a maturity of one year or less (such short-term obligations being referred to herein as "Temporary Investments"), except that taxable Temporary Investments shall not exceed 20% of the Fund's net assets. The Fund at all times will have at least 80% of its net assets invested in securities exempt from Federal income taxation. However, interest received on

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certain otherwise tax-exempt securities which are classified as "private activity bonds" (in general bonds that benefit non-governmental entities) may be subject to an alternative minimum tax. The Fund may purchase such private activity bonds. See "Distributions and Taxes". In addition, the Fund reserves the right to invest temporarily a greater portion of its assets in Temporary Investments for defensive purposes, when, in the judgment of the Manager, market conditions warrant. The investment objective of the Fund set forth in this paragraph is a fundamental policy of the Fund which may not be changed without a vote of a majority of the outstanding shares of the Fund. The Fund's hedging strategies are not fundamental policies and may be modified by the Trustees of the Trust without the approval of the Fund's shareholders.

Municipal Bonds may at times be purchased or sold on a delayed delivery basis or a when-issued basis. These transactions arise when securities are purchased or sold by the Fund with payment and delivery taking place in the future, often a month or more after the purchase. The payment obligation and the interest rate are each fixed at the time the buyer enters into the commitment. The Fund will make only commitments to purchase such securities with the intention of actually acquiring the securities, but the Fund may sell these securities prior to the settlement date if it is deemed advisable. Purchasing Municipal Bonds on a when-issued basis involves the risk that the yields available in the market when the delivery takes place actually may be higher than those obtained in the transaction itself; if yields so increase, the value of the when-issued obligations generally will decrease. The Fund will maintain a separate account at its custodian bank consisting of cash, cash equivalents or high-grade, liquid Municipal Bonds or Temporary Investments (valued on a daily basis) equal at all times to the amount of the when-issued commitment.

The Fund may invest in Municipal Bonds (and Non-Municipal Tax-Exempt Securities) the return on which is based on a particular index of value or interest rates. For example, the Fund may invest in Municipal Bonds that pay interest based on an index of Municipal Bond interest rates or based on the value of gold or some other commodity. The principal amount payable upon maturity of certain Municipal Bonds also may be based on the value of an index. Also, the Fund may invest in so-called "inverse floating obligations" or "residual interest bonds" on which the interest rates typically decline as market rates increase and increase as market rates decline. For example, to the extent the Fund invests in these types of Municipal Bonds, the Fund's return on such Municipal Bonds will be subject to risk with respect to the value of the particular index. Such securities have the effect of providing a degree of investment leverage, since they may increase or decrease in value in response to changes, as an illustration, in market interest rates at a rate which is a multiple (typically two) of the rate at which fixed-rate long-term tax exempt securities increase or decrease in response to such changes. As a result, the market values of such securities will generally be more volatile than the market values of fixed-rate tax exempt securities. To seek to limit the volatility of these securities, the Fund may purchase inverse floating obligations with shorter term maturities or which contain limitations on the extent to which the interest rate may vary. The Manager believes that indexed and inverse floating obligations represent a flexible portfolio management instrument for the Fund which allows the Manager to vary the degree of investment leverage relatively efficiently under different market conditions. Certain investments in such obligations may be illiquid. The Fund may not invest in such illiquid obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets.

The Fund may purchase a Municipal Bond issuer's right to call all or a portion of such Municipal Bond for mandatory tender for purchase (a "Call Right"). A holder of a Call Right may exercise such right to require a mandatory tender for the purchase of related Municipal Bonds, subject to certain conditions. A Call Right that is not exercised prior to the maturity of the related Municipal Bond will expire without value. The economic effect of holding both the Call Right and the related Municipal Bond is identical to holding a

Municipal Bond as a non-callable security. Certain investments in such obligations may be illiquid. The Fund may not invest in such illiquid obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets.

The Fund may invest up to 20% of its total assets in Municipal Bonds which are rated below Baa by Moody's or below BBB by Standard & Poor's or Fitch or which, in the Manager's judgment, possess similar credit characteristics ("high yield securities"). See Appendix II--"Ratings of Municipal Bonds"--for additional information regarding ratings of debt securities. The Manager considers the ratings assigned by Standard & Poor's, Moody's or Fitch as one of several factors in its independent credit analysis of issuers.

High yield securities are considered by Standard & Poor's, Moody's and Fitch to have varying degrees of speculative characteristics. Consequently, although high yield securities can be expected to provide higher yields, such securities may be subject to greater market price fluctuations and risk of loss of principal than lower yielding, higher rated debt securities. Investments in high yield securities will be made only when, in the judgment of the Manager, such securities provide attractive total return potential relative to the risk of such securities, as compared to higher quality debt securities. The Fund generally will not invest in debt securities in the lowest rating categories (those rated CC or lower by Standard & Poor's or Fitch or Ca or lower by Moody's) unless the Manager believes that the financial condition of the issuer or the protection afforded the particular securities is stronger than would otherwise be indicated by such low ratings. The Fund does not intend to purchase debt securities that are in default or which the Manager believes will be in default.

Issuers of high yield securities may be highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risks associated with acquiring the securities of such issuers or obligors generally are greater than is the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, issuers of high yield securities may be more likely to experience financial stress, especially if such issuers are highly leveraged. During periods of economic recession, such issuers may not have sufficient revenues to meet their interest payment obligations. The issuer's ability to service its debt obligations also may be adversely affected by specific issuer developments, or the issuer's inability to meet specific projected business forecasts, or the unavailability of additional financing. The risk of loss due to default by the issuer is significantly greater for the holders of high yield securities because such securities may be unsecured and may be subordinated to other creditors of the issuer.

High yield securities frequently have call or redemption features that would permit an issuer to repurchase the security from the Fund. If a call were exercised by the issuer during a period of declining interest rates, the Fund likely would have to replace such called security with a lower yielding security, thus decreasing the net investment income to the Fund and dividends to shareholders.

The Fund may have difficulty disposing of certain high yield securities because there may be a thin trading market for such securities. Because not all dealers maintain markets in all high yield securities, there is no established secondary market for many of these securities, and the Fund anticipates that

such securities could be sold only to a limited number of dealers or institutional investors. To the extent that a secondary trading market for high yield securities does exist, it generally is not as liquid as the secondary market for higher rated securities. Reduced secondary market liquidity may have an adverse impact on market price and the Fund's ability to dispose of particular issues when necessary to meet the Fund's liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the issuer. Reduced secondary market liquidity for certain securities also may make it more difficult for the Fund to obtain

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accurate market quotations for purposes of valuing the Fund's portfolio. Market quotations generally are available on many high yield securities only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales.

It is expected that a significant portion of the high yield securities acquired by the Fund will be purchased upon issuance, which may involve special risks because the securities so acquired are new issues. In such instances the Fund may be a substantial purchaser of the issue and therefore have the opportunity to participate in structuring the terms of the offering. Although this may enable the Fund to seek to protect itself against certain of such risks, the considerations discussed herein would nevertheless remain applicable.

Adverse publicity and investor perceptions, which may not be based on fundamental analysis, also may decrease the value and liquidity of high yield securities, particularly in a thinly traded market. Factors adversely affecting the market value of high yield securities are likely to affect adversely the Fund's net asset value. In addition, the Fund may incur additional expenses to the extent that it is required to seek recovery upon a default on a portfolio holding or participate in the restructuring of the obligation.

DESCRIPTION OF MUNICIPAL BONDS AND TEMPORARY INVESTMENTS

Set forth below is a description of the Municipal Bonds and Temporary Investments in which the Fund may invest. A more complete discussion concerning futures and options transactions is set forth under "Investment Objective and Policies" in the Prospectus. Information with respect to ratings assigned to tax-exempt obligations which the Fund may purchase is set forth in Appendix II to this Statement of Additional Information.

DESCRIPTION OF MUNICIPAL BONDS

Municipal Bonds include debt obligations issued to obtain funds for various public purposes, including construction of a wide range of public facilities, refunding of outstanding obligations and obtaining funds for general operating expenses and loans to other public institutions and facilities. In addition, certain types of bonds are issued by or on behalf of public authorities to finance various privately owned or operated facilities, including certain facilities for local furnishing of electric energy or gas, sewage facilities, solid waste disposal facilities and other specialized facilities. Such obligations are included within the term Municipal Bonds if the interest paid thereon is, in the opinion of bond counsel, excluded from gross income for

Federal income tax purposes and, in the case of Arkansas Municipal Bonds, exempt from Arkansas income taxes. Other types of industrial development bonds or private activity bonds, the proceeds of which are used for the construction, equipment or improvement of privately operated industrial or commercial facilities, may constitute Municipal Bonds, although the current Federal tax laws place substantial limitations on the size of such issues.

The two principal classifications of Municipal Bonds are "general obligation" bonds and "revenue" bonds which latter category includes industrial development bonds and, for bonds issued after August 15, 1986, private activity bonds. General obligation bonds are secured by the issuer's pledge of faith, credit and taxing power for the payment of principal and interest. Revenue bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special or limited tax or other specific revenue source such as payments from the user of the facility being financed. Industrial development bonds ("IDBs") and, in the case of bonds issued after April 15, 1986, private activity bonds, are in most cases revenue bonds and generally do not constitute the pledge of the credit or taxing power of the issuer of such bonds. Generally, the payment of the principal of and interest on such IDBs and private activity

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bonds depends solely on the ability of the user of the facility financed by the bonds to meet its financial obligations and the pledge, if any, of real and personal property so financed as security for such payment, unless a line of credit, bond insurance or other security is furnished. The Fund also may invest in "moral obligation" bonds, which are normally issued by special purpose public authorities. Under a moral obligation bond, if the issuer thereof is unable to meet its obligations, the repayment of the bond becomes a moral commitment, but not a legal obligation, of the state or municipality in question.

Also included within the general category of Municipal Bonds are participation certificates issued by government authorities or entities to finance the acquisition or construction of equipment, land and/or facilities. The certificates represent participations in a lease, an installment purchase contract or a conditional sales contract (hereinafter collectively called "lease obligations") relating to such equipment, land or facilities. Although lease obligations do not constitute general obligations of the issuer for which the issuer's unlimited taxing power is pledged, a lease obligation is frequently backed by the issuer's covenant to budget for, appropriate and make the payments due under the lease obligation. Certain investments in lease obligations may be illiquid. The Fund may not invest in illiquid lease obligations if such investments, together with all other illiquid investments, would exceed 15% of the Fund's net assets. The Fund may, however, invest without regard to such limitation in lease obligations which the Manager, pursuant to the guidelines which have been adopted by the Board of Trustees and subject to the supervision of the Board of Trustees, determines to be liquid. The Manager will deem lease obligations liquid if they are publicly offered and have received an investment grade rating of Baa or better by Moody's, or BBB or better by Standard & Poor's or Fitch. Unrated lease obligations, or those rated below investment grade, will be considered liquid if the obligations come to the market through an underwritten public offering and at least two dealers are willing to give competitive bids. In reference to the latter, the Manager must,

among other things, also review the creditworthiness of the municipality obligated to make payment under the lease obligation and make certain specified determinations based on such factors as the existence of a rating or credit enhancement such as insurance, the frequency of trades or quotes for the obligation and the willingness of dealers to make a market in the obligation.

Yields on Municipal Bonds are dependent on a variety of factors, including the general condition of the money market and of the municipal bond market, the size of a particular offering, the financial condition of the issuer, the general conditions of the Municipal Bond market, the maturity of the obligation, and the rating of the issue. The ability of the Fund to achieve its investment objective also is dependent on the continuing ability of the issuers of the bonds in which the Fund invests to meet their obligations for the payment of interest and principal when due. There are variations in the risks involved in holding Municipal Bonds, both within a particular classification and between classifications, depending on numerous factors. Furthermore, the rights of owners of Municipal Bonds and the obligations of the issuer of such Municipal Bonds may be subject to applicable bankruptcy, insolvency and similar laws and court decisions affecting the rights of creditors generally.

DESCRIPTION OF TEMPORARY INVESTMENTS

The Fund may invest in short-term tax-free and taxable securities subject to the limitations set forth under "Investment Objective and Policies". The tax-exempt money market securities may include municipal notes, municipal commercial paper, municipal bonds with remaining maturity of less than one year, variable rate demand notes and participations therein. Municipal notes include tax anticipation notes, bond anticipation notes and grant anticipation notes. Anticipation notes are sold as interim financing in anticipation of tax collection, bond sales, government grants or revenue receipts. Municipal commercial paper refers to

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short-term unsecured promissory notes generally issued to finance short-term credit needs. The taxable money market securities in which the Fund may invest as Temporary Investments consist of U.S. Government securities, U.S. Government agency securities, domestic bank or savings institution certificates of deposit and bankers' acceptances, short-term corporate debt securities such as commercial paper, and repurchase agreements. These Temporary Investments must have a stated maturity not in excess of one year from the date of purchase.

Variable rate demand obligations ("VRDOs") are tax-exempt obligations which contain a floating or variable interest rate adjustment formula and an unconditional right of demand on the part of the holder thereof to receive payment of the unpaid principal balance plus accrued interest upon a short notice period not to exceed seven days. There is, however, the possibility that because of default or insolvency the demand feature of VRDOs and Participating VRDOs, described below, may not be honored. The interest rates are adjustable at intervals (ranging from daily to up to one year) to some prevailing market rate for similar investments, such adjustment formula being calculated to maintain the market value of the VRDO at approximately the par value of the VRDOs on the adjustment date. The adjustments typically are set at a rate determined by the remarketing agent or based upon the prime rate of a bank or some other appropriate interest rate adjustment index. The Fund may invest in all types of tax-exempt instruments currently outstanding or to be issued in

the future which satisfy the short-term maturity and quality standards of the Fund.

The Fund also may invest in VRDOs in the form of participation interests ("Participating VRDOs") in variable rate tax-exempt obligations held by a financial institution, typically a commercial bank. Participating VRDOs provide the Fund with a specified undivided interest (up to 100%) of the underlying obligation and the right to demand payment of the unpaid principal balance plus accrued interest on the Participating VRDOs from the financial institution upon a specified number of days' notice, not to exceed seven days. In addition, a Participating VRDO is backed by an irrevocable letter of credit or guaranty of the financial institution. The Fund would have an undivided interest in the underlying obligation and thus participate on the same basis as the financial institution in such obligation except that the financial institution typically retains fees out of the interest paid on the obligation for servicing the obligation, providing the letter of credit and issuing the repurchase commitment. The Fund has been advised by its counsel that the Fund should be entitled to treat the income received on Participating VRDOs as interest from tax-exempt obligations.

VRDOs that contain an unconditional right of demand to receive payment of the unpaid principal balance plus accrued interest on a notice period exceeding seven days may be deemed to be illiquid securities. A VRDO with a demand notice period exceeding seven days therefore will be subject to the Fund's restriction on illiquid investments unless, in the judgment of the Trustees, such VRDO is liquid. The Trustees may adopt guidelines and delegate to the Manager the daily function of determining and monitoring liquidity of such VRDOs. The Trustees, however, will retain sufficient oversight and will be ultimately responsible for such determination.

The Trust has established the following standards with respect to money market securities and VRDOs in which the Fund invests. Commercial paper investments at the time of purchase must be rated "A-1" through "A-3" by Standard & Poor's, "Prime-1" through "Prime-3" by Moody's or "F-1" through "F-3" by Fitch or, if not rated, issued by companies having an outstanding debt issue rated at least "A" by Standard & Poor's, Fitch or Moody's. Investments in corporate bonds and debentures (which must have maturities at the date of purchase of one year or less) must be rated at the time of purchase at least "A" by Standard & Poor's, Moody's or Fitch. Notes and VRDOs at the time of purchase must be rated SP-1/A-1 through SP-2/A-3 by Standard & Poor's, MIG-1/VMIG-1 through MIG-4/VMIG-4 by Moody's or F-1 through F-3

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by Fitch. Temporary Investments, if not rated, must be of comparable quality to securities rated in the above rating categories in the opinion of the Manager. The Fund may not invest in any security issued by a commercial bank or a savings institution unless the bank or institution is organized and operating in the United States, has total assets of at least one billion dollars and is a member of the Federal Deposit Insurance Corporation ("FDIC"), except that up to 10% of total assets may be invested in certificates of deposit of small institutions if such certificates are insured fully by the FDIC.

REPURCHASE AGREEMENTS AND PURCHASE AND SALE CONTRACTS

The Fund may invest in securities pursuant to repurchase agreements or

purchase and sale contracts. Repurchase agreements and purchase and sale contracts may be entered into only with a member bank of the Federal Reserve System or primary dealer in U.S. Government securities. Under such agreements, the bank or primary dealer agrees, upon entering into the contract, to repurchase the security at a mutually agreed upon time and price, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect accrued interest on the underlying obligations; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, such as under one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In the case of a repurchase agreement, the Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under a repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but only constitute collateral for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the contractual fixed rate of return, the rate of return to the Fund will depend on intervening fluctuations of the market value of such security and the accrued interest on the security. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform. The Fund may not invest in repurchase agreements or purchase and sale contracts maturing in more than seven days if such investments, together with all other illiquid investments, would exceed 15% of the Fund's net assets. While the substance of purchase and sale contracts is similar to repurchase agreements, because of the different treatment with respect to accrued interest and additional collateral, management believes that purchase and sale contracts are not repurchase agreements as such term is understood in the banking and brokerage community.

In general, for Federal income tax purposes, repurchase agreements are treated as collateralized loans secured by the securities "sold". Therefore, amounts earned under such agreements will not be considered tax-exempt interest. The treatment of purchase and sale contracts is less certain. However, it is likely that income from such arrangements also will not be considered tax-exempt interest.

FINANCIAL FUTURES TRANSACTIONS AND OPTIONS

Reference is made to the discussion concerning futures transactions under "Investment Objective and Policies" in the Prospectus. Set forth below is additional information concerning these transactions.

As described in the Prospectus, the Fund may purchase and sell exchange traded financial futures contracts ("financial futures contracts") to hedge its

portfolio of Municipal Bonds against declines in the value of such securities and to hedge against increases in the cost of securities the Fund intends to purchase. However, any transactions involving financial futures or options (or puts and calls associated therewith) will be in accordance with the Fund's investment policies and limitations. See "Investment Objective and Policies--Investment Restrictions" in the Prospectus. To hedge its portfolio, the Fund may take an investment position in a futures contract which will move in the opposite direction from the portfolio position being hedged. While the Fund's use of hedging strategies is intended to moderate capital changes in portfolio holdings and thereby reduce the volatility of the net asset value of Fund shares, the Fund anticipates that its net asset value will fluctuate. Set forth below is information concerning futures transactions.

Description of Futures Contracts. A futures contract is an agreement between two parties to buy and sell a security, or in the case of an index-based futures contract, to make and accept a cash settlement for a set price on a future date. A majority of transactions in futures contracts, however, do not result in the actual delivery of the underlying instrument or cash settlement, but are settled through liquidation, i.e., by entering into an offsetting transaction. Futures contracts have been designed by boards of trade which have been designated "contracts markets" by the Commodity Futures Trading Commission ("CFTC").

The purchase or sale of a futures contract differs from the purchase or sale of a security in that no price or premium is paid or received. Instead, an amount of cash or securities acceptable to the broker and the relevant contract market, which varies, but is generally about 5% of the contract amount, must be deposited with the broker. This amount is known as "initial margin" and represents a "good faith" deposit assuring the performance of both the purchaser and seller under the futures contract. Subsequent payments to and from the broker, called "variation margin", are required to be made on a daily basis as the price of the futures contract fluctuates making the long and short positions in the futures contract more or less valuable, a process known as "mark to the market". At any time prior to the settlement date of the futures contract, the position may be closed out by taking an opposite position which will operate to terminate the position in the futures contract. A final determination of variation margin is then made, additional cash is required to be paid to or released by the broker, and the purchaser realizes a loss or gain. In addition, a nominal commission is paid on each completed sale transaction.

The Fund may deal in financial futures contracts based on a long-term municipal bond index developed by the Chicago Board of Trade ("CBT") and The Bond Buyer (the "Municipal Bond Index"). The Municipal Bond Index is comprised of 40 tax-exempt municipal revenue and general obligations bonds. Each bond included in the Municipal Bond Index must be rated A or higher by Moody's or Standard & Poor's and must have a remaining maturity of 19 years or more. Twice a month new issues satisfying the eligibility requirements are added to, and an equal number of old issues are deleted from, the Municipal Bond Index. The value of the Municipal Bond Index is computed daily according to a formula based on the price of each bond in the Municipal Bond Index, as evaluated by six dealer-to-dealer brokers.

The Municipal Bond Index futures contract is traded only on the CBT. Like other contract markets, the CBT assures performance under futures contracts through a clearing corporation, a nonprofit organization managed by the exchange membership which also is responsible for handling daily accounting of

deposits or withdrawals of margin.

As described in the Prospectus, the Fund may purchase and sell financial futures contracts on U.S. Government securities as a hedge against adverse changes in interest rates as described below. With respect to U.S. Government securities, currently there are financial futures contracts based on long-term U.S.

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Treasury bonds, Treasury notes, Government National Mortgage Association ("GNMA") Certificates and three-month U.S. Treasury bills. The Fund may purchase and write call and put options on futures contracts on U.S. Government securities in connection with its hedging strategies.

Subject to policies adopted by the Trustees, the Fund also may engage in other futures contracts transactions such as futures contracts on other municipal bond indices which may become available if the Manager and the Trustees should determine that there is normally a sufficient correlation between the prices of such futures contracts and the Municipal Bonds in which the Fund invests to make such hedging appropriate.

Futures Strategies. The Fund may sell a financial futures contract (i.e., assume a short position) in anticipation of a decline in the value of its investments in Municipal Bonds resulting from an increase in interest rates or otherwise. The risk of decline could be reduced without employing futures as a hedge by selling such Municipal Bonds and either reinvesting the proceeds in securities with shorter maturities or by holding assets in cash. This strategy, however, entails increased transaction costs in the form of dealer spreads and typically would reduce the average yield of the Fund's portfolio securities as a result of the shortening of maturities. The sale of futures contracts provides an alternative means of hedging against declines in the value of its investments in Municipal Bonds. As such values decline, the value of the Fund's positions in the futures contracts will tend to increase, thus offsetting all or a portion of the depreciation in the market value of the Fund's Municipal Bond investments which are being hedged. While the Fund will incur commission expenses in selling and closing out futures positions, commissions on futures transactions are lower than transaction costs incurred in the purchase and sale of Municipal Bonds. In addition, the ability of the Fund to trade in the standardized contracts available in the futures markets may offer a more effective defensive position than a program to reduce the average maturity of the portfolio securities due to the unique and varied credit and technical characteristics of the municipal debt instruments available to the Fund. Employing futures as a hedge also may permit the Fund to assume a defensive posture without reducing the yield on its investments beyond any amounts required to engage in futures trading.

When the Fund intends to purchase Municipal Bonds, the Fund may purchase futures contracts as a hedge against any increase in the cost of such Municipal Bonds, resulting from an increase in interest rates or otherwise, that may occur before such purchases can be effected. Subject to the degree of correlation between the Municipal Bonds and the futures contracts, subsequent increases in the cost of Municipal Bonds should be reflected in the value of the futures held by the Fund. As such purchases are made, an equivalent amount of futures contracts will be closed out. Due to changing market conditions and interest rate forecasts, however, a futures position may be terminated without

a corresponding purchase of portfolio securities.

Call Options on Futures Contracts. The Fund also may purchase and sell exchange traded call and put options on financial futures contracts on U.S. Government securities. The purchase of a call option on a futures contract is analogous to the purchase of a call option on an individual security. Depending on the pricing of the option compared to either the futures contract on which it is based, or on the price of the underlying debt securities, it may or may not be less risky than ownership of the futures contract or underlying debt securities. Like the purchase of a futures contract, the Fund will purchase a call option on a futures contract to hedge against a market advance when the Fund is not fully invested.

The writing of a call option on a futures contract constitutes a partial hedge against declining prices of the securities which are deliverable upon exercise of the futures contract. If the futures price at expiration is below the exercise price, the Fund will retain the full amount of the option premium which provides a partial hedge against any decline that may have occurred in the Fund's portfolio holdings.

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Put Options on Futures Contracts. The purchase of options on a futures contract is analogous to the purchase of protective put options on portfolio securities. The Fund will purchase put options on futures contracts to hedge the Fund's portfolio against the risk of rising interest rates.

The writing of a put option on a futures contract constitutes a partial hedge against increasing prices of the securities which are deliverable upon exercise of the futures contract. If the futures price at expiration is higher than the exercise price, the Fund will retain the full amount of the option premium which provides a partial hedge against any increase in the price of Municipal Bonds which the Fund intends to purchase.

The writer of an option on a futures contract is required to deposit initial and variation margin pursuant to requirements similar to those applicable to futures contracts. Premiums received from the writing of an option will be included in initial margin. The writing of an option on a futures contract involves risks similar to those relating to futures contracts.

The Trust has received an order from the Securities and Exchange Commission (the "Commission") exempting it from the provisions of Section 17(f) and Section 18(f) of the Investment Company Act of 1940, as amended (the "1940 Act"), in connection with its strategy of investing in futures contracts. Section 17(f) relates to the custody of securities and other assets of an investment company and may be deemed to prohibit certain arrangements between the Trust and commodities brokers with respect to initial and variation margin. Section 18(f) of the 1940 Act prohibits an open-end investment company such as the Trust from issuing a "senior security" other than a borrowing from a bank. The staff of the Commission has in the past indicated that a futures contract may be a "senior security" under the 1940 Act.

Restrictions on Use of Futures Transactions. Regulations of the CFTC applicable to the Fund require that all of the Fund's futures transactions

constitute bona fide hedging transactions and that the Fund purchase and sell futures contracts and options thereon (i) for bona fide hedging purposes, and (ii) for non-hedging purposes, if the aggregate initial margin and premiums required to establish positions in such contracts and options does not exceed 5% of the liquidation value of the Fund's portfolio assets after taking into account unrealized profits and unrealized losses on any such contracts and options. (However, the Fund intends to engage in options and futures transactions only for hedging purposes.) Margin deposits may consist of cash or securities acceptable to the broker and the relevant contract market.

When the Fund purchases futures contracts or a call option with respect thereto or writes a put option on a futures contract, an amount of cash, cash equivalents or short-term, high-grade, fixed income securities will be deposited in a segregated account with the Fund's custodian so that the amount so segregated, plus the amount of initial and variation margin held in the account of its broker, equals the market value of the futures contract, thereby ensuring that the use of such futures is unleveraged.

Risk Factors in Futures Transactions and Options. Investment in futures contracts involves the risk of imperfect correlation between movements in the price of the futures contract and the price of the security being hedged. The hedge will not be fully effective when there is imperfect correlation between the movements in the prices of two financial instruments. For example, if the price of the futures contract moves more than the price of the hedged security, the Fund will experience either a loss or gain on the futures contract which is not offset completely by movements in the price of the hedged securities. To compensate for imperfect correlations, the Fund may purchase or sell futures contracts in a greater dollar amount than the hedged securities if the volatility of the hedged securities is historically greater than the volatility of the futures contracts. Conversely, the Fund may purchase or sell fewer futures contracts if the volatility of the price of the hedged securities is historically less than that of the futures contracts.

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The particular municipal bonds comprising the index underlying the Municipal Bond Index financial futures contract may vary from the Municipal Bonds held by the Fund. As a result, the Fund's ability to hedge effectively all or a portion of the value of its Municipal Bonds through the use of such financial futures contracts will depend in part on the degree to which price movements in the index underlying the financial futures contract correlate with the price movements of the Municipal Bonds held by the Fund. The correlation may be affected by disparities in the average maturity, ratings, geographical mix or structure of the Fund's investments as compared to those comprising the Municipal Bond Index, and general economic or political factors. In addition, the correlation between movements in the value of the Municipal Bond Index may be subject to change over time as additions to and deletions from the Municipal Bond Index alter its structure. The correlation between futures contracts on U.S. Government securities and the Municipal Bonds held by the Fund may be adversely affected by similar factors and the risk of imperfect correlation between movements in the prices of such futures contracts and the prices of the Municipal Bonds held by the Fund may be greater.

The Fund expects to liquidate a majority of the futures contracts it enters into through offsetting transactions on the applicable contract market. There can be no assurance, however, that a liquid secondary market will exist for any

particular futures contract at any specific time. Thus, it may not be possible to close out a futures position. In the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. In such situations, if the Fund has insufficient cash, it may be required to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. The inability to close out futures positions also could have an adverse impact on the Fund's ability to hedge effectively its investments in Municipal Bonds. The Fund will enter into a futures position only if, in the judgment of the Manager, there appears to be an actively traded secondary market for such futures contracts.

The successful use of transactions in futures and related options also depends on the ability of the Manager to forecast correctly the direction and extent of interest rate movements within a given time frame. To the extent interest rates remain stable during the period in which a futures contract or option is held by the Fund or such rates move in a direction opposite to that anticipated, the Fund may realize a loss on the hedging transaction which is not fully or partially offset by an increase in the value of portfolio securities. As a result, the Fund's total return for such period may be less than if it had not engaged in the hedging transaction.

Because of low initial margin deposits made on the opening of a futures position, futures transactions involve substantial leverage. As a result, relatively small movements in the price of the futures contracts can result in substantial unrealized gains or losses. Because the Fund will engage in the purchase and sale of futures contracts solely for hedging purposes, however, any losses incurred in connection therewith should, if the hedging strategy is successful, be offset in whole or in part by increases in the value of securities held by the Fund or decreases in the price of securities the Fund intends to acquire.

The amount of risk the Fund assumes when it purchases an option on a futures contract is the premium paid for the option plus related transaction costs. In addition to the correlation risks discussed above, the purchase of an option on a futures contract also entails the risk that changes in the value of the underlying futures contract will not be reflected fully in the value of the option purchased.

Municipal Bond Index futures contracts have only recently been approved for trading and therefore have little trading history. It is possible that trading in such futures contracts will be less liquid than that in other futures contracts. The trading of futures contracts also is subject to certain market risks, such as inadequate trading activity, which could at times make it difficult or impossible to liquidate existing positions.

INVESTMENT RESTRICTIONS

The Fund has adopted the following restrictions and policies relating to the investment of its assets and its activities, which are fundamental policies and may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the 1940 Act means the lesser of (i) 67% of the Fund's shares at a meeting at which more than 50% of the outstanding shares of the Fund are represented or (ii) more than 50% of the Fund's outstanding shares). The Fund may not:

1. Invest more than 25% of its assets taken at market value at the time of each investment, in the securities of issuers in any particular industry (excluding the U.S. Government and its agencies and instrumentalities). For purposes of this restriction, states, municipalities and their political subdivisions are not considered to be part of any industry.

2. Make investments for the purpose of exercising control or management.

3. Purchase or sell real estate, except that the Fund may invest in securities directly or indirectly secured by real estate or interests therein or issued by companies which invest in real estate or interests therein.

4. Make loans to other persons, except that the acquisition of bonds, debentures or other corporate debt securities and investment in government obligations, short-term commercial paper, certificates of deposit, bankers' acceptances and repurchase agreements shall not be deemed to be the making of a loan, and except further that the Fund may lend its portfolio securities, provided that the lending of portfolio securities may be made only in accordance with applicable law and guidelines set forth in the Fund's Prospectus and Statement of Additional Information, as they may be amended from time to time.

5. Issue senior securities to the extent such issuance would violate applicable law.

6. Borrow money, except that (a) the Fund may borrow from banks (as defined in the 1940 Act) in amounts up to 33 1/3% of its total assets (including the amount borrowed), (b) the Fund may borrow up to an additional 5% of its total assets for temporary purposes, (c) the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities and (d) the Fund may purchase securities on margin to the extent permitted by applicable law. The Fund may not pledge its assets other than to secure such borrowings or, to the extent permitted by the Fund's investment policies as set forth in the Prospectus and Statement of Additional Information, as they may be amended from time to time, in connection with hedging transactions, short sales, when-issued and forward commitment transactions and similar investment strategies.

7. Underwrite securities of other issuers, except insofar as the Fund technically may be deemed an underwriter under the Securities Act of 1933, as amended, in selling portfolio securities.

8. Purchase or sell commodities or contracts on commodities, except to the extent the Fund may do so in accordance with applicable law and the Fund's Prospectus and Statement of Additional Information, as they may be amended from time to time, and without registering as a commodity pool operator under the Commodities Exchange Act.

Additional non-fundamental investment restrictions adopted by the Fund, which may be changed by the Trustees, provide that the Fund may not:

a. Purchase securities of other investment companies, except to the

extent that such purchases are permitted by applicable law. Applicable law currently allows the Fund to purchase the securities of other investment companies only if immediately thereafter not more than (i) 3% of the total outstanding voting stock of such company is owned by the Fund, (ii) 5% of the Fund's total assets, taken at market value, would be invested in any one such company, (iii) 10% of the Fund's total assets, taken at market value, would be invested in such securities, and (iv) the Fund, together with other investment companies having the same investment adviser and companies controlled by such companies, owns not more than 10% of the total outstanding stock of any one closed-end investment company.

b. Make short sales of securities or maintain a short position except to the extent permitted by applicable law.

c. Invest in securities which cannot be readily resold because of legal or contractual restriction or which cannot otherwise be marketed, redeemed or put to the issuer or a third party, if at the time of acquisition more than 15% of its total assets would be invested in such securities. This restriction shall not apply to securities which mature within seven days or securities which the Board of Trustees of the Fund has otherwise determined to be liquid pursuant to applicable law.

d. Invest in warrants if, at the time of acquisition, its investments in warrants, valued at the lower of cost or market value, would exceed 5% of the Fund's net assets; included within such limitation, but not to exceed 2% of the Fund's net assets, are warrants which are not listed on the New York Stock Exchange or American Stock Exchange or a major foreign exchange. For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.

e. Invest in securities of companies having a record, together with predecessors, of less than three years of continuous operation, if more than 5% of the Fund's total assets would be invested in such securities. This restriction shall not apply to mortgage-backed securities, asset-backed securities or obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

f. Purchase or retain the securities of any issuer, if those individual officers and directors of the Fund, the Manager or any subsidiary thereof each owning more than one-half of 1% of the securities of such issuer own in the aggregate more than 5% of the securities of such issuer.

g. Invest in real estate limited partnership interests or interests in oil, gas or other mineral leases, or exploration or development programs, except that the Fund may invest in securities issued by companies that engage in oil, gas or other mineral exploration or development activities.

h. Write, purchase or sell puts, calls, straddles, spreads or combinations thereof, except to the extent permitted in the Fund's Prospectus and Statement of Additional Information, as they may be amended from time to time.

In addition, to comply with Federal income tax requirements for qualification as a "regulated investment company", the Fund's investments will be limited in a manner such that, at the close of each quarter of each fiscal year, (a) no more than 25% of the Fund's total assets are invested in the securities of a single issuer, and (b) with regard to at least 50% of the Fund's total assets, no more than 5% of its total assets are invested in the securities of a single issuer. For purposes of this restriction, the Fund will regard each state and each political subdivision, agency or instrumentality of such state and each multi-state agency of which such state is a member and each public authority which issues securities on behalf of a private entity as a separate issuer, except that if the security is backed only by the assets and revenues of a non-governmental entity then the entity with the ultimate responsibility for the payment of interest and principal may be regarded as the sole issuer. These tax-related limitations may be changed by the Trustees of the Trust to the extent necessary to comply with changes to the Federal income tax requirements.

Because of the affiliation of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") with the Trust, the Fund is prohibited from engaging in certain transactions involving such firm or its affiliates except for brokerage transactions permitted under the 1940 Act involving only usual and customary commissions or transactions pursuant to an exemptive order under the 1940 Act. Included among such restricted transactions will be purchases from or sales to Merrill Lynch of securities in transactions in which it acts as principal. See "Portfolio Transactions". An exemptive order has been obtained which permits the Trust to effect principal transactions with Merrill Lynch in high quality, short-term, tax-exempt securities subject to conditions set forth in such order.

MANAGEMENT OF THE TRUST

TRUSTEES AND OFFICERS

The Trustees and executive officers of the Trust and their principal occupations for at least the last five years are set forth below. Unless otherwise noted, the address of each Trustee and executive officer is Box 9011, Princeton, New Jersey 08543-9011.

Arthur Zeikel--President and Trustee(1)(2)--President and Chief Investment Officer of the Manager (which term, as used herein, includes the Manager's corporate predecessor) since 1977; President of Merrill Lynch Asset Management, L.P. (doing business as Merrill Lynch Asset Management and referred to herein, together with its corporate predecessor, as "MLAM") since 1977 and Chief Investment Officer thereof since 1976; President and Director of Princeton Services, Inc. ("Princeton Services") since 1993; Executive Vice President of Merrill Lynch & Co., Inc. since 1991; Executive Vice President of Merrill Lynch since 1990 and a Senior Vice President thereof from 1985 to 1990; Director of Merrill Lynch Funds Distributor, Inc. ("MLFD" or the "Distributor").

Kenneth S. Axelson--Trustee(2)--75 Jameson Point Road, Rockland, Maine 04841. Executive Vice President and Director, J.C. Penney Company, Inc. until 1982; Director, UNUM Corporation, Protection Mutual Insurance Company, Zurn Industries, Inc. and, formerly, of Central Maine Power Company (until 1992), Key Trust Company of Maine (until 1992) and Grumman Corporation (until 1994); Trustee, The Chicago Dock and Canal Trust.

Herbert I. London--Trustee(2)--New York University--Gallatin Division, 113-115 University Place, New York, New York 10003. John M. Olin Professor of Humanities, New York University since 1993 and Professor thereof since 1973; Dean, Gallatin Division of New York University from 1978 to 1993 and Director from 1975 to 1976; Distinguished Fellow, Herman Kahn Chair, Hudson Institute from 1984 to 1985; Trustee, Hudson Institute since 1980; Director, Damon Corporation since 1991; Overseer, Center for Naval Analyses.

Robert R. Martin--Trustee(2)--513 Grand Hill, St. Paul, Minnesota 55102. Chairman, WTC Industries, Inc. since 1994; Chairman and Chief Executive Officer, Kinnard Investments, Inc. from 1990 to 1993; Executive Vice President, Dain Bosworth from 1974 to 1989; Director, Carnegie Capital Management from 1977 to 1985 and Chairman thereof in 1979; Director, Securities Industry Association from 1981 to 1982 and Public Securities Association from 1979 to 1980; Trustee, Northland College since 1992.

Joseph L. May--Trustee(2)--424 Church Street, Suite 2000, Nashville, Tennessee 37219. Attorney in private practice since 1984; President, May and Athens Hosiery Mills Division, Wayne-Gossard Corporation from 1954 to 1983; Vice President, Wayne-Gossard Corporation from 1972 to 1983; Chairman, The May Corporation (personal holding company) from 1972 to 1983; Director, Signal Apparel Co. from 1972 to 1989.

Andre F. Perold--Trustee(2)--Morgan Hall, Soldiers Field, Boston, Massachusetts 02163. Professor, Harvard Business School since 1989 and Associate Professor from 1983 to 1989; Trustee, The Common Fund, since 1989; Director, Quantec Investment Technology (a private United Kingdom company).

Terry K. Glenn--Executive Vice President(1)(2)--Executive Vice President of the Manager and MLAM since 1983; Executive Vice President and Director of Princeton Services since 1993; President of MLFD since 1986 and Director thereof since 1991.

Vincent R. Giordano--Vice President and Portfolio Manager(1)(2)--Portfolio Manager of the Manager and MLAM since 1977 and Senior Vice President of the Manager and MLAM since 1984; Vice President of MLAM from 1980 to 1984; Senior Vice President of Princeton Services since 1993.

Kenneth A. Jacob--Vice President and Portfolio Manager(1)(2)--Vice President of the Manager and MLAM since 1984.

Donald C. Burke--Vice President(1)(2)--Vice President and Director of Taxation of MLAM since 1990; Employee of Deloitte & Touche from 1982 to 1990.

Gerald M. Richard--Treasurer(1)(2)--Senior Vice President and Treasurer of the Manager and MLAM since 1984; Senior Vice President and Treasurer of Princeton Services since 1993; Treasurer of MLFD since 1984 and Vice President since 1981.

Jerry Weiss--Secretary(1)(2)--Vice President of MLAM since 1990; Attorney in private practice from 1982 to 1990.

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- (1) Interested person, as defined in the 1940 Act, of the Trust.
- (2) Such Trustee or officer is a director or officer of certain other investment companies for which the Manager or MLAM acts as investment adviser or manager.

At June 30, 1994, the Trustees and officers of the Trust as a group (12 persons) owned an aggregate of less than 1/4 of 1% of the outstanding shares of Common Stock of Merrill Lynch & Co., Inc. and owned an aggregate of less than 1% of the outstanding shares of the Fund.

The Trust pays each Trustee not affiliated with the Manager a fee of \$10,000 per year plus \$1,000 per meeting attended, together with such Trustee's actual out-of-pocket expenses relating to attendance at meetings. The Trust also compensates members of its Audit Committee, which consists of all the non-affiliated Trustees.

MANAGEMENT AND ADVISORY ARRANGEMENTS

Reference is made to "Management of the Trust--Management and Advisory Arrangements" in the Prospectus for certain information concerning the management and advisory arrangements of the Fund.

Securities may be held by, or be appropriate investments for, the Fund as well as other funds or investment advisory clients of the Manager or its affiliates. Because of different objectives or other factors, a particular security may be bought for one or more clients when one or more clients are selling the same security. If the Manager or its affiliates purchase or sell securities for the Fund or other funds for which they act as manager or for their advisory clients and such sales or purchases arise for consideration at or about the same time, transactions in such securities will be made, insofar as feasible, for the respective funds and clients in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of the Manager or its affiliates during the same period may increase the demand for securities being purchased or the supply of securities being sold, there may be an adverse effect on price.

Pursuant to a management agreement between the Trust on behalf of the Fund and the Manager (the "Management Agreement"), the Manager receives for its services to the Fund monthly compensation based upon the average daily net assets of the Fund at the following annual rates: 0.55% of the average daily net assets not exceeding \$500 million; 0.525% of the average daily net assets exceeding \$500 million but not exceeding \$1.0 billion; and 0.50% of the average daily net assets exceeding \$1.0 billion.

The Management Agreement obligates the Manager to provide investment advisory services and to pay all compensation of and furnish office space for officers and employees of the Trust connected with investment and economic research, trading and investment management of the Trust, as well as the compensation of all Trustees of the Trust who are affiliated persons of the Manager or any of its subsidiaries. The Fund pays all other expenses incurred in its operation and, if other Series shall be added ("Series"), a portion of the Trust's general administrative expenses will be allocated on the basis of the asset size of the respective Series. Expenses that will be borne directly by the Series include, among other things, redemption expenses, expenses of portfolio transactions, expenses of registering the shares under Federal and state securities laws, pricing costs (including the daily calculation of net asset value), expenses of printing shareholder reports, prospectuses and statements

of additional information (except to the extent paid by the Distributor as described below), fees for legal and auditing services, Commission fees, interest, certain taxes, and other expenses attributable to a particular Series. Expenses which will be allocated on the basis of asset size of the respective Series include fees and expenses of unaffiliated Trustees, state franchise taxes, costs of printing proxies and other expenses related to shareholder meetings, and other expenses properly payable by the Trust. The organizational expenses of the Trust were paid by the Trust, and as additional Series are added to the

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Trust, the organizational expenses are allocated among the Series (including the Fund) in a manner deemed equitable by the Trustees. Depending upon the nature of a lawsuit, litigation costs may be assessed to the specific Series to which the lawsuit relates or allocated on the basis of the asset size of the respective Series. The Trustees have determined that this is an appropriate method of allocation of expenses. Accounting services are provided to the Fund by the Manager and the Fund reimburses the Manager for its costs in connection with such services. As required by the Fund's distribution agreements, the Distributor will pay the promotional expenses of the Fund incurred in connection with the offering of shares of the Fund. Certain expenses in connection with account maintenance and the distribution of Class B shares will be financed by the Fund pursuant to the Distribution Plan in compliance with Rule 12b-1 under the 1940 Act. See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares--Distribution Plan".

The Manager is a limited partnership, the partners of which are Merrill Lynch & Co., Inc., Fund Asset Management, Inc. and Princeton Services, Inc.

Duration and Termination. Unless earlier terminated as described below, the Management Agreement will remain in effect from year to year if approved annually (a) by the Trustees of the Trust or by a majority of the outstanding shares of the Fund and (b) by a majority of the Trustees who are not parties to such contract or interested persons (as defined in the 1940 Act) of any such party. Such contracts are not assignable and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by vote of the shareholders of the Fund.

PURCHASE OF SHARES

Reference is made to "Purchase of Shares" in the Prospectus for certain information as to the purchase of Fund shares.

ALTERNATIVE SALES ARRANGEMENTS

The Fund issues two classes of shares: Class A shares are sold to investors choosing the initial sales charge alternative and Class B shares are sold to investors choosing the deferred sales charge alternative. The two classes of shares each represents an interest in the same portfolio of investments of the Fund, has the same rights and is identical in all respects, except that Class B shares bear the expenses of the deferred sales arrangements and any expenses (including incremental transfer agency costs) resulting from such sales arrangements and the expenses paid by the account maintenance fee. The two classes also have different exchange privileges. See "Shareholder Services--Exchange Privilege".

The Fund has entered into separate distribution agreements with the Distributor in connection with the subscription and continuous offering of Class A and Class B shares of the Fund (the "Distribution Agreements"). The Distribution Agreements obligate the Distributor to pay certain expenses in connection with the offering of the Class A and Class B shares of the Fund. After the prospectuses, statements of additional information and periodic reports have been prepared, set in type and mailed to shareholders, the Distributor pays for the printing and distribution of copies thereof used in connection with the offering to dealers and prospective investors. The Distributor also pays for other supplementary sales literature and advertising costs. The Distribution Agreements are subject to the same renewal requirements and termination provisions as the Management Agreement described above.

It is contemplated that the boards of directors or trustees of each of the mutual funds advised by the Manager or MLAM and presently offering two classes of shares, including the Fund, will consider in August,

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1994 whether to approve a new distribution system for shares of the funds, which will be named the Merrill Lynch Select Pricing SM System. Under the Select Pricing SM System, as presently contemplated, eligible investors would be permitted to choose from different sales charge alternatives offered through four classes of shares. It is currently anticipated that, subject to the approvals of the fund boards and of the shareholders of the funds, the Select Pricing SM System will be implemented for all of such mutual funds, including the Fund.

INITIAL SALES CHARGE ALTERNATIVE--CLASS A SHARES

The term "purchase", as used in the Prospectus and this Statement of Additional Information in connection with an investment in Class A shares of the Fund, refers to a single purchase by an individual, or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual, his spouse and their children under the age of 21 years purchasing shares for his or their own account and to single purchases by a trustee or other fiduciary purchasing shares for a single trust estate or single fiduciary account although more than one beneficiary is involved. The term "purchase" also includes purchases by any "company", as that term is defined in the 1940 Act, but does not include purchases by any such company which has not been in existence for at least six months or which has no purpose other than the purchase of shares of the Fund or shares of other registered investment companies at a discount; provided, however, that it shall not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser.

REDUCED INITIAL SALES CHARGES--CLASS A SHARES

Right of Accumulation. Reduced sales charges are applicable through a right of accumulation under which eligible investors are permitted to purchase Class A shares of the Fund at the offering price applicable to the total of (a) the

dollar amount then being purchased plus (b) an amount equal to the then current net asset value or cost, whichever is higher, of the purchaser's combined holdings of the Class A shares and Class B shares of the Fund and of any other investment company with an initial sales charge or a deferred sales charge for which the Distributor acts as the distributor. For any such right of accumulation to be made available, the Distributor must be provided at the time of purchase, by the purchaser or the purchaser's securities dealer, with sufficient information to permit confirmation of qualification. Acceptance of the purchase order is subject to such confirmation. The right of accumulation may be amended or terminated at any time.

Letter of Intention. Reduced sales charges are applicable to purchases aggregating \$25,000 or more of the Class A shares of the Fund or any other investment company with an initial sales charge or a deferred sales charge for which the Distributor acts as the distributor made within a thirteen-month period starting with the first purchase pursuant to a Letter of Intention in the form provided in the Prospectus. The Letter of Intention is available only to investors whose accounts are maintained at the Fund's Transfer Agent. The Letter of Intention is not available to employee benefit plans for which Merrill Lynch provides plan participant, record-keeping services. The Letter of Intention is not a binding obligation to purchase any amount of Class A shares; however, its execution will result in the purchaser paying a lower sales charge at the appropriate quantity purchase level. A purchase not originally made pursuant to a Letter of Intention may be included under a subsequent Letter of Intention executed within 90 days of such purchase if the Distributor is informed in writing of this intent within such 90-day period. The value of Class A shares of the Fund and of other investment companies with an initial sales charge or a deferred sales charge for which the Distributor acts as the distributor presently held, at cost or maximum offering price (whichever is higher), on

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the date of the first purchase under the Letter of Intention, may be included as a credit toward the completion of such Letter, but the reduced sales charge applicable to the amount covered by such Letter will be applied only to new purchases. If the total amount of shares does not equal the amount stated in the Letter of Intention (minimum of \$25,000), the investor will be notified and must pay, within 20 days of the expiration of such Letter, the difference between the sales charge on the Class A shares purchased at the reduced rate and the sales charge applicable to the shares actually purchased through the Letter. Class A shares equal to at least five percent of the intended amount will be held in escrow during the thirteen-month period (while remaining registered in the name of the purchaser) for this purpose. The first purchase under the Letter of Intention must be at least five percent of the dollar amount of such Letter. If during the term of such Letter, a purchase brings the total amount invested to an amount equal to or in excess of the amount indicated in the Letter, the purchaser will be entitled on that purchase and subsequent purchases to the reduced percentage sales charge which would be applicable to a single purchase equal to the total dollar value of the Class A shares then being purchased under such Letter, but there will be no retroactive reduction of the sales charges on any previous purchase. The value of any shares redeemed or otherwise disposed of by the purchaser prior to termination or completion of the Letter of Intention will be deducted from the total purchases made under such Letter. An exchange from Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Reserves Money Fund, Merrill Lynch U.S.

Treasury Money Fund or Merrill Lynch U.S.A. Government Reserves into the Fund that creates a sales charge will count toward completing a new or existing Letter of Intention from the Fund.

Employer Sponsored Non-Qualified After-Tax Savings and Investment Programs. Class A shares are offered at net asset value to employer sponsored non-qualified After-Tax Savings and Investment programs maintained on the Merrill Lynch Group Employee Services system, provided the program or certain other plans or programs sponsored by the employer has \$5 million or more in existing plan assets initially invested in portfolios, mutual funds or trusts advised by the Fund's investment adviser or an affiliate. Class A shares are also offered at net asset value to After-Tax Savings and Investment programs, provided the program has accumulated \$5 million or more in existing assets invested in mutual funds advised by the Fund's investment adviser or an affiliated adviser charging a front-end sales charge or contingent deferred sales charge. In this case as well, assets or certain other plans sponsored by the same sponsor or an affiliated sponsor may be aggregated. The Class A share reduced load breakpoints also apply to these aggregated assets. After-Tax Savings and Investment programs are also offered Class A shares at net asset value, provided such plan initially has 1,000 or more employees eligible to participate in the plan. Employees eligible to participate in such plans of the same sponsoring employer or its affiliates may be aggregated. The minimum initial and subsequent purchase requirements are waived in connection with all the above-referenced plans.

Purchase Privilege of Certain Persons. Trustees of the Trust and directors or trustees of other Merrill Lynch-sponsored investment companies, directors of Merrill Lynch & Co., Inc., employees of Merrill Lynch & Co., Inc. and its subsidiaries and any trust, pension, profit-sharing or other benefit plan for such persons, may purchase Class A shares of the Fund at net asset value. Under such programs, the Fund realizes economies of scale and reduction of sales related expenses by virtue of familiarity with the Fund.

Class A shares of the Fund will be offered at net asset value, without sales charge, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase by such investor, if the following conditions are satisfied. First, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of a mutual fund that was sponsored by the financial consultant's previous firm and imposed a sales charge either at the time of purchase or on a deferred basis. Second, such redemption must have been made within 60 days

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prior to the investment in the Fund, and the proceeds from the redemption must have been maintained in the interim in cash or a money market fund.

Closed-End Fund Option. Class A shares of the Fund and certain other mutual funds advised by the Manager or MLAM (the "Eligible Class A shares") are offered at net asset value to shareholders of certain closed-end funds advised by the Manager or MLAM who wish to reinvest the net proceeds of a sale of their closed-end fund shares of common stock in Eligible Class A shares, if the conditions set forth below are satisfied. First, the sale of closed-end fund shares must be made through Merrill Lynch, and the net proceeds therefrom must be immediately reinvested in Eligible Class A shares. Second, the closed-end

fund shares must have either been acquired in the initial public offering or be shares representing dividends from shares of common stock acquired in such offering. Third, the closed-end fund shares must have been continuously maintained in a Merrill Lynch securities account. Fourth, there must be a minimum purchase of \$250 to be eligible for the investment option. Class A shares of the Fund are offered at net asset value to shareholders of Merrill Lynch Senior Floating Rate Fund, Inc. (formerly Merrill Lynch Prime Fund, Inc.) ("Senior Floating Rate Fund") who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Senior Floating Rate Fund in shares of the Fund. In order to exercise this investment option, Senior Floating Rate Fund shareholders must sell their Senior Floating Rate shares to the Senior Floating Rate Fund in connection with a tender offer conducted by the Senior Floating Rate Fund and reinvest the proceeds immediately in the Fund. This investment option is available only with respect to the proceeds of Senior Floating Rate Fund shares as to which no Early Withdrawal Charge (as defined in the Senior Floating Rate Fund prospectus) is applicable. Purchase orders from Senior Floating Rate Fund shareholders wishing to exercise this investment option will be accepted only on the day that the related Senior Floating Rate Fund tender offer terminates and will be effected at the net asset value of the Fund at such day.

Acquisition of Certain Investment Companies. The public offering price of Class A shares may be reduced to the net asset value per Class A share in connection with the acquisition of the assets of or merger or consolidation with a personal holding company or a public or private investment company. The value of the assets or company acquired in a tax-free transaction may be adjusted in appropriate cases to reduce possible adverse tax consequences to the Fund which might result from an acquisition of assets having net unrealized appreciation which is disproportionately higher at the time of acquisition than the realized or unrealized appreciation of the Fund.

DEFERRED SALES CHARGE ALTERNATIVE--CLASS B SHARES

Distribution Plan. Reference is made to "Purchase of Shares--Distribution Plan" in the Prospectus for certain information with respect to the Distribution Plan of the Fund.

The payment of the distribution fee is subject to the provisions of Rule 12b-1 under the 1940 Act. Among other things, the Distribution Plan provides that the Distributor shall provide and the Trustees shall review quarterly reports of the disbursement of the distribution fees paid to the Distributor. In their consideration of the Distribution Plan, the Trustees must consider all factors they deem relevant, including information as to the benefits of the Distribution Plan to the Fund and its Class B shareholders. The Distribution Plan further provides that, so long as the Distribution Plan remains in effect, the selection and nomination of Trustees who are not "interested persons" of the Trust, as defined in the 1940 Act (the "Independent Trustees"), shall be committed to the discretion of the Independent Trustees then in office. In approving the Distribution Plan in accordance with Rule 12b-1, the Independent Trustees concluded that there is reasonable likelihood that the Distribution Plan will benefit the Fund and its Class B shareholders. The Distribution Plan can be terminated at any time, without penalty, by the vote of a majority of the Independent Trustees or by the vote of the holders of a majority of the outstanding Class B voting securities of the Fund. The

Distribution Plan cannot be amended to increase materially the amount to be spent by the Fund without approval by Class B shareholders and all material amendments are required to be approved by the vote of Trustees, including a majority of the Independent Trustees who have no direct or indirect financial interest in the Distribution Plan, cast in person at a meeting called for that purpose. Rule 12b-1 further requires that the Trust preserve copies of the Distribution Plan and any report made pursuant to such plan for a period of not less than six years from the date of the Distribution Plan or such report, the first two years in an easily accessible place.

REDEMPTION OF SHARES

Reference is made to "Redemption of Shares" in the Prospectus for certain information as to the redemption and repurchase of Fund shares.

The right to redeem shares or to receive payment with respect to any such redemption may be suspended only for any period during which trading on the New York Stock Exchange is restricted as determined by the Commission or such Exchange is closed (other than customary weekend and holiday closings), for any period during which an emergency exists, as defined by the Commission, as a result of which disposal of portfolio securities or determination of the net asset value of the Fund is not reasonably practicable, and for such other periods as the Commission may by order permit for the protection of shareholders of the Fund.

CONTINGENT DEFERRED SALES CHARGE--CLASS B SHARES

As discussed in the Prospectus under "Purchase of Shares--Alternative Sales Arrangements--Deferred Sales Charge Alternative--Class B Shares", while Class B shares redeemed within four years of purchase are subject to a contingent deferred sales charge ("CDSC") under most circumstances, the charge is waived on redemptions of Class B shares following the death or disability of a Class B shareholder. Redemptions for which the waiver applies are any partial or complete redemption following the death or disability (as defined in the Internal Revenue Code of 1986, as amended (the "Code")) of a Class B shareholder (including one who owns the Class B shares as joint tenant with his or her spouse), provided the redemption is requested within one year of the death or initial determination of disability. The CDSC is also waived for any Class B shares which are purchased by a Merrill Lynch rollover IRA, that was funded by a rollover from a terminated 401(k) plan managed by the MLAM Private Portfolio Group, and held in such account at the time of redemption.

PORTFOLIO TRANSACTIONS

Reference is made to "Investment Objective and Policies" and "Portfolio Transactions" in the Prospectus.

Under the 1940 Act, persons affiliated with the Trust are prohibited from dealing with the Fund as a principal in the purchase and sale of securities unless such trading is permitted by an exemptive order issued by the Commission. Since over-the-counter transactions are usually principal transactions, affiliated persons of the Trust, including Merrill Lynch, may not serve as dealer in connection with transactions with the Fund. The Trust has obtained an exemptive order permitting it to engage in certain principal transactions with Merrill Lynch involving high quality short-term municipal bonds subject to certain conditions. Affiliated persons of the Trust may serve

as broker for the Fund in over-the-counter transactions conducted on an agency basis. Certain court decisions have raised questions as to the extent to which investment companies

should seek exemptions under the 1940 Act in order to seek to recapture underwriting and dealer spreads from affiliated entities. The Trustees have considered all factors deemed relevant, and have made a determination not to seek such recapture at this time. The Trustees will reconsider this matter from time to time.

As a non-fundamental restriction, the Trust will prohibit the purchase or retention by the Fund of the securities of any issuer if the officers, directors or trustees of the Trust or the Manager owning beneficially more than one-half of one per cent of the securities of an issuer together own beneficially more than five per cent of the securities of that issuer. In addition, under the 1940 Act, the Fund may not purchase securities during the existence of any underwriting syndicate of which Merrill Lynch is a member except pursuant to an exemptive order or rules adopted by the Commission. Rule 10f-3 under the 1940 Act sets forth conditions under which the Fund may purchase municipal bonds in such transactions. The rule sets forth requirements relating to, among other things, the terms of an issue of municipal bonds purchased by the Fund, the amount of municipal bonds which may be purchased in any one issue and the assets of the Fund which may be invested in a particular issue.

The Fund does not expect to use any particular dealer in the execution of transactions but, subject to obtaining the best net results, dealers who provide supplemental investment research (such as information concerning tax-exempt securities, economic data and market forecasts) to the Manager may receive orders for transactions by the Fund. Information so received will be in addition to and not in lieu of the services required to be performed by the Manager under its Management Agreement and the expenses of the Manager will not necessarily be reduced as a result of the receipt of such supplemental information.

The Trust has no obligation to deal with any broker in the execution of transactions for the Fund's portfolio securities. In addition, consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc., and policies established by the Trustees of the Trust, the Manager may consider sales of shares of the Fund as a factor in the selection of brokers or dealers to execute portfolio transactions for the Fund.

Generally, the Fund does not purchase securities for short-term trading profits. However, the Fund may dispose of securities without regard to the time they have been held when such action, for defensive or other reasons, appears advisable to its Manager. While it is not possible to predict turnover rates with any certainty, at present it is anticipated that the Fund's annual portfolio turnover rate, under normal circumstances after the Fund's portfolio is invested in accordance with its investment objective, will be less than 100%. (The portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the particular fiscal year by the monthly average of the value of the portfolio securities owned by the Fund during the particular fiscal year. For purposes of determining this rate, all securities whose maturities at the time of acquisition are one year or less are

excluded.)

DETERMINATION OF NET ASSET VALUE

The net asset value of the Fund is determined by the Manager once daily, Monday through Friday, as of 4:15 P.M., New York City time, on each day during which the New York Stock Exchange is open for trading. The New York Stock Exchange is not open on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Net asset value per share is computed by dividing the sum of the value of the securities held by the Fund plus any cash or other assets

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minus all liabilities by the total number of shares outstanding at such time, rounded to the nearest cent. Expenses, including the fees payable to the Manager and Distributor, are accrued daily. The net asset value per share of the Class A shares and the net asset value per share of the Class B shares are expected to be equivalent. Under certain circumstances, however, the per share net asset value of the Class B shares may be lower than the per share net asset value of the Class A shares reflecting the higher daily expense accruals of the account maintenance and distribution fees (and incremental transfer agency costs) applicable with respect to the Class B shares. Even under those circumstances, the per share net asset value of the two classes will tend to converge immediately after the payment of dividends, which will differ by approximately the amount of the expense accrual differential between the classes.

The Municipal Bonds, and other portfolio securities in which the Fund invests are traded primarily in over-the-counter municipal bond and money markets and are valued at the last available bid price in the over-the-counter market or on the basis of yield equivalents as obtained from one or more dealers that make markets in the securities. One bond is the "yield equivalent" of another bond when, taking into account market price, maturity, coupon rate, credit rating and ultimate return of principal, both bonds will theoretically produce an equivalent return to the bondholder. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their settlement prices as of the close of such exchanges. Short-term investments with a remaining maturity of 60 days or less are valued on an amortized cost basis, which approximates market value. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Trustees of the Trust, including valuations furnished by a pricing service retained by the Trust, which may utilize a matrix system for valuations. The procedures of the pricing service and its valuations are reviewed by the officers of the Trust under the general supervision of the Trustees.

SHAREHOLDER SERVICES

The Trust offers a number of shareholder services described below which are designed to facilitate investment in shares of the Fund. Full details as to each of such services can be obtained from the Trust, the Distributor or Merrill Lynch.

INVESTMENT ACCOUNT

Each shareholder whose account is maintained at the Transfer Agent has an Investment Account and will receive quarterly statements from the Transfer Agent. These quarterly statements will serve as transaction confirmations for automatic investment purchases and the reinvestment of income dividends and long-term capital gain distributions. The quarterly statements will also show any other activity in the account since the preceding statement. Shareholders will receive separate transaction confirmations for each purchase or sale transaction other than automatic investment purchases and the reinvestment of income dividends and long-term capital gain distributions. Shareholders considering transferring their Class A shares from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the Class A shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A shares so that the cash proceeds can be transferred to the account at the new firm or such shareholder must continue to maintain an Investment Account at the Transfer Agent for those Class A shares. Shareholders interested in transferring their Class B shares from Merrill Lynch and who do not wish to have an Investment Account maintained for such shares at the Transfer Agent may request their new brokerage firm to maintain such shares in an account registered in the name of the brokerage firm for the

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benefit of the shareholder. If the new brokerage firm is willing to accommodate the shareholder in this manner, the shareholder must request that he be issued certificates for his shares, and then must turn the certificates over to the new firm for re-registration as described in the preceding sentence. A shareholder may make additions to his Investment Account at any time by mailing a check directly to the Transfer Agent.

Share certificates are issued only for full shares and only upon the specific request of the shareholder who has an Investment Account. Issuance of certificates representing all or only part of the full shares in an Investment Account may be requested by a shareholder directly from the Transfer Agent.

AUTOMATIC INVESTMENT PLAN

A shareholder may make additions to an Investment Account at any time by purchasing Class A or Class B shares at the applicable public offering price either through the shareholder's securities dealer, or by mail directly to the Transfer Agent, acting as agent for such securities dealers. Voluntary accumulation also can be made through a service known as the Automatic Investment Plan whereby the Fund is authorized through pre-authorized checks of \$50 or more to charge the regular bank account of the shareholder on a regular basis to provide systematic additions to the Investment Account of such shareholder. The Fund's Automatic Investment Program is not available to shareholders whose shares are held in brokerage account with Merrill Lynch. Alternatively, investors who maintain CMA(R) accounts may arrange to have periodic investments made in the Fund in their CMA(R) account or in certain related accounts in amounts of \$100 or more through the CMA(R) Automatic Investment Program.

AUTOMATIC REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS

Unless specific instructions are given as to the method of payment of dividends and capital gains distributions, dividends and distributions will be

reinvested automatically in additional shares of the Fund. Such reinvestment will be at the net asset value of shares of the Fund as of the close of business on the monthly payment date for such dividends and distributions. Shareholders may elect in writing to receive either their income dividends or capital gains distributions, or both, in cash, in which event payment will be mailed on or about the payment date.

Shareholders may, at any time, notify the Transfer Agent in writing or by telephone (1-800-MER-FUND) that they no longer wish to have their dividends and/or capital gains distributions reinvested in shares of the Fund or vice versa and, commencing ten days after the receipt by the Transfer Agent of such notice, such instructions will be effected.

SYSTEMATIC WITHDRAWAL PLANS--CLASS A SHARES

A Class A shareholder may elect to make systematic withdrawals from an Investment Account on either a monthly or quarterly basis as provided below. Quarterly withdrawals are available for shareholders who have acquired Class A shares of the Fund having a value, based on cost or the current offering price, of \$5,000 or more, and monthly withdrawals for shareholders with Class A shares with such a value of \$10,000 or more.

At the time of each withdrawal payment, sufficient Class A shares are redeemed from those on deposit in the shareholder's account to provide the withdrawal payment specified by the shareholder. The shareholder

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may specify either a dollar amount or a percentage of the value of his Class A shares. Redemptions will be made at net asset value as determined at the normal close of business on the New York Stock Exchange (currently 4:00 P.M., New York City time) on the 24th day of each month or the 24th day of the last month of each quarter, whichever is applicable. If the Exchange is not open for business on such date, the Class A shares will be redeemed at the close of business on the following business day. The check for the withdrawal payment will be mailed, or the direct deposit for the withdrawal payment will be made, on the next business day following redemption. When a shareholder is making systematic withdrawals, dividends and distributions on all Class A shares in the Investment Account are reinvested automatically in the Fund's Class A shares. A shareholder's Systematic Withdrawal Plan may be terminated at any time, without charge or penalty, by the shareholder, the Trust, the Transfer Agent or the Distributor. Withdrawal payments should not be considered as dividends, yield or income. Each withdrawal is a taxable event. If periodic withdrawals continuously exceed reinvested dividends, the shareholder's original investment may be reduced correspondingly. Purchases of additional Class A shares concurrent with withdrawals are ordinarily disadvantageous to the shareholder because of sales charges and tax liabilities. The Trust will not knowingly accept purchase orders for Class A shares of the Fund from investors who maintain a Systematic Withdrawal Plan unless such purchase is equal to at least one year's scheduled withdrawals or \$1,200, whichever is greater. Periodic investments may not be made into an Investment Account in which the shareholder has elected to make systematic withdrawals.

A Class A shareholder whose shares are held within a CMA(R), CBA(R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption

Program. The minimum fixed dollar amount redeemable is \$25. The proceeds of systematic redemptions will be posted to the shareholder's account five business days after the date the shares are redeemed. Monthly systematic redemptions will be made at net asset value on the first Monday of each month, bimonthly systematic redemption will be made at net asset value on the first Monday of every other month, and quarterly, semiannual or annual redemptions are made at net asset value on the first Monday of months selected at the shareholder's option. If the first Monday of the month is a holiday, the redemption will be processed at net asset value on the next business day. The Systematic Redemption Program is not available if Company shares are being purchased within the account pursuant to the Automatic Investment Program. For more information on the Systematic Redemption Program, eligible shareholders should contact their Financial Consultant.

EXCHANGE PRIVILEGE

Class A and Class B shareholders of the Fund may exchange their Class A or Class B shares of the Fund for shares of the same class of the funds that issue Class A and Class B shares listed below. In addition, Class A shareholders of the Fund may exchange their Class A shares of the Fund for shares of the "Class A money market funds," and Class B shareholders of the Fund may exchange their Class B shares for shares of the "Class B money market funds," on the basis described below. Shares with a net asset value of at least \$100 are required to qualify for the exchange privilege and any shares utilized in an exchange must have been held by the shareholder for at least 15 days. Certain funds into which exchanges may be made may impose a redemption fee (not in excess of 2.00% of the amount redeemed) on shares purchased through the exchange privilege when such shares are subsequently redeemed, including redemption through subsequent exchanges. Such redemption fee would be in addition to any CDSC otherwise applicable to a redemption of Class B shares. It is contemplated that the exchange privilege may be applicable to other new mutual funds whose shares may be distributed by the Distributor.

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Under the exchange privilege, each of the funds with Class A shares outstanding offers to exchange its Class A shares ("new Class A shares") for Class A shares ("outstanding Class A shares") of any of the other funds, on the basis of relative net asset value per Class A share, plus an amount equal to the difference, if any, between the sales charge previously paid on the outstanding Class A shares and the sales charge payable at the time of the exchange on the new Class A shares. With respect to outstanding Class A shares as to which previous exchanges have taken place, the "sales charge previously paid" shall include the aggregate of the sales charges paid with respect to such Class A shares in the initial purchase and any subsequent exchange. Class A shares issued pursuant to dividend reinvestment are sold on a no-load basis in each of the funds offering Class A shares. For purposes of the exchange privilege, Class A shares acquired through dividend reinvestment shall be deemed to have been sold with a sales charge equal to the sales charge previously paid on the Class A shares on which the dividend was paid. Based on this formula, Class A shares generally may be exchanged into the Class A shares of the other funds or into shares of a money market fund advised by the Manager or its affiliates with a reduced or without a sales charge.

In addition, each of the funds with Class B shares outstanding offers to

exchange its Class B shares ("new Class B shares") for Class B shares ("outstanding Class B shares") of any of the other funds on the basis of relative net asset value per Class B share, without the payment of any CDSC that might otherwise be due on redemption of the outstanding shares. Class B shareholders of the Fund exercising the exchange privilege will continue to be subject to the Fund's CDSC schedule if such schedule is higher than the CDSC schedule relating to the new Class B shares acquired through use of the exchange privilege. In addition, Class B shares of the Fund acquired through use of the exchange privilege will be subject to the Fund's CDSC schedule if such schedule is higher than the CDSC schedule relating to the Class B shares of the fund from which the exchange has been made. For purposes of computing the sales charge that may be payable on a disposition of the new Class B shares, the holding period for the outstanding Class B shares is "tacked" to the holding period of the new Class B shares. For example, an investor may exchange Class B shares of the Fund for those of Merrill Lynch Special Value Fund, Inc. ("Special Value Fund") after having held the Fund's Class B shares for two and a half years. The 2% sales load that generally would apply to a redemption would not apply to the exchange. Three years later the investor may decide to redeem the Class B shares of Special Value Fund and receive cash. There will be no CDSC due on this redemption, since by "tacking" the two and a half year holding period of the Fund's Class B shares to the three-year holding period for the Special Value Fund Class B shares, the investor will be deemed to have held the new Class B shares for more than five years.

Shareholders also may exchange Class A shares and Class B shares of the Fund into shares of a money market fund advised by the Manager or its affiliates, but the period of time that Class B shares are held in a money market fund will not count towards satisfaction of the holding period requirement for purposes of reducing the CDSC. However, shares of a money market fund which were acquired as a result of an exchange for Class B shares of the Fund may, in turn, be exchanged back into Class B shares of any fund offering such shares, in which event the holding period for Class B shares of the fund will be aggregated with previous holding periods for purposes of reducing the CDSC. Thus, for example, an investor may exchange Class B shares of the Fund for shares of Merrill Lynch Institutional Fund after having held the Class B shares for two and a half years and three years later decide to redeem the shares of Merrill Lynch Institutional Fund for cash. At the time of this redemption, the 2% CDSC that would have been due had the Class B shares of the Fund been redeemed for cash rather than exchanged for shares of Merrill Lynch Institutional Fund will be payable. If, instead of such redemption the shareholder exchanged such shares for Class B shares of a fund which the shareholder continues to hold for an additional two and a half years, any subsequent redemption will not incur a CDSC.

Set forth below is a description of the investment objectives of the other funds into which exchanges can be made:

Funds issuing Class A and Class B Shares

<p>Merrill Lynch Adjustable Rate Securities Fund, Inc.</p>	<p>High current income consistent with a policy of limiting the degree of fluctuation in net asset</p>
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value by investing primarily in a portfolio of adjustable rate securities, consisting principally of mortgage-backed and asset-backed securities.

Merrill Lynch Americas

Income Fund, Inc. A high level of current income, consistent with prudent investment risk, by investing primarily in debt securities denominated in a currency of a country located in the Western Hemisphere (i.e., North and South America and the surrounding waters).

Merrill Lynch Arizona

Limited Maturity
Municipal Bond Fund A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and Arizona income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Arizona Municipal Bonds.

Merrill Lynch Arizona

Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is to provide investors with as high a level of income exempt from Federal and Arizona income taxes as is consistent with prudent investment management.

Merrill Lynch Balanced

Fund for Investment and
Retirement As high a level of total investment return as is consistent with reasonable risk by investing in common stock and other types of securities, including fixed income securities and convertible securities.

Merrill Lynch Basic Value

Fund, Inc. Capital appreciation and, secondarily, income through investment in securities, primarily equities, that are undervalued and therefore represent basic investment value.

Merrill Lynch California

Insured Municipal Bond
Fund..... A portfolio of Merrill Lynch California Municipal Series Trust, a series fund, whose objective is to provide shareholders with as high a level of income exempt from Federal and California income taxes as is consistent with prudent investment

- Merrill Lynch California Limited Maturity Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide shareholders with as high a level of income exempt from Federal and California income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade California Municipal Bonds.
- Merrill Lynch California Municipal Bond Fund A portfolio of Merrill Lynch California Municipal Series Trust, a series fund, whose objective is to provide investors with as high a level of income exempt from Federal and California income taxes as is consistent with prudent investment management.
- Merrill Lynch Capital Fund, Inc. The highest total investment return consistent with prudent risk through a fully managed investment policy utilizing equity, debt and convertible securities.
- Merrill Lynch Colorado Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Colorado income taxes as is consistent with prudent investment management.
- Merrill Lynch Connecticut Municipal Bond Fund.. A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Connecticut income taxes as is consistent with prudent investment management.
- Merrill Lynch Corporate Bond Fund, Inc. Current income from three separate diversified portfolios of fixed income securities.

Merrill Lynch Developing
Capital Markets Fund,
Inc. Long-term appreciation through investment in
securities, principally equities, of issuers in
countries having smaller capital markets.

Merrill Lynch Dragon Fund,
Inc. Capital appreciation primarily through investment
in equity and debt securities of issuers
domiciled in developing countries located in
Asia and the Pacific Basin, other than Japan,
Australia and New Zealand.

Merrill Lynch EuroFund..... Capital appreciation primarily through investment
in equity securities of corporations domiciled
in Europe.

Merrill Lynch Federal
Securities Trust High current return through investments in U.S.
Government and Government agency securities,
including GNMA mortgage-backed certificates and
other mortgage-backed Government securities.

Merrill Lynch Florida
Limited Maturity
Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Limited
Maturity Municipal Series Trust, a series fund,
whose objective is as high a level of income
exempt from Federal income taxes as is
consistent with prudent investment management
while seeking to offer shareholders the
opportunity to own securities exempt from
Florida intangible personal property taxes
through investment in a portfolio primarily of
intermediate-term investment grade Florida
Municipal Bonds.

Merrill Lynch Florida
Municipal Bond Fund A portfolio of Merrill Lynch Multi-State
Municipal Series Trust, a series fund, whose
objective is as high a level of income exempt
from Federal income taxes as is consistent with
prudent investment management while seeking to
offer shareholders the opportunity to own
securities exempt from Florida intangible
personal property taxes.

Merrill Lynch Fund For
Tomorrow, Inc..... Long-term growth through investment in a portfolio of good quality securities, primarily common stock, potentially positioned to benefit from demographic and cultural changes as they affect consumer markets.

Merrill Lynch Fundamental
Growth Fund, Inc. Long-term growth through investment in a diversified portfolio of equity securities placing particular emphasis on companies that have exhibited above-average growth rates in earnings.

Merrill Lynch Global
Allocation Fund, Inc..... High total return, consistent with prudent risk, through a fully managed investment policy utilizing United States and foreign equity, debt and money market securities, the combination of which will be varied from time to time both with respect to the types of securities and markets in response to changing market and economic trends.

Merrill Lynch Global Bond
Fund for Investment and
Retirement..... High total investment return from investment in a global portfolio of debt instruments denominated in various currencies and multi-national currency units.

Merrill Lynch Global
Convertible Fund, Inc..... High total return from investment primarily in an internationally diversified portfolio of convertible debt securities, convertible preferred stock and "synthetic" convertible securities consisting of a combination of debt securities or preferred stock and warrants or options.

Merrill Lynch Global
Holdings (residents of
Arizona must meet
investor suitability
standards) The highest total investment return consistent with prudent risk through worldwide investment in an internationally diversified portfolio of securities.

Merrill Lynch Global
Resources Trust..... Long-term growth and protection of capital from investment in securities of domestic and foreign companies that possess substantial natural resource assets.

Merrill Lynch Global
Utility Fund, Inc..... Capital appreciation and current income through investment of at least 65% of its total assets in equity and debt securities issued by domestic and foreign companies which are primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.

Merrill Lynch Growth Fund
for Investment and
Retirement..... Growth of capital and, secondarily, income from investment in a diversified portfolio of equity securities placing principal emphasis on those securities which management of the fund believes to be undervalued.

Merrill Lynch Healthcare
Fund, Inc. (residents of
Wisconsin must meet
investor suitability
standards)..... Capital appreciation through worldwide investment in equity securities of companies that derive or are expected to derive a substantial portion of their sales from products and services in healthcare.

Merrill Lynch
International Equity
Fund..... Capital appreciation and, secondarily, income by investing in a diversified portfolio of equity securities of issuers located in countries other than the United States.

Merrill Lynch Latin
America Fund, Inc. Capital appreciation by investing primarily in Latin American equity and debt securities.

Merrill Lynch Maryland
Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal

and Maryland income taxes as is consistent with prudent investment management.

Merrill Lynch
Massachusetts Limited
Maturity Municipal Bond
Fund..... A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Massachusetts income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Massachusetts Municipal Bonds.

Merrill Lynch
Massachusetts Municipal
Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Massachusetts income taxes as is consistent with prudent investment management.

Merrill Lynch Michigan
Limited Maturity
Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Michigan income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Michigan Municipal Bonds.

Merrill Lynch Michigan
Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Michigan income taxes as is consistent with prudent investment management.

Merrill Lynch Minnesota
Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Minnesota income taxes as is consistent with prudent investment management.

Merrill Lynch Municipal
Bond Fund, Inc..... Tax-exempt income from three separate diversified portfolios of municipal bonds.

Merrill Lynch Municipal Intermediate Term Fund.... Currently the only portfolio of Merrill Lynch Municipal Series Trust, a series fund, whose objective is to provide as high a level as possible of income exempt from Federal income taxes by investing in investment grade obligations with a dollar weighted average maturity of five to twelve years.

Merrill Lynch New Jersey Limited Maturity Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and New Jersey income taxes as is consistent with prudent investment management through a portfolio primarily of intermediate-term investment grade New Jersey Municipal Bonds.

Merrill Lynch New Jersey Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and New Jersey income taxes as is consistent with prudent investment management.

Merrill Lynch New Mexico Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and New Mexico income taxes as is consistent with prudent investment management.

Merrill Lynch New York Limited Maturity Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal, New York State and New York City income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade New York Municipal Bonds.

Merrill Lynch New York Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal, New York State and New York City income

taxes as is consistent with prudent investment management.

Merrill Lynch North Carolina Municipal Bond Fund.. A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and North Carolina income taxes as is consistent with prudent investment management.

Merrill Lynch Ohio Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Ohio income taxes as is consistent with prudent investment management.

Merrill Lynch Oregon Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Oregon income taxes as is consistent with prudent investment management.

Merrill Lynch Pacific Fund, Inc..... Capital appreciation by investing in equity securities of corporations domiciled in Far Eastern and Western Pacific countries, including Japan, Australia, Hong Kong and Singapore.

Merrill Lynch Pennsylvania Limited Maturity Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and Pennsylvania income taxes as is consistent with prudent investment management through investment in a portfolio of intermediate-term investment grade Pennsylvania Municipal Bonds.

Merrill Lynch Pennsylvania Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Pennsylvania income taxes as is consistent with prudent investment management.

Merrill Lynch Phoenix
Fund, Inc..... Long-term growth of capital by investing in equity and fixed income securities, including tax-exempt securities, of issuers in weak financial condition or experiencing poor operating results believed to be undervalued relative to the current or prospective condition of such issuer.

Merrill Lynch Short-Term
Global Income Fund, Inc... As high a level of current income as is consistent with prudent investment management from a global portfolio of high quality debt securities denominated in various currencies and multinational currency units and having remaining maturities not exceeding three years.

Merrill Lynch Special
Value Fund, Inc..... Long-term growth of capital from investments in securities, primarily equities, of relatively small companies believed to have special investment value and emerging growth companies regardless of size.

Merrill Lynch Strategic
Dividend Fund..... Long-term total return from investment in dividend paying common stocks which yield more than Standard & Poor's 500 Composite Stock Price Index.

Merrill Lynch Technology
Fund, Inc..... Capital appreciation through worldwide investment in equity securities of companies that derive or are expected to derive a substantial portion of their sales from products and services in technology.

Merrill Lynch Texas
Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management by investing primarily in a portfolio of long-term, investment grade obligations issued by the State of Texas, its political subdivisions, agencies and instrumentalities.

Merrill Lynch Utility In-

come Fund, Inc..... High current income through investment in equity and debt securities issued by companies which are primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.

Merrill Lynch World Income Fund, Inc. High current income by investing in a global portfolio of fixed income securities denominated in various currencies, including multinational currencies.

Class A Money Market Funds

Merrill Lynch Ready Assets Trust..... Preservation of capital, liquidity and the highest possible current income consistent with the foregoing objectives from the short-term money market securities in which the Trust invests.

Merrill Lynch Retirement Reserves Money Fund (available only if the exchange occurs within certain retirement plans)..... Currently the only portfolio of Merrill Lynch Retirement Series Trust, a series fund, whose objectives are current income, preservation of capital and liquidity available from investing in a diversified portfolio of short-term money market securities.

Merrill Lynch U.S.A. Government Reserves..... Preservation of capital, current income and liquidity available from investing in direct obligations of the U.S. Government and repurchase agreements relating to such securities.

Merrill Lynch U.S. Treasury Money Fund..... Preservation of capital, liquidity and current income through investment exclusively in a diversified portfolio of short-term marketable securities which are direct obligations of the U.S. Treasury.

Class B Money Market Funds

Merrill Lynch Government

Fund..... A portfolio of Merrill Lynch Funds For Institutions Series, a series fund, whose objective is to provide current income consistent with liquidity and security of principal from investment in securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities and in repurchase agreements secured by such obligations.

Merrill Lynch

Institutional Fund..... A portfolio of Merrill Lynch Funds For Institutions Series, a series fund, whose objective is to provide maximum current income consistent with liquidity and the maintenance of a high quality portfolio of money market securities.

Merrill Lynch

Institutional Tax-Exempt Fund..... A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide current income exempt from Federal income taxes, preservation of capital and liquidity available from investing in a diversified portfolio of short-term, high quality municipal bonds.

Merrill Lynch Treasury

Fund..... A portfolio of Merrill Lynch Funds For Institutions Series, a series fund, whose objective is to provide current income consistent with liquidity and security of principal from investment in direct obligations of the U.S. Treasury and up to 10% of its total assets in repurchase agreements secured by such obligations.

Before effecting an exchange, shareholders of the Fund should obtain a currently effective prospectus of the fund into which the exchange is to be made.

To exercise the exchange privilege, shareholders should contact their Merrill Lynch financial consultant, who will advise the Fund of the exchange. Shareholders of the Fund, and shareholders of the other funds described above with shares for which certificates have not been issued, may exercise the exchange privilege by wire through their securities dealers. The Fund reserves the right to require a properly completed Exchange Application. This exchange privilege may be modified or terminated at any time in accordance with the rules of the Commission. The Fund reserves the right to limit the number of times an investor may exercise the exchange privilege. Certain funds may suspend the continuous offering of their shares to the general public at any time and may thereafter resume such offering from time to time. The exchange privilege is available only to U.S. shareholders in states where the exchange legally may be made. In addition, the exchange privilege also may be modified

if the Merrill Lynch Select Pricing SM System is adopted. See "Purchase of Shares--Alternative Sales Arrangements."

DISTRIBUTIONS AND TAXES

The Trust intends to elect and to qualify the Fund for the special tax treatment afforded regulated investment companies ("RICs") under the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, in any taxable year in which it distributes at least 90% of its taxable net income and 90% of its tax-exempt net income (see below), the Fund (but not its shareholders) will not be subject to Federal income tax to the extent that it distributes its net investment income and net realized capital gains. The Trust intends to cause the Fund to distribute substantially all of such income.

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As discussed in the Fund's Prospectus, the Trust has established other series in addition to the Fund (together with the Fund, the "Series"). Each Series of the Trust is treated as a separate corporation for Federal income tax purposes. Each Series, therefore, is considered to be a separate entity in determining its treatment under the rules for RICs described in the Prospectus. Losses in one Series do not offset gains in another Series, and the requirements (other than certain organizational requirements) for qualifying for RIC status are determined at the Series level rather than at the Trust level.

The Code requires a RIC to pay a nondeductible 4% excise tax to the extent the RIC does not distribute, during each calendar year, 98% of its ordinary income, determined on a calendar year basis, and 98% of its capital gains, determined, in general, on an October 31 year end, plus certain undistributed amounts from previous years. The required distributions, however, are based only on the taxable income of a RIC. The excise tax, therefore, generally will not apply to the tax-exempt income of a RIC, such as the Fund, that pays exempt-interest dividends. The Trust anticipates that it will make sufficient timely distributions of taxable income of the Fund to avoid imposition of the excise tax on the Fund.

Arkansas has incorporated the special Federal tax provisions affecting regulated investment companies into state income tax law. Consequently, for Arkansas income tax purposes, the Fund will be treated as a RIC to the extent it qualifies as such under the Code.

The Trust intends to qualify the Fund to pay "exempt-interest dividends" as defined in Section 852(b)(5) of the Code. Under such section if, at the close of each quarter of the Fund's taxable year, at least 50% of the value of the Fund's total assets consists of obligations exempt from Federal income tax ("tax-exempt obligations") under Section 103(a) of the Code (relating generally to obligations of a state or local governmental unit), the Fund shall be qualified to pay exempt-interest dividends to its Class A and Class B shareholders (together, the "shareholders"). Exempt-interest dividends are dividends or any part thereof paid by the Fund which are attributable to interest on tax-exempt obligations and designated by the Trust as exempt-interest dividends in a written notice mailed to the Fund's shareholders within 60 days after the close of the Fund's taxable year. For this purpose, the Fund will allocate interest from tax-exempt obligations (as well as

ordinary income, capital gains and tax preference items, discussed below) between the Class A and Class B shareholders according to a method (which it believes is consistent with the Commission's exemptive order permitting the issuance and sale of two classes of shares) that is based on the gross income allocable to Class A and Class B shareholders during the taxable year, or such other method as the Internal Revenue Service may prescribe. To the extent that the dividends distributed to the Fund's shareholders are derived from interest income exempt from Federal income tax under Code Section 103(a) and are properly designated as exempt-interest dividends, they will be excludable from a shareholder's gross income for Federal income tax purposes. Exempt-interest dividends are included, however, in determining the portion, if any, of a person's social security benefits and railroad retirement benefits subject to Federal income taxes. Interest on indebtedness incurred or continued to purchase or carry shares of a RIC paying exempt-interest dividends, such as the Fund, will not be deductible by the investor for Federal or Arkansas income tax purposes to the extent attributable to exempt-interest dividends. Shareholders are advised to consult their tax advisers with respect to whether exempt-interest dividends retain the exclusion under Code Section 103(a) if a shareholder would be treated as a "substantial user" or "related person" under Code Section 147(a) with respect to property financed with the proceeds of an issue of "industrial development bonds" or "private activity bonds," if any, held by the Fund.

The portion of the Fund's exempt-interest dividends paid from interest received by the Fund from Arkansas Municipal Bonds will also be exempt from Arkansas income tax. Shareholders subject to income taxation in states other than Arkansas will realize a lower after-tax rate of return than Arkansas shareholders since the dividends distributed by the Fund generally will not be exempt, to any significant degree, from income taxation by such other states. The Trust will inform shareholders annually regarding the portion of

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the Fund's distributions which constitutes exempt-interest dividends and the portion which is exempt from Arkansas income taxes. The Trust will allocate exempt-interest dividends between Class A and Class B shareholders for Arkansas income tax purposes based on a method similar to that described above for Federal income tax purposes.

To the extent that the Fund's distributions are derived from interest on its taxable investments or from an excess of net short-term capital gains over net long-term capital losses ("ordinary income dividends"), such distributions are considered ordinary income for Federal income tax purposes. Such distributions are not eligible for the dividends received deduction for corporations. Distributions, if any, of net long-term capital gains from the sale of securities or from certain transactions in futures or options ("capital gain dividends") are taxable as long-term capital gains for Federal income tax purposes, regardless of the length of time the shareholder has owned Fund shares. Under the Revenue Reconciliation Act of 1993, all or a portion of the Fund's gain from the sale or redemption of tax-exempt obligations purchased at a market discount will be treated as ordinary income rather than capital gain. This rule may increase the amount of ordinary income dividends received by shareholders. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to such holder (assuming the shares are held as a capital asset). Any loss upon the

sale or exchange of Fund shares held for six months or less, however, will be treated as long-term capital loss to the extent of capital gain dividends received by the shareholder. In addition, such loss will be disallowed to the extent of any exempt-interest dividends received by the shareholder. If the Fund pays a dividend in January which was declared in the previous October, November or December to shareholders of record on a specific date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

In 1991, Arkansas enacted legislation adopting certain sections of the Code and related regulations in effect on January 1, 1991, which apply to the computation of capital gains and losses. For individuals, net capital gains are taxed at a maximum of 6% (as compared with the maximum rate of 7% for ordinary income). Special capital gains treatment is not available in Arkansas for corporate taxpayers.

The Code subjects interest received on certain otherwise tax-exempt securities to an alternative minimum tax. The alternative minimum tax applies to interest received on "private activity bonds" issued after August 7, 1986. Private activity bonds are bonds which, although tax-exempt, are used for purposes other than those generally performed by governmental units and which benefit non-governmental entities (e.g., bonds used for industrial development or housing purposes). Income received on such bonds is classified as an item of "tax preference," which could subject investors in such bonds, including shareholders of the Fund, to an alternative minimum tax. The Fund will purchase such "private activity bonds," and the Trust will report to shareholders within 60 days after the Fund's taxable year-end the portion of the Fund's dividends declared during the year which constitutes an item of tax preference for alternative minimum tax purposes. The Code further provides that corporations are subject to an alternative minimum tax based, in part, on certain differences between taxable income as adjusted for other tax preferences and the corporation's "adjusted current earnings," which more closely reflect a corporation's economic income. Because an exempt-interest dividend paid by the Fund will be included in adjusted current earnings, a corporate shareholder may be required to pay alternative minimum tax on exempt-interest dividends paid by the Fund.

The Revenue Reconciliation Act of 1993 has added new marginal tax brackets of 36% and 39.6% for individuals and has created a graduated structure of 26% and 28% for the alternative minimum tax applicable to individual taxpayers. These rate increases may affect an individual investor's after-tax return from an investment in the Fund as compared with such investor's return from taxable investments.

If a Class A shareholder exercises the exchange privilege within 90 days of acquiring the shares, then the loss the shareholder can recognize on the exchange will be reduced (or the gain increased) to the extent the sales charge paid to the Fund reduces any sales charge such shareholder would have owed upon purchase of the new Class A shares in the absence of the exchange privilege. Instead, such sales charge will be treated as an amount paid for the new Class A shares.

A loss realized on a sale or exchange of shares of the Fund will be

disallowed if other Fund shares are acquired (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

Ordinary income dividends paid by the Fund to shareholders who are nonresident aliens or foreign entities will be subject to a 30% United States withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Nonresident shareholders are urged to consult their own tax advisers concerning the applicability of the United States withholding tax.

Under certain provisions of the Code, some shareholders may be subject to a 31% withholding tax on certain ordinary income dividends and capital gain dividends and on redemption payments ("backup withholding"). Generally, shareholders subject to backup withholding will be those for whom no certified taxpayer identification number is on file with the Trust or who, to the Trust's knowledge, have furnished an incorrect number. When establishing an account, an investor must certify under penalty of perjury that such number is correct and that such investor is not otherwise subject to backup withholding.

The Code provides that every person required to file a tax return must include for information purposes on such return the amount of exempt-interest dividends received from all sources (including the Fund) during the taxable year.

ENVIRONMENTAL TAX

The Code imposes a deductible tax (the "Environmental Tax") on a corporation's modified alternative minimum taxable income (computed without regard to the alternative tax net operating loss deduction and the deduction for the Environmental Tax) at a rate of \$12 per \$10,000 (0.12%) of alternative minimum taxable income in excess of \$2,000,000. The Environmental Tax is imposed for taxable years beginning after December 31, 1986 and before January 1, 1996. The Environmental Tax is imposed even if the corporation is not required to pay an alternative minimum tax because the corporation's regular income tax liability exceeds its minimum tax liability. The Code provides, however, that a RIC, such as the Fund, is not subject to the Environmental Tax. However, exempt-interest dividends paid by the Fund that create alternative minimum tax preferences for corporate shareholders under the Code (as described above) may subject corporate shareholders of the Fund to the Environmental Tax.

TAX TREATMENT OF OPTIONS AND FUTURES TRANSACTIONS

The Fund may purchase or sell municipal bond index futures contracts and interest rate futures contracts on U.S. Government securities ("financial futures contracts"). The Fund may also purchase and write call and put options on such financial futures contracts. In general, unless an election is available to the Fund or an exception applies, such options and financial futures contracts that are "Section 1256 contracts" will be "marked to market" for Federal income tax purposes at the end of each taxable year, i.e., each such option or financial futures contract will be treated as sold for its fair market value on the last day of the taxable

year, and any gain or loss attributable to Section 1256 contracts will be 60% long-term and 40% short-term capital gain or loss. Application of these rules to Section 1256 contracts held by the Fund may alter the timing and character of distributions to shareholders.

Code Section 1092, which applies to certain "straddles," may affect the taxation of the Fund's transactions in options and financial futures contracts. Under Section 1092, the Fund may be required to postpone recognition for tax purposes of losses incurred in certain closing transactions in options and financial futures contracts.

One of the requirements for qualification as a RIC is that less than 30% of the Fund's gross income must be derived from gains from the sale or other disposition of securities held for less than three months. Accordingly, the Fund may be restricted in effecting closing transactions within three months after entering into an option or financial futures contract.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code, Treasury regulations and Arkansas tax laws presently in effect. For the complete provisions, reference should be made to the pertinent Code sections, the Treasury regulations promulgated thereunder and the applicable Arkansas tax laws. The Code and the Treasury regulations, as well as the Arkansas tax laws, are subject to change by legislative or administrative action either prospectively or retroactively.

Shareholders are urged to consult their own tax advisers regarding the availability of any exemptions from state or local taxes (other than those imposed by Arkansas) and with specific questions as to Federal, state, local or foreign taxes.

PERFORMANCE DATA

From time to time the Fund may include its average annual total return and other total return data, as well as yield and tax-equivalent yield, in advertisements or information furnished to present or prospective shareholders. Total return and yield and tax-equivalent yield figures are based on the Fund's historical performance and are not intended to indicate future performance. Average annual total return and yield are determined separately for Class A and Class B shares in accordance with formulas specified by the Commission.

Average annual total return quotations for the specified periods are computed by finding the average annual compounded rates of return (based on net investment income and any realized and unrealized capital gains or losses on portfolio investments over such periods) that would equate the initial amount invested to the redeemable value of such investment at the end of each period. Average annual total return is computed assuming all dividends and distributions are reinvested and taking into account all applicable recurring and nonrecurring expenses, including the maximum sales charge in the case of Class A shares and the CDSC that would be applicable to a complete redemption of the investment at the end of the specified period in the case of the Class B shares.

The Fund also may quote annual, average annual and annualized total return and aggregate total return performance data, both as a percentage and as a

dollar amount based on a hypothetical \$1,000 investment, for various periods other than those noted below. Such data will be computed as described above, except that

(1) as required by the periods of the quotations, actual annual, annualized or aggregate data, rather than average annual data, may be quoted and (2) the maximum applicable sales charges will not be included with respect to annual or annualized rates of return calculations. Aside from the impact on the performance data calculations of including or excluding the maximum applicable sales charges, actual annual or annualized total return data generally will be lower than average annual total return data since the average rates of return reflect compounding of return; aggregate total return data generally will be higher than average annual total return data since the aggregate rates of return reflect compounding over a longer period of time.

In order to reflect the reduced sales charges in the case of Class A shares or the waiver of the CDSC in the case of Class B shares applicable to certain investors, as described under "Purchase of Shares" and "Redemption of Shares", respectively, the total return data quoted by the Fund in advertisements directed to such investors may take into account the reduced, and not the maximum, sales charge or may take into account the CDSC and therefore may reflect greater total return since, due to the reduced sales charge or the waiver of sales charges, a lower amount of expenses is deducted.

GENERAL INFORMATION

DESCRIPTION OF SHARES

The Declaration of Trust provides that the Trust shall be comprised of separate Series each of which will consist of a separate portfolio which will issue separate shares. The Trust is presently comprised of the Fund, Merrill Lynch Arizona Municipal Bond Fund, Merrill Lynch Colorado Municipal Bond Fund, Merrill Lynch Connecticut Municipal Bond Fund, Merrill Lynch Florida Municipal Bond Fund, Merrill Lynch Maryland Municipal Bond Fund, Merrill Lynch Massachusetts Municipal Bond Fund, Merrill Lynch Michigan Municipal Bond Fund, Merrill Lynch Minnesota Municipal Bond Fund, Merrill Lynch New Jersey Municipal Bond Fund, Merrill Lynch New Mexico Municipal Bond Fund, Merrill Lynch New York Municipal Bond Fund, Merrill Lynch North Carolina Municipal Bond Fund, Merrill Lynch Ohio Municipal Bond Fund, Merrill Lynch Oregon Municipal Bond Fund, Merrill Lynch Pennsylvania Municipal Bond Fund and Merrill Lynch Texas Municipal Bond Fund. The Trustees are authorized to create an unlimited number of Series and, with respect to each Series, to issue an unlimited number of full and fractional shares of beneficial interest, par value \$.10 per share, of different classes and to divide or combine the shares into a greater or lesser number of shares without thereby changing the proportionate beneficial interests in the Series. Shareholder approval is not necessary for the authorization of additional Series or classes of a Series of the Trust. At the date of this Statement of Additional Information, the shares of the Fund are divided into Class A shares and Class B shares. Both Class A and Class B shares represent an interest in the same assets of the Fund and have identical voting, dividend, liquidation and other rights and the same terms and conditions except that expenses related to the distribution fee of the Class B shares are borne solely by such Class B shares and the Class B shares have exclusive voting rights with respect to matters relating to such distribution expenditures. See

"Purchase of Shares". The Trust has received an order ("the Order") from the Commission permitting the issuance and sale of multiple classes of shares. The Order permits the Trust to issue additional classes of shares of any Series if the Board of Trustees deems such issuance to be in the best interest of the Trust.

All shares of the Trust have equal voting rights, except that only shares of the respective Series are entitled to vote on matters concerning only that Series and, as noted above, Class B shares will have exclusive voting rights with respect to matters relating to the distribution expenses being borne solely by such class.

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Each issued and outstanding share is entitled to one vote and to participate equally in dividends and distributions declared by the Fund and in the net assets of such Series upon liquidation or dissolution remaining after satisfaction of outstanding liabilities, except that, as noted above, expenses related to the distribution of the Class B shares will be borne solely by such class. There normally will be no meeting of shareholders for the purposes of electing Trustees unless and until such time as less than a majority of the Trustees holding office have been elected by shareholders, at which time the Trustees then in office will call a shareholders' meeting for the election of Trustees. Shareholders may, in accordance with the terms of the Declaration of Trust, cause a meeting of shareholders to be held for the purpose of voting on the removal of Trustees. Also, the Trust will be required to call a special meeting of shareholders in accordance with the requirements of the 1940 Act to seek approval of new management and advisory arrangements, of a material increase in distribution fees or of a change in the fundamental policies, objectives or restrictions of a Series.

The obligations and liabilities of a particular Series are restricted to the assets of that Series and do not extend to the assets of the Trust generally. The shares of each Series, when issued, will be fully paid and nonassessable, have no preference, preemptive, conversion, exchange or similar rights, and are freely transferable. Holders of shares of any Series are entitled to redeem their shares as set forth elsewhere herein and in the Prospectus. Shares do not have cumulative voting rights and the holders of more than 50% of the shares of the Trust voting for the election of Trustees can elect all of the Trustees if they choose to do so and in such event the holders of the remaining shares would not be able to elect any Trustees. No amendments may be made to the Declaration of Trust without the affirmative vote of a majority of the outstanding shares of the Trust.

The Manager provided the initial capital for the Fund by purchasing 10,000 shares of the Fund for \$100,000. Such shares were acquired for investment and can only be disposed of by redemption. The organizational expenses of the Fund (estimated at approximately \$49,600) will be paid by the Fund and amortized over a period not exceeding five years. The proceeds realized by the Manager (or any subsequent holder) upon the redemption of any of the shares initially purchased by it will be reduced by the proportionate amount of unamortized organizational expenses which the number of shares redeemed bears to the number of shares initially purchased. Such organizational expenses include certain of the initial organizational expenses of the Trust which have been allocated to the Fund by the Trustees. If additional Series are added to the Trust, the organizational expenses will be allocated among the Series in a manner deemed

COMPUTATION OF OFFERING PRICE PER SHARE

An illustration of the computation of the offering price for Class A and Class B shares of the Fund based on the projected value of the Fund's estimated net assets and projected number of shares outstanding on the date its shares are first offered for sale to public investors is as follows:

TABLE*

<TABLE>

<CAPTION>

	CLASS A	CLASS B
	-----	-----
<S>	<C>	<C>
Net Assets.....	\$50,000.00	\$50,000.00
Number of Shares Outstanding.....	5,000	5,000
	=====	=====
Net Asset Value Per Share (net assets divided by number of shares outstanding).....	\$ 10.00	\$ 10.00
Sales Charge (for Class A shares: 4.00% of offering price (4.17% of net asset value per share))*.....	\$.42	\$ **
	-----	-----
Offering Price.....	\$ 10.42	\$ 10.00
	=====	=====

</TABLE>

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- * Rounded to the nearest one-hundredth percent; assumes maximum sales charge is applicable.
- ** Class B shares are not subject to an initial sales charge but may be subject to a contingent deferred sales charge on redemption of shares within four years of purchase. See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares" herein and in the Prospectus.

INDEPENDENT AUDITORS

Deloitte & Touche, 117 Campus Drive, Princeton, New Jersey 08540, has been selected as the independent auditors of the Fund. The selection of independent auditors is subject to ratification by the shareholders of the Fund. In addition, the employment of such auditors may be terminated without any penalty by vote of a majority of the outstanding shares of the Trust at a meeting called for the purpose of terminating such employment. The independent auditors are responsible for auditing the annual financial statements of the Fund.

CUSTODIAN

National Westminster Bank NJ, 100 Wall Street, 20th Floor, New York, New York 10005, acts as the custodian of the Fund's assets. The custodian is responsible for safeguarding and controlling the Fund's cash and securities, handling the delivery of securities and collecting interest on the Fund's investments.

TRANSFER AGENT

Financial Data Services, Inc., 4800 Deer Lake Drive East, Jacksonville,

Florida 32246-6484, acts as the Trust's transfer agent. The Transfer Agent is responsible for the issuance, transfer and redemption of shares and the opening, maintenance and servicing of shareholder accounts. See "Management of the Trust--Transfer Agency Services" in the Prospectus.

LEGAL COUNSEL

Brown & Wood, One World Trade Center, New York, New York 10048-0557, is counsel for the Trust.

REPORTS TO SHAREHOLDERS

The fiscal year of the Fund ends on July 31 of each year. The Trust sends to shareholders of the Fund at least semi-annually reports showing the Fund's portfolio and other information. An annual report, containing

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financial statements audited by independent auditors, is sent to shareholders each year. After the end of each year shareholders will receive Federal income tax information regarding dividends and capital gains distributions.

ADDITIONAL INFORMATION

The Prospectus and this Statement of Additional Information do not contain all the information set forth in the Registration Statement and the 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, to which reference is hereby made.

The Declaration of Trust establishing the Trust dated August 2, 1985, a copy of which, together with all amendments thereto (the "Declaration") is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust shall be held to any personal liability; nor shall resort be had to any such person's private property for the satisfaction of any obligation or claim of the Trust but the "Trust Property" only shall be liable.

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APPENDIX I

ECONOMIC AND FINANCIAL CONDITIONS IN ARKANSAS

ECONOMIC INFORMATION

During the past two decades, Arkansas' (the "State" or "Arkansas") economic base has shifted from agriculture to light manufacturing. The State is now moving toward a heavier manufacturing base involving more sophisticated processes and products such as electrical machinery, transportation equipment, fabricated metals, and electronics. Resource-related industries dominate and the largest employers are the food products, lumber and paper goods industries. The agricultural sector, though much diminished in importance, remains a

significant contributor to state income. Chief products are broilers, rice and soybeans. The diversification of economic interests has lessened the State's cyclical sensitivity to the impact of any single sector.

Despite significant economic changes, Arkansas remains among the poorest of the States. Arkansas' personal income per capita in 1992 was \$15,439, or 78% of the national average. While low, Arkansas' figure reflects strong gains and relative improvement in recent decades. Population losses in the 1940's and 1950's resulted from farm mechanization and the migration of farm laborers. More recent gains are attributed to employment provided by manufacturing growth and the State's attraction to retirees. The State's unemployment rate in 1993 equalled or was below the national average in each month.

GENERAL AND REVENUE OBLIGATIONS

The Constitution of the State of Arkansas does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose.

There is no constitutional limitation on the aggregate principal amount of revenue bonds that may be issued by the State and its agencies. All revenue bonds and notes are secured only by specific revenue streams and neither the general revenues of the State nor its full faith and credit are pledged to repayment.

On November 2, 1982, the voters of the State approved the issuance of general obligation bonds pursuant to the Arkansas Water Resources Development Act of 1981 (Act 496 of 1981), which authorized the issuance of general obligation bonds, with the approval of the Governor, in a total principal amount not to exceed \$100,000,000. Act 496 of 1981 further provides that no more than \$15,000,000 of bonds may be issued during any fiscal biennium unless the General Assembly shall, by law, have authorized a greater principal amount thereof to be issued during any fiscal biennium.

On November 8, 1988, the voters of the State approved the issuance of general obligation bonds pursuant to the Arkansas Waste Disposal and Pollution Abatement Facilities Financing Act of 1987 (Act 686 of 1987), which authorized the issuance of General Obligation Bonds, with the approval of the Governor, in a total principal amount not to exceed \$250,000,000. Act 686 of 1987 provides that no more than \$50,000,000 of bonds may be issued during any fiscal biennium unless the General Assembly shall, by law, have authorized a greater principal amount to be issued.

On November 6, 1990, the voters of the State approved the issuance of College Savings General Obligation Bonds pursuant to the Arkansas College Savings Bond Act of 1989. The Bonds are issued in series not to exceed \$300,000,000 in the aggregate and not to exceed \$100,000,000 in any fiscal biennium.

As of June 30, 1993, the State's outstanding General Obligation Bonds from the three authorized programs totalled \$148,035,000. The State has no other outstanding general obligation debt. There is no legislation pending calling for the issuance of any further general obligation of the State. From 1972 through 1984, the State had no general obligation debt outstanding.

In addition to the State's General Obligation Bonds, the State had outstanding at June 30, 1993, \$1,785,779,000 in revenue bonds and notes issued by various state agencies, authorities and institutions of higher education.

LEASE OBLIGATION

Numerous state agencies presently lease equipment and/or occupy leased office space. These lease commitments are cancelable, without penalty, upon the failure of the State to appropriate sufficient funds at each biennial legislative session. Capital lease obligations at June 30, 1993, aggregated approximately \$24,948,000.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

The Arkansas Development Finance Authority ("Authority") is the largest issuer of tax exempt debt in the State. The Authority was created by the Arkansas General Assembly in 1985 as a multipurpose finance authority. After its creation, it assumed the functions, powers and duties of the Arkansas Housing Development Agency and that agency was abolished. In addition to providing financing for residential housing, the Authority is permitted to issue revenue bonds for the purpose of financing agricultural business enterprise, capital improvements for State agencies and local governments, educational facilities, health care facilities, industrial enterprises and short-term advance funding of local government obligations. The Authority had \$1,397,708,000 principal amount of bonds outstanding as of June 30, 1993.

BONDS ISSUED BY POLITICAL SUBDIVISIONS AND OTHER CONSTITUTIONAL AUTHORITIES

Cities, counties, public facilities boards, improvement districts, utilities commissions, water districts and other constitutional authorities are authorized to issue general obligation and revenue bonds. The majority of these bonds are special revenue obligations which are unrated absent credit enhancement.

FINANCIAL ORGANIZATIONS AND MANAGEMENT

The following State organizations share responsibility for statewide financial management: the General Assembly, the Office of Budget and the Office of Accounting of the Department of Finance and Administration, the Governor, the Treasurer and the Division of Legislative Audit. The State is prohibited by its Constitution from deficit spending. Accordingly, spending is limited to actual revenues received by the State.

The General Assembly has responsibility for legislating the level of State services and appropriating the funds for operations of State agencies. The Office of Budget prepares the Executive Budget with the advice and consent of the Governor. The Office of Budget also monitors the level and type of State expenditures. The Accounting Division has the responsibility for maintaining fund and appropriation control and, through the Pre-Audit Section and in conjunction with the Auditor of State, has responsibility for the disbursement process. The Treasurer has responsibilities for disbursement, bank reconciliation, and investment of State funds (with the advice of the State Board of Finance). The Division of Legislative Audit has responsibility for performing financial post-audits of State agencies.

BUDGET OF STATE AGENCIES

State agencies submit biennial budget requests to the Office of Budget of the Department of Finance and Administration. The Office of Budget prepares the Executive Budget and an estimate of general revenues. The Executive Budget contains the budget amount recommended by the Governor.

The General Assembly appropriates money after consideration of both the Executive Budget and the revenue estimate. The appropriation process begins in the joint House-Senate Budget Committee and then proceeds through both houses of the General Assembly. Legislative appropriations are subject to the Governor's approval or veto, including the authority of line-item veto.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Act to provide for an allotment process of funding appropriations in order to comply with state law prohibiting deficit spending. The Governor may restrict spending to a level below the level of appropriations.

REVENUE STABILIZATION ACT

Act 750 of 1973, codified at Arkansas Code Annotated (S)(S) 19-5-101 et seq., establishes the State's revenue stabilization law (the "Stabilization Act"). The Stabilization Act and related legislation govern the administration and distribution of State revenues.

Pursuant to the Stabilization Act, all general and special revenues are deposited into the General Revenue Allotment Account and the Special Revenue Allotment Account according to the type of revenue being deposited. From the General Revenue Fund, 3% of all general revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected officials (legislators, constitutional officers, judges), their staffs, and the Department of Finance and Administration. The balance is then distributed to separate funds proportionately as established by the Stabilization Act. From the Special Revenue Fund, 3% of special revenues collected by the Department of Finance and Administration and 1-1 1/2% of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials, their staffs and the Department of Finance and Administration. The balance is then distributed to the funds for which the special revenues were collected as provided by law.

Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with funding priorities established by the General Assembly.

Pursuant to the Stabilization Act, the General Assembly establishes three levels of priority for general revenue spending, levels "A," "B," and "C." Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of (i) special revenues earmarked for a program or agencies' fund maintained by the Treasurer or (ii) the maximum appropriation by the General Assembly.

Since State revenues are not collected throughout the year in a pattern consistent with program and agency expenditures, the Budget Stabilization Trust Fund, which receives one-half of the interest earnings from State fund investments, has been established and is utilized to assure proper cash flow during any period. Other interest earnings are pledged to special revenue obligations or used to supplement the State's capital construction program.

AUDITING PROCEDURES

The accounts of the State are subject to post-audit by the Division of Legislative Audit. Audits are performed as a series of audits which include agencies and funds. Copies of audit reports are made available for each fiscal year and may be obtained from the Division of Legislative Audit, State Capitol Mall, Little Rock, Arkansas 72201.

REVENUE STRUCTURE OF THE STATE

The Department of Finance and Administration prepares a Comprehensive Annual Financial Report after the close of each fiscal year. The Report is not independently audited and is compiled by the Department of Finance and Administration from information provided by the various State agencies. The State maintains its accounting records for budgeted governmental operations on a cash basis. A separate accounting system is maintained to convert the cash basis accounting to the modified accrual or accrual basis, as applicable; and the Comprehensive Annual Financial Report is based on the modified accrual/accrual system of accounting. The State is in the process of a multi-year conversion to GAAP accounting, and financial reporting is becoming more comprehensive.

BOND RATINGS

Currently, Arkansas' general obligation bonds are rated Aa by Moody's and A+ by Standard & Poor's. The Arkansas Development Finance Authority's \$65,000,000 principal amount of Guaranty Revenue Bonds are rated A- with a stable outlook by Standard & Poor's. The rating of the Guaranty Revenue Bonds was lowered to A- from A+ on June 24, 1994. The rating change reflects a substantial drop in treasury earnings on state fund balances since the program was originally rated in 1987. Treasury earnings are a backup source of bond repayment in the event that the Guaranty Revenue Fund (currently \$14 million) is ever exhausted. Standard & Poor's found, however, that the loan program financed by the Guaranty Bond Program exhibited strict lending criteria, good portfolio performance, strong program loan oversight and rapid debt amortization by 2009. The City of Little Rock's General Obligation Bonds are currently rated Aa by Moody's and AA+ by Standard & Poor's. In the absence of credit enhancement from bond insurance, letter of credit or other credit facilities, the bonds of state agencies, colleges and universities, other local political subdivisions and other boards and commissions are generally unrated.

APPENDIX II

RATINGS OF MUNICIPAL BONDS

DESCRIPTION OF MOODY'S INVESTORS SERVICE, INC.'S ("MOODY'S") MUNICIPAL BOND RATINGS

- 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. They 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 payment 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.
- Ba Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.
- B Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.
- Caa Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.
- Ca Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.
- C Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Note: Those bonds in the Aa, A, Baa, Ba and B groups which Moody's believes possess the strongest investment attributes are designated by the symbols Aa1, A1, Baa1, Ba1 and B1.

Short-term Notes: The four ratings of Moody's for short-term notes are MIG 1/VMIG1, MIG 2/VMIG2, MIG 3/VMIG3 and MIG 4/VMIG4; MIG 1/VMIG1 denotes "best quality . . . strong protection by established cash flows"; MIG 2/VMIG2 denotes "high quality" with ample margins of protection; MIG 3/VMIG3 notes are of "favorable quality . . . but . . . lacking the undeniable strength of the preceding grades"; MIG 4/VMIG4 notes are of "adequate quality . . . [p]rotection commonly regarded as required of an investment security is present . . . there is specific risk."

DESCRIPTION OF MOODY'S CORPORATE BOND RATINGS

Excerpts from Moody's description of its corporate bond ratings: Aaa--judged to be the best quality, carry the smallest degree of investment risk; Aa--judged to be of high quality by all standards; A--possess many favorable investment attributes and are to be considered as upper medium grade obligations.

DESCRIPTION OF MOODY'S COMMERCIAL PAPER RATINGS

Moody's Commercial Paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of nine months. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

Issuers rated Prime-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: leading market positions in well established industries; high rates of return on funds employed; conservative capitalization structures with moderate reliance on debt and ample asset protection; broad margins in earning coverage of fixed financial charges and high internal cash generation; and well established access to a range of financial markets and assured sources of alternate liquidity.

Issuers rated Prime-2 (or related supporting institutions) have a strong capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Issuers rated Prime-3 (or related supporting institutions) have an acceptable capacity for repayment of short-term promissory obligations. The effects of industry characteristics and market composition may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and the requirement for relatively high financial leverage. Adequate alternate liquidity is maintained.

Issuers rated Not Prime do not fall within any of the Prime rating categories.

DESCRIPTION OF STANDARD & POOR'S CORPORATION'S ("STANDARD & POOR'S") MUNICIPAL DEBT RATINGS

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

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

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

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

- I. Likelihood of default--capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;
- II. Nature of and provisions of the obligations;
- III. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA Debt rated "AA" has a very strong capacity to pay interest and repay principal and differs from the higher-rated issues only in small degree.

A Debt rated "A" has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

BBB Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than for debt in higher rated categories.

BB,B,CCC,CC,C Debt rated "BB", "B", "CCC", "CC" and "C" is regarded, on balance, as predominately speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligations. "BB" indicates the lowest degree of speculation and "C" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

CI The rating "CI" is reserved for income bonds on which no interest is being paid.

D Debt rated "D" is in payment default. The "D" rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The "D" rating also will be used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

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

DESCRIPTION OF STANDARD & POOR'S CORPORATE BOND RATINGS

A Standard & Poor's corporate debt rating is a current assessment of the creditworthiness of an obligor with respect to specific obligation. Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong. Debt rated "AA" has a very strong capacity to pay interest and to repay principal and differs from the highest rated issues only in small degree. Debt rated "A" has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt of a higher rated category. Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

The ratings from "AA" to "BBB" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

DESCRIPTION OF STANDARD & POOR'S COMMERCIAL PAPER RATINGS

A Standard & Poor's Commercial Paper Rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into four categories, ranging from "A" for the highest quality obligations to "D" for the lowest. Ratings are applicable to both taxable and tax-exempt commercial paper. Issues assigned the highest rating are regarded as having the greatest capacity for timely payment. Issues in this category are further refined with the designation 1, 2 and 3 to

indicate the relative degree of safety. The three designations in the "A" category are as follows:

- A-1 This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus sign (+) designation.
- A-2 Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as overwhelming as for issues designated "A-1".
- A-3 Issues carrying this designation have a satisfactory capacity for timely payment. They are, however, somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.
- B Issues rated "B" are regarded as having only speculative capacity for timely payment.
- C This rating is assigned to short-term debt obligations with a doubtful capacity for payment.
- D Debt rated "D" is in payment default. The "D" rating category is used when interest payments or principal payments are not made on the date due, even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period.

A Commercial Paper Rating is not a recommendation to purchase or sell a security. 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.

A Standard & Poor's note rating reflects the liquidity concerns and market access risks unique to notes. Notes due in 3 years or less will likely receive a note rating. Notes maturing beyond 3 years will most likely receive a long-term debt rating. The following criteria will be used in making that assessment.

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--Amortization schedule (the larger the final maturity relative to other maturities, the more likely it will be treated as a note).

--Source of payment (the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note).

Note rating symbols are as follows:

SP-1 A very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics will be given a "+" designation.

SP-2 A satisfactory capacity to pay principal and interest.

SP-3 A speculative capacity to pay principal and interest.

Standard & Poor's may continue to rate note issues with a maturity greater than three years in accordance with the same rating scale currently employed for municipal bond ratings.

Unrated: Where no rating has been assigned or where a rating has been suspended or withdrawn, it may be for reasons unrelated to the quality of the issue.

Should no rating be assigned, the reason may be one of the following:

1. An application for rating was not received or accepted.
2. The issue or issuers belongs to a group of securities that are not rated as a matter of policy.
3. There is a lack of essential data pertaining to the issue or issuer.
4. The issue was privately placed, in which case the rating is not published in Moody's publications.

Suspension or withdrawal may occur if new and material circumstances arise, the effects of which preclude satisfactory analysis; if there is no longer available reasonable up-to-date information to permit a judgment to be formed; if a bond is called for redemption; or for other reasons.

DESCRIPTION OF FITCH INVESTORS SERVICE, INC.'S ("FITCH") INVESTMENT GRADE BOND RATINGS

Fitch investment grade bond ratings provide a guide to investors in determining the credit risk associated with a particular security. The ratings represent Fitch's assessment of the issuer's ability to meet the obligations of a specific debt issue or class of debt in a timely manner.

The rating takes into consideration special features of the issue, its relationship to other obligations of the issuer, the current and prospective financial condition and operating performance of the issuer and of any guarantor, as well as the economic and political environment that might affect the issuer's future financial strength and credit quality.

Fitch ratings do not reflect any credit enhancement that may be provided by insurance policies or financial guaranties unless otherwise indicated.

Bonds that have the same rating are of similar but not necessarily identical credit quality since the rating categories do not fully reflect small differences in the degrees of credit risk.

Fitch ratings are not recommendations to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of

payments made in respect of any security.

Fitch ratings are based on information obtained from issuers, other obligors, underwriters, their experts, and other sources Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of such information. Ratings may be changed, suspended, or withdrawn as a result of changes in, or the unavailability of, information or for any other reasons.

AAA Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA". Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated "F-1+".

A Bonds considered to be investment grade and of high credit 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 Bonds considered to be investment grade and of satisfactory credit 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 have adverse impact on these bonds, and therefore, impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

Plus (+) or Minus (-): Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the "AAA" category.

Credit Trend Indicator: Credit trend indicators show whether credit fundamentals are improving, stable, declining, or uncertain, as follows:

Improving	(UP ARROW)
Stable	(LEFT,RIGHT ARROWS)
Declining	(DOWN ARROW)
Uncertain	(UP,DOWN ARROWS)

Credit trend indicators are not predictions that any rating change will occur, and have a longer-term time frame than issues placed on FitchAlert.

indicates that Fitch does not rate the specific issue.

NR

CONDITIONAL A conditional rating is premised on the successful completion of a project or the occurrence of a specific event.

SUSPENDED

A rating is suspended when Fitch deems the amount of information available from the issuer to be inadequate for rating purposes.

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WITHDRAWN A rating will be withdrawn when an issue matures or is called or refinanced and, at Fitch's discretion, when an issuer fails to furnish proper and timely information.

FITCHALERT Ratings are placed on FitchAlert to notify investors of an occurrence that is likely to result in a rating change and the likely direction of such change. These are designated as "Positive," indicating a potential upgrade, "Negative," for potential downgrade, or "Evolving," where ratings may be raised or lowered. FitchAlert is relatively short-term, and should be resolved within 12 months.

DESCRIPTION OF FITCH SPECULATIVE GRADE BOND RATINGS

Fitch speculative grade bond ratings provide a guide to investors in determining the credit risk associated with a particular security. The ratings ("BB" to "C") represent Fitch's assessment of the likelihood of timely payment of principal and interest in accordance with the terms of obligation for bond issues not in default. For defaulted bonds, the rating ("DDD" to "D") is an assessment of the ultimate recovery value through reorganization or liquidation.

The rating takes into consideration special features of the issue, its relationship to other obligations of the issuer, the current and prospective financial condition and operating performance of the issuer and any guarantor, as well as the economic and political environment that might affect the issuer's future financial strength.

Bonds that have the same rating are of similar but not necessarily identical credit quality since rating categories cannot fully reflect the differences in degrees of credit risk.

BB Bonds are considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.

B Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the obligor's limited margin of safety and

the need for reasonable business and economic activity throughout the life of the issue.

CCC Bonds have certain identifiable characteristics which, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.

CC Bonds are minimally protected. Default in payment of interest and/or principal seems probable over time.

C Bonds are in imminent default in payment of interest or principal.

DDD, DD and D Bonds are in default on interest and/or principal payments. Such bonds are extremely speculative and should be valued on the basis of their ultimate recovery value in liquidation or reorganization of the obligor. "DDD" represents the highest potential for recovery on these bonds, and "D" represents the lowest potential for recovery.

Plus (+) or Minus (-): Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the "DDD", "DD", or "D" categories.

DESCRIPTION OF FITCH INVESTMENT GRADE SHORT-TERM RATINGS

Fitch's short-term ratings apply to debt obligations that are payable on demand or have original maturities of generally up to three years, including commercial paper, certificates of deposit, medium-term notes, and municipal and investment notes.

The short-term rating places greater emphasis than a long-term rating on the existence of liquidity necessary to meet the issuer's obligations in a timely manner.

Fitch short-term ratings are as follows:

- F-1+ Exceptionally Strong Credit Quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.
- F-1 Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated "F-1+".
- F-2 Good Credit Quality. Issues assigned this rating have a satisfactory degree of assurance for timely payment, but the margin of safety is not as great as for issues assigned "F-1+" and "F-1" ratings.
- F-3 Fair Credit Quality. Issues assigned this rating have characteristics suggesting that the degree of assurance for timely payment is adequate, however, near-term adverse changes could cause these securities to be rated below investment

grade.

F-S Weak Credit Quality. Issues assigned this rating have characteristics suggesting a minimal degree of assurance for timely payment and are vulnerable to near-term adverse changes in financial and economic conditions.

D Default. Issues assigned this rating are in actual or imminent payment default.

LOC The symbol "LOC" indicates that the rating is based on a letter of credit issued by a commercial bank.

INS The symbol "INS" indicates that the rating is based on an insurance policy or financial guaranty issued by an insurance company.

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees and Shareholder,
Merrill Lynch Arkansas Municipal Bond Fund of
Merrill Lynch Multi-State Municipal Series Trust:

We have audited the accompanying statement of assets and liabilities of Merrill Lynch Arkansas Municipal Bond Fund of Merrill Lynch Multi-State Municipal Series Trust as of July 28, 1994. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such statement of assets and liabilities presents fairly, in all material respects, the financial position of Merrill Lynch Arkansas Municipal Bond Fund of Merrill Lynch Multi-State Municipal Series Trust as of July 28, 1994, in conformity with generally accepted accounting principles.

Deloitte & Touche

Princeton, New Jersey

August 1, 1994

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MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

STATEMENT OF ASSETS AND LIABILITIES

JULY 28, 1994

<TABLE>

<S>	<C>
Assets:	
Cash in bank.....	\$100,000
Prepaid registration fees (Note 3).....	19,700
Deferred organization expenses (Note 4).....	49,600

Total Assets.....	169,300
Liabilities-Accrued expenses.....	69,300

Net Assets (equivalent to \$10.00 per share on 5,000 Class A Shares of beneficial interest (par value \$0.10) and 5,000 of Class B Shares of beneficial interest (par value \$0.10) outstanding with an unlimited number of shares authorized) (Note 1).....	\$100,000
	=====

</TABLE>

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Notes to Statement of Assets and Liabilities:

- (1) Merrill Lynch Multi-State Municipal Series Trust (the "Trust") was organized as a Massachusetts business trust on August 2, 1985. To date, Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") has not had any transactions other than those relating to organizational matters and the sale of 5,000 Class A shares and 5,000 Class B shares of beneficial interest of the Fund to Fund Asset Management, L.P. (the "Manager"). The Trust is registered under the Investment Company Act of 1940 as an open-end management investment company.
- (2) The Trust has entered into a Management Agreement with the Manager and separate Class A and Class B Distribution Agreements and a Distribution Plan with Merrill Lynch Funds Distributor, Inc. (the "Distributor") on behalf of the Fund. (See "Management of the Trust--Management and Advisory Arrangements" in the Prospectus and Statement of Additional Information.) Certain officers and/or Trustees of the Trust are officers and/or directors of the Manager and the Distributor.
- (3) Prepaid registration fees are charged to income as the related shares are issued.
- (4) Deferred organization expenses will be amortized over a period from the date the Fund commences operations not exceeding five years. In the event that the Manager (or any subsequent holder) redeems any of its original shares prior to the end of the five-year period, the proceeds of the redemption payable in respect of such shares shall be reduced by the pro rata share (based on the proportionate share of the original shares redeemed to the total number of original shares outstanding at the time of redemption) of the unamortized deferred organization expenses as of the date of such redemption. In the event that the Fund is liquidated prior to the end of the five-year period, the Manager (or any subsequent holder)

shall bear the unamortized deferred organization expenses.

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Code # 18320-0894

Statement of
Additional Information

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MERRILL LYNCH
ARKANSAS
MUNICIPAL BOND
FUND
MERRILL LYNCH MULTI-STATE
MUNICIPAL SERIES TRUST

August , 1994

Distributor:
Merrill Lynch
Funds Distributor, Inc.

PART C. OTHER INFORMATION

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS.

(a) FINANCIAL STATEMENTS

Contained in Part B:

Statement of Assets and Liabilities as of July 28, 1994.

(b) EXHIBITS

<TABLE>

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EXHIBIT
NUMBER

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<S>

- 1(a) --Declaration of Trust of the Registrant, dated August 2, 1985.
(a)
- (b) --Amendment to Declaration of Trust, dated October 3, 1988. (b)
- (c) --Instrument establishing Merrill Lynch Arkansas Municipal Bond
Fund (the
"Fund") as a series of Registrant.
- (d) --Instrument establishing Class A and Class B shares of beneficial
interest of the Fund.
- 2 --By-Laws of Registrant. (a)
- 3 --None.
- 4(a) --Portions of the Declaration of Trust, Establishment and
Designation and By-Laws of the Registrant defining the rights of
holders of the Fund as a series of the Registrant. (c)

- (b) --Specimen share certificates for Class A and Class B shares.
- 5 --Management Agreement between Registrant and Fund Asset Management, L.P.
- 6(a) --Class A Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc.
- (b) --Class B Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc.
- 7 --None.
- 8 --Form of Letter Amendment to the Custody Agreement between Registrant and National Westminster Bank NJ. (d)
- 9 --Form of Letter Amendment to the Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement between Registrant and Financial Data Services, Inc.
- 10 --Opinion of Brown & Wood, counsel for the Registrant.
- 11 --Consent of Deloitte & Touche, independent auditors for the Registrant.
- 12 --None.
- 13 --Certificate of Fund Asset Management, L.P.
- 14 --None.
- 15 --Class B Shares Distribution Plan and Class B Shares Distribution Plan Sub-Agreement of the Registrant.
- 16 --None.

</TABLE>

(a) Filed on August 6, 1985 as an Exhibit to the Registration Statement on Form N-1A (File No. 2-99473) under the Securities Act of 1933 of Merrill Lynch New York Municipal Bond Fund, a series of the Registrant.

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- (b) Filed on October 11, 1988 as an Exhibit to Post-Effective Amendment No. 4 to the Registration Statement on Form N-1A (File No. 2-99473) under the Securities Act of 1933 of Merrill Lynch New York Municipal Bond Fund, a series of the Registrant.
- (c) Reference is made to Article II, Section 2.3 and Articles V, VI, VIII, IX, X and XI of the Registrant's Declaration of Trust, previously filed as Exhibit 1(a) to the Registration Statement referred to in paragraph (a) above; to the Certificates of Establishment and Designation establishing the Fund as a series of the Registrant and establishing Class A and Class B shares of beneficial interest of the Fund, which will be filed as Exhibits 1(c) and 1(d), respectively, to the Registration Statement; and to Articles I, V and VI of the Registrant's By-Laws, previously filed as Exhibit 2 to the Registration Statement referred to in paragraph (a) above.
- (d) The Custody Agreement between Registrant and National Westminster Bank, dated November 1, 1985, was filed on March 18, 1986 as an Exhibit to Post-Effective Amendment No. 1 to the Registration Statement on Form N-1A (File No. 2-99473) under the Securities Act of 1933 of Merrill Lynch New York Municipal Bond Fund, a series of the Registrant, and is incorporated by reference herein.

ITEM 25. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT.

The Registrant has sold 5,000 Class A shares of beneficial interest and 5,000 Class B shares of beneficial interest of the Fund to Fund Asset Management, L.P. for an aggregate of \$100,000.

ITEM 26. NUMBER OF HOLDERS OF SECURITIES.

<TABLE>
<CAPTION>

TITLE OF CLASS -----	NUMBER OF RECORD HOLDERS AT JULY 28, 1994 -----
<S>	<C>
Class A shares of beneficial interest par value \$0.10 per share.....	1
Class B shares of beneficial interest par value \$0.10 per share.....	1

</TABLE>

ITEM 27. INDEMNIFICATION.

Section 5.3 of the Registrant's Declaration of Trust provides as follows:

"The Trust shall indemnify each of its Trustees, officers, employees and agents (including persons who serve at its request as directors, officers or trustees of another organization in which it has any interest as a shareholder, creditor or otherwise) against all liabilities and expenses (including amounts paid in satisfaction of judgments, in compromise, as fines and penalties and as counsel fees) reasonably incurred by him in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, in which he may be involved or with which he may be threatened, while in office or thereafter, by reason of his being or having been such a trustee, officer, employee or agent, except with respect to any matter as to which he shall have been adjudicated to have acted in bad faith, willful misfeasance, gross negligence or reckless disregard of his duties; provided, however, that as to any matter disposed of by a compromise payment by such person, pursuant to a consent decree or otherwise, no indemnification either for said payment or for any other expenses shall be provided unless the Trust shall have received a written opinion from independent legal counsel approved by the Trustees to the effect that if either the matter of willful misfeasance, gross negligence or reckless disregard of duty, or the matter of good faith and reasonable belief as to the best interests of the Trust, had been adjudicated, it would have been adjudicated in favor of such person. The rights accruing to any Person under these provisions shall not exclude any other right to which

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he may be lawfully entitled; provided that no person may satisfy any right in indemnity or reimbursement granted herein or in Section 5.1 or to which he may be otherwise entitled except out of the property of the Trust, and no Shareholder shall be personally liable to any Person with respect to any claim for indemnity or reimbursement or otherwise. The Trustees may make advance payments in connection with indemnification under this Section 5.3, provided that the indemnified person shall have given a written undertaking to reimburse the Trust in the event it is subsequently determined that he is not entitled to such indemnification."

Insofar as the conditional advancing of indemnification monies for actions based upon the Investment Company Act of 1940, as amended may be concerned,

such payments will be made only on the following conditions: (i) the advances must be limited to amounts used, or to be used, for the preparation or presentation of a defense to the action, including costs connected with the preparation of a settlement; (ii) advances may be made only upon receipt of a written promise by, or on behalf of, the recipient to repay that amount of the advance which exceeds the amount to which it is ultimately determined that he is entitled to receive from the Registrant by reason of indemnification; and (iii) (a) such promise must be secured by a surety bond, other suitable insurance or an equivalent form of security which assures that any repayments may be obtained by the Registrant without delay or litigation, which bond, insurance or other form of security must be provided by the recipient of the advance, or (b) a majority of a quorum of the Registrant's disinterested, non-party Trustees, or an independent legal counsel in a written opinion, shall determine, based upon a review of readily available facts that the recipient of the advance ultimately will be found entitled to indemnification.

In Section 9 of the Distribution Agreements relating to the securities being offered hereby, the Registrant agrees to indemnify the Distributor and each person, if any, who controls the Distributor within the meaning of the Securities Act of 1933 ("1933 Act"), against certain types of civil liabilities arising in connection with the Registration Statement or Prospectus and Statement of Additional Information.

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to Trustees, officers and controlling persons of the Registrant and the principal underwriter pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a Trustee, officer, or controlling person of the Registrant and the principal underwriter in connection with the successful defense of any action, suit or proceeding) is asserted by such Trustee, officer or controlling person or the principal underwriter in connection with the shares being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

ITEM 28. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER.

Fund Asset Management, L.P. (the "Manager") acts as the investment adviser for the following registered investment companies: Apex Municipal Fund, Inc., CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, The Corporate Fund Accumulation Program, Inc., Corporate High Yield Fund, Inc., Corporate High Yield Fund II, Inc., Emerging Tigers Fund, Inc., Financial Institutions Series Trust, Income Opportunities Fund 1999, Inc., Income Opportunities Fund 2000, Inc., Merrill Lynch Basic Value Fund,

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Inc., Merrill Lynch California Municipal Series Trust, Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Federal Securities Trust, Merrill Lynch Funds for Institutions Series, Merrill Lynch Multi-State Municipal Series Trust,

Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Special Value Fund, Inc., Merrill Lynch World Income Fund, Inc., MuniAssets Fund, Inc., MuniBond Income Fund, Inc., The Municipal Fund Accumulation Program, Inc., MuniEnhanced Fund, Inc., MuniInsured Fund, Inc., MuniVest Fund, Inc., MuniVest Fund II, Inc., MuniVest California Insured Fund, Inc., MuniVest Florida Fund, MuniVest Michigan Insured Fund, Inc., MuniVest New Jersey Fund, Inc., MuniVest New York Insured Fund, Inc., MuniVest Pennsylvania Insured Fund, MuniYield Arizona Fund, Inc., MuniYield Arizona Fund II, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, Inc., MuniYield California Insured Fund II, Inc., MuniYield Florida Fund, MuniYield Florida Insured Fund, MuniYield Fund, Inc., MuniYield Insured Fund, Inc., MuniYield Insured Fund II, Inc., MuniYield Michigan Fund, Inc., MuniYield Michigan Insured Fund, Inc., MuniYield New Jersey Fund, Inc., MuniYield New Jersey Insured Fund, Inc., MuniYield New York Insured Fund, Inc., MuniYield New York Insured Fund II, Inc., MuniYield New York Insured Fund III, Inc., MuniYield Pennsylvania Fund, MuniYield Quality Fund, Inc., MuniYield Quality Fund II, Inc., Senior High Income Portfolio, Inc., Senior High Income Portfolio II, Inc., Senior Strategic Income Fund, Inc., Taurus MuniCalifornia Holdings, Inc., Taurus MuniNew York Holdings, Inc. and Worldwide DollarVest Fund, Inc. Merrill Lynch Asset Management, L.P. ("MLAM"), an affiliate of the Manager, acts as the investment adviser for the following companies: Convertible Holdings, Inc., Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund, Inc., Merrill Lynch Balanced Fund for Investment and Retirement, Merrill Lynch Capital Fund, Inc., Merrill Lynch Developing Capital Markets Fund, Inc., Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Fund For Tomorrow, Inc., Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Global Allocation Fund, Inc., Merrill Lynch Global Convertible Fund, Inc., Merrill Lynch Global Holdings, Merrill Lynch Global Resources Trust, Merrill Lynch Global Utility Fund, Inc., Merrill Lynch Growth Fund for Investment and Retirement, Merrill Lynch Healthcare Fund, Inc., Merrill Lynch High Income Municipal Bond Fund, Inc., Merrill Lynch Institutional Fund, Merrill Lynch Institutional Tax-Exempt Fund, Merrill Lynch International Equity Fund, Merrill Lynch Latin America Fund, Inc., Merrill Lynch Municipal Series Trust, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Series Trust, Merrill Lynch Senior Floating Rate Fund, Inc., Senior Strategic Income Fund, Inc., Merrill Lynch Series Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Inc., Merrill Lynch U.S. Treasury Money Fund, Merrill Lynch U.S.A. Government Reserves, Merrill Lynch Utility Income Fund, Inc., Merrill Lynch Variable Series Funds, Inc. and Worldwide DollarVest Fund, Inc. The address of each of these investment companies is Box 9011, Princeton, New Jersey 08543-9011, except that the address of Merrill Lynch Funds for Institutions Series, Merrill Lynch Institutional Tax-Exempt Fund and Merrill Lynch Institutional Intermediate Fund is One Financial Center, 15th Floor, Boston, Massachusetts 02111-2646. The address of the Manager and MLAM is also Box 9011, Princeton, New Jersey 08543-9011. The address of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and Merrill Lynch & Co., Inc. ("ML & Co.") is World Financial Center, North Tower, 250 Vesey Street, New York, New York 10281.

Set forth below is a list of each executive officer and partner of the Manager indicating each business, profession, vocation or employment of a substantial nature in which each such person or entity has been engaged since December 31, 1991 for his or its own account or in the capacity of director, officer, partner or trustee. In addition, Mr. Zeikel is President and Director,

Mr. Richard is Treasurer and Mr. Glenn is Executive Vice President of substantially all of the investment companies described in the preceding

paragraph and also hold the same positions with all or substantially all of the investment companies advised by MLAM as they do with those advised by the Manager, and Messrs. Durnin, Giordano, Harvey, Hewitt, and Monagle are directors or officers of one or more of such companies.

OFFICERS AND PARTNERS OF FAM ARE SET FORTH AS FOLLOWS:

<TABLE>
<CAPTION>

NAME -----	POSITION(S) WITH THE MANAGER -----	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT -----
<S> ML & Co. Fund Asset Management, Inc. Princeton Services, Inc. ("Princeton Services") Arthur Zeikel.....	<C> Limited Partner Limited Partner General Partner President	<C> Financial Services Holding Company Investment Advisory Services General Partner of MLAM President of MLAM; President and Di- rector of Princeton Services; Direc- tor of MLFD; Executive Vice President of ML & Co.; Executive Vice President of Merrill Lynch
Terry K. Glenn.....	Executive Vice President and Director	Executive Vice President of MLAM; Ex- ecutive Vice President and Director of Princeton Services; President and Director of MLFD; Director of Finan- cial Data Services, Inc.; President of Princeton Administrators, L.P.
Bernard J. Durnin.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Vincent R. Giordano.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Elizabeth Griffin.....	Senior Vice President	Senior Vice President of MLAM
Norman R. Harvey.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
N. John Hewitt.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Philip L. Kirstein.....	Senior Vice President, General Counsel and Secretary	Senior Vice President, General Counsel and Secretary of MLAM; Senior Vice President, General Counsel and Direc- tor of Princeton Services; Director of MLFD
Ronald M. Kloss.....	Senior Vice President and Controller	Senior Vice President and Controller of MLAM; Senior Vice President and Controller of Princeton Services
Joseph T. Monagle, Jr. .	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Gerald M. Richard.....	Senior Vice President	Senior Vice President and Treasurer of

and Treasurer

MLAM; Senior Vice President and Treasurer of Princeton Services; Vice President and Treasurer of MLFD
Senior Vice President of MLAM; Senior Vice President of Princeton Services; Vice President of MLFD
Senior Vice President of MLAM; Senior Vice President of Princeton Services
Senior Vice President of MLAM; Senior Vice President of Princeton Services

Richard L. Rufener..... Senior Vice President
Ronald L. Welburn..... Senior Vice President
Anthony Wiseman..... Senior Vice President

</TABLE>

ITEM 29. PRINCIPAL UNDERWRITERS.

(a) MLFD acts as the principal underwriter for the Registrant and, for each of the open-end investment companies referred to in the first paragraph of Item 28 except Apex Municipal Fund, Inc., CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, Convertible Holdings, Inc., The Corporate Fund Accumulation Program, Inc., Corporate High Yield Fund, Inc., Corporate High Yield Fund II, Inc., Emerging Tigers Fund, Inc., Income Opportunities Fund 1999, Inc., Income Opportunities Fund 2000, Inc., MuniAssets Fund, Inc., MuniBond Income Fund, Inc., The Municipal Fund Accumulation Program, Inc., MuniEnhanced Fund, Inc., MuniInsured Fund, Inc., MuniVest Fund, Inc., MuniVest Fund II, Inc., MuniVest California Insured Fund, Inc., MuniVest Florida Fund, MuniVest Michigan Insured Fund, Inc., MuniVest New Jersey Fund, Inc., MuniVest New York Insured Fund, Inc., MuniVest Pennsylvania Insured Fund, MuniYield Arizona Fund, Inc., MuniYield Arizona Fund II, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, Inc., MuniYield California Insured Fund II, Inc., MuniYield Florida Fund, MuniYield Florida Insured Fund, MuniYield Fund, Inc., MuniYield Insured Fund, Inc., MuniYield Insured Fund II, Inc., MuniYield Michigan Fund, Inc., MuniYield Michigan Insured Fund, Inc., MuniYield New Jersey Fund, Inc., MuniYield New Jersey Insured Fund, Inc., MuniYield New York Insured Fund, Inc., MuniYield New York Insured Fund II, Inc., MuniYield New York Insured Fund III, Inc., MuniYield Pennsylvania Fund, MuniYield Quality Fund, Inc., MuniYield Quality Fund II, Inc., Senior High Income Portfolio, Inc., Senior High Income Portfolio II, Inc., Senior Strategic Income Fund, Inc., Taurus MuniCalifornia Holdings, Inc., Taurus MuniNewYork Holdings, Inc. and Worldwide DollarVest Fund, Inc.

(b) Set forth below is information concerning each director and officer of MLFD. The principal business address of each such person is Box 9011, Princeton, New Jersey 08543-9011, except that the address of Messrs. Aldrich, Breen, Crook, Graczyk, Fatseas and Wasel is One Financial Center, 15th Floor, Boston, Massachusetts 02111-2646.

<TABLE>

<CAPTION>

NAME	POSITION(S) AND OFFICES WITH MLFD	POSITION(S) AND OFFICES WITH REGISTRANT
Terry K. Glenn.....	President and Director	Executive Vice President
Arthur Zeikel.....	Director	President and Trustee

Philip L. Kirstein....	Director	None
William E. Aldrich....	Senior Vice President	None
Robert W. Crook.....	Senior Vice President	None
Michael J. Brady.....	Vice President	None
William M. Breen.....	Vice President	None
Sharon Creveling.....	Vice President and Assistant Treasurer	None
Mark A. DeSario.....	Vice President	None
James T. Fatseas.....	Vice President	None
Stanley Graczyk.....	Vice President	None
Michelle T. Lau.....	Vice President	None
Gerald M. Richard....	Vice President and Treasurer	Treasurer
Richard L. Rufener....	Vice President	None
Salvatore Venezia....	Vice President	None
William Wasel.....	Vice President	None
Robert Harris.....	Secretary	None

</TABLE>

(c) Not applicable.

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ITEM 30. LOCATION OF ACCOUNTS AND RECORDS.

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, as amended and the Rules thereunder are maintained at the offices of the Registrant and Financial Data Services, Inc.

ITEM 31. MANAGEMENT SERVICES.

Other than as set forth under the caption "Management of the Trust--Management and Advisory Arrangements" in the Prospectus constituting Part A of the Registration Statement and under "Management of the Trust--Management and Advisory Arrangements" in the Statement of Additional Information constituting Part B of the Registration Statement, Registrant is not a party to any management-related service contract.

ITEM 32. UNDERTAKINGS.

The Registrant undertakes to file a post-effective amendment, using financial statements which need not be certified, within four to six months from the effective date of Registrant's registration statement under the Securities Act of 1933, as amended.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND THE INVESTMENT COMPANY ACT OF 1940, THE REGISTRANT HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE TOWNSHIP OF PLAINSBORO, AND STATE OF NEW JERSEY, ON THE 29TH DAY OF JULY, 1994.

Merrill Lynch Multi-State Municipal
Series Trust
(Registrant)

/s/ Arthur Zeikel

By _____
(Arthur Zeikel, President)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

<TABLE>
<CAPTION>

SIGNATURE -----	TITLE -----	DATE ----
<S> /s/ Arthur Zeikel ----- (Arthur Zeikel)	<C> President and Trustee (Principal Executive Officer)	<C> July 29, 1994
/s/ Gerald M. Richard ----- (Gerald M. Richard)	Treasurer (Principal Financial and Accounting Officer)	July 29, 1994
Kenneth S. Axelson* ----- (Kenneth S. Axelson)	Trustee	
Herbert I. London* ----- (Herbert I. London)	Trustee	
Robert R. Martin* ----- (Robert R. Martin)	Trustee	
Joseph L. May* ----- (Joseph L. May)	Trustee	
Andre F. Perold* ----- (Andre F. Perold)	Trustee	

</TABLE>

/s/ Arthur Zeikel

July 29, 1994

*By _____

(Arthur Zeikel, Attorney-in-Fact)

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
<C>	<S>	<C>
1(c)	--Instrument establishing Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") as a series of Registrant.	
(d)	--Instrument establishing Class A and Class B shares of beneficial interest of the Fund.	
4(b)	--Specimen share certificates for Class A and Class B shares.	
5	--Management Agreement between Registrant and Fund Asset Management, L.P.	
6(a)	--Class A Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc.	
(b)	--Class B Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc.	
8	--Form of Letter Amendment to the Custody Agreement between Registrant and National Westminster Bank NJ.	
9	--Form of Letter Amendment to the Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement between Registrant and Financial Data Services, Inc.	
10	--Opinion of Brown & Wood, counsel for the Registrant.	
11	--Consent of Deloitte & Touche, independent auditors for the Registrant.	
13	--Certificate of Fund Asset Management, L.P.	
15	--Class B Shares Distribution Plan and Class B Shares Distribution Plan Sub-Agreement of the Registrant.	

</TABLE>

GRAPHICS APPENDIX LIST

PAGE WHERE GRAPHIC APPEARS	DESCRIPTION OF GRAPHIC OR CROSS REFERENCE
PRO BC	Two Compass faces.
SAI BC	Two Compass faces.

MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

Establishment and Designation

Merrill Lynch Arkansas Municipal Bond Fund

The undersigned, being all of the Trustees of Merrill Lynch Multi-State Municipal Series Trust, a Massachusetts business trust (the "Trust"), acting pursuant to Section 6.2 of the Declaration of Trust, dated August 2, 1985 (the "Declaration"), of the Trust, do hereby divide the shares of beneficial interest of the Trust, par value \$.10 per share ("Shares"), to create a separate Series, within the meaning of said Section 6.2, as follows:

1. The Series is designated the "Merrill Lynch Arkansas Municipal Bond Fund" (referred to herein as the "Fund").
2. Shares of the Fund shall be entitled to all of the rights and preferences accorded to Shares under the Declaration.
3. The purchase price of Shares of the Fund, the method of determination of net asset value of the Fund, the price, terms and manner of redemption of Shares of the Fund, and the relative dividend rights of holders of Shares of the Fund shall be established by the Trustees of the Trust in accordance with the provisions of the Declaration and shall be set forth in the currently effective prospectus and statement of additional information relating to shares of the Fund, as amended from time to time, under the Securities Act of 1933, as amended.

IN WITNESS WHEREOF, the undersigned have signed this instrument in duplicate original counterparts and have caused a duplicate original to be lodged among the records of the Trust on this 17th day of June, 1994.

/s/ Kenneth Axelson

Kenneth Axelson
75 Jameson Point Road
Rockland, ME 04841

/s/ Joseph L. May

Joseph L. May
424 Church Street
Suite 2000
Nashville, TN 37219

/s/ Herbert I. London

/s/ Andre F. Perold

Herbert I. London
Apartment 12-B
2 Washington Square Village
New York, NY 10012

Andre F. Perold
Morgan Hall
Soldiers Field
Boston, MA 02163

/s/ Robert R. Martin

/s/ Arthur Zeikel

Robert R. Martin
513 Grand Hill
St. Paul, MN 55102

Arthur Zeikel
Box 9011
Princeton, NJ 08543-9011

The Declaration of Trust establishing Merrill Lynch Multi-State Municipal Series Trust, dated August 2, 1985, a copy of which, together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of the Commonwealth of Massachusetts, provides that the name of the Trust, "Merrill Lynch Multi-State Municipal Series Trust," refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of Merrill Lynch Multi-State Municipal Series Trust shall be held to any personal liability, nor shall resort be had to their private property for the satisfaction of any obligation or claim or otherwise in connection with the affairs of said Trust but the "Trust Property" only shall be liable.

MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

Establishment and Designation
of
Class A Shares and Class B Shares of
Beneficial Interest of the Series Designated

Merrill Lynch Arkansas Municipal Bond Fund

The undersigned, being a majority of the Trustees of Merrill Lynch Multi-State Municipal Series Trust, a Massachusetts business trust (the "Trust"), acting pursuant to Section 6.2 of the Declaration of Trust, dated August 2, 1985 (the "Declaration"), of the Trust, do hereby divide the shares of beneficial interest of the Series designated "Merrill Lynch Arkansas Municipal Bond Fund" (the "Fund") of the Trust, par value \$.10 per share ("Shares"), to create two classes of shares, within the meaning of said Section 6.2, as follows:

1. The two classes of Shares are designated "Class A Shares" and "Class B Shares".
2. Class A Shares and Class B Shares shall be entitled to all of the rights and preferences accorded to Shares under the Declaration.
3. The purchase price of Class A Shares and Class B Shares, the method of determination of net asset value of Class A Shares and Class B Shares, the price, terms and manner of redemption of Class A Shares and Class B Shares, and the relative dividend rights of holders of Class A Shares and Class B Shares shall be established by the Trustees of the Trust in accordance with the provisions of the Declaration and shall be set forth in the currently effective prospectus and statement of additional information of the Trust relating to the Fund, as amended from time to time, under the Securities Act of 1933, as amended.
4. The 10,000 shares of the Fund issued and outstanding on the date hereof, subject to approval of the Fund's sole shareholder, shall be divided into 5,000 Class A Shares and 5,000 Class B Shares.

IN WITNESS WHEREOF, the undersigned have signed this instrument in duplicate original counterparts and have caused a duplicate original to be lodged among the records of the Trust on this 17th day of June, 1994.

/s/ Kenneth Axelson

/s/ Joseph L. May

Kenneth Axelson
75 Jameson Point Road
Rockland, ME 04841

Joseph L. May
424 Church Street
Suite 2000
Nashville, TN 37219

/s/ Herbert I. London

Herbert I. London
Apartment 12-B
2 Washington Square Village
New York, NY 10012

/s/ Andre F. Perold

Andre F. Perold
Morgan Hall
Soldiers Field
Boston, MA 02163

/s/ Robert R. Martin

Robert R. Martin
513 Grand Hill
St. Paul, MN 55102

/s/ Arthur Zeikel

Arthur Zeikel
Box 9011
Princeton, NJ 08543-9011

The Declaration of Trust establishing Merrill Lynch Multi-State Municipal Series Trust, dated August 2, 1985, a copy of which, together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of the Commonwealth of Massachusetts, provides that the name of the Trust, "Merrill Lynch Multi-State Municipal Series Trust," refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of Merrill Lynch Multi-State Municipal Series Trust shall be held to any personal liability, nor shall resort be had to their private property for the satisfaction of any obligation or claim or otherwise in connection with the affairs of said Trust but the "Trust Property" only shall be liable.

NUMBER

SHARES

MERRILL LYNCH ARKANSAS
MUNICIPAL BOND FUND
Merrill Lynch Multi-State Municipal Series Trust
ORGANIZED AS A BUSINESS TRUST UNDER THE LAWS OF THE COMMONWEALTH OF
MASSACHUSETTS
CLASS A SHARES OF BENEFICIAL INTEREST

THIS CERTIFIES THAT

CUSIP

SEE REVERSE FOR CERTAIN DEFINITIONS

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES, PAR VALUE TEN CENTS (\$0.10) PER SHARE, OF
BENEFICIAL INTEREST, CLASS A, OF

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND

in accordance with, and subject to all the provisions of, a Declaration of Trust dated August 2, 1985, as amended, a copy of which has been filed with the Secretary of The Commonwealth of Massachusetts.

The Declaration of Trust provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust may be held to any personal liability, nor may resort be had to their private property for the satisfaction of any obligation or claim or otherwise in connection with the affairs of the Trust but the Trust Property only shall be liable.

This Certificate is not valid until countersigned by the Transfer Agent.

IN WITNESS WHEREOF, the Trustees under said Declaration of Trust, acting not individually, but as such Trustees, have caused to be affixed to this certificate the facsimile Seal of the Trust and the facsimile signatures of duly authorized officers of the Trust, acting not individually but as such officers.

DATED:

SEAL OF MERRILL LYNCH
MULTI-STATE MUNICIPAL
SERIES TRUST

Countersigned:

FINANCIAL DATA SERVICES, INC.

By

Transfer Agent

..... Shares
represented by the within Certificate, and do hereby irrevocably constitute
and appoint

.....
.....
.....
Attorney to transfer the said shares on the books of the within-named
Corporation with full power of substitution in the premises.

Dated:.....

.....

[Signatures must be guaranteed by a national bank or other bank which is
a member of the Federal Reserve System (not a savings bank) or by a
member firm or any national or regional stock exchange. Notarized
signatures are not sufficient.]

NUMBER

SHARES

MERRILL LYNCH ARKANSAS
MUNICIPAL BOND FUND
Merrill Lynch Multi-State Municipal Series Trust
ORGANIZED AS A BUSINESS TRUST UNDER THE LAWS OF THE COMMONWEALTH OF
MASSACHUSETTS
CLASS B SHARES OF BENEFICIAL INTEREST

THIS CERTIFIES THAT

CUSIP

SEE REVERSE FOR CERTAIN DEFINITIONS

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES, PAR VALUE TEN CENTS (\$0.10) PER SHARE, OF
BENEFICIAL INTEREST, CLASS B, OF

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND

in accordance with, and subject to all the provisions of, a Declaration of Trust
dated August 2, 1985, as amended, a copy of which has been filed with the

Secretary of The Commonwealth of Massachusetts.

The Declaration of Trust provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust may be held to any personal liability, nor may resort be had to their private property for the satisfaction of any obligation or claim or otherwise in connection with the affairs of the Trust but the Trust Property only shall be liable.

This Certificate is not valid until countersigned by the Transfer Agent. IN WITNESS WHEREOF, the Trustees under said Declaration of Trust, acting not individually, but as such Trustees, have caused to be affixed to this certificate the facsimile Seal of the Trust and the facsimile signatures of duly authorized officers of the Trust, acting not individually but as such officers.

DATED:

SEAL OF MERRILL LYNCH
MULTI-STATE MUNICIPAL
SERIES TRUST

Countersigned:
FINANCIAL DATA SERVICES, INC.

	By	Transfer Agent
/s/ Arthur Zeikel	/s/ Jerry Weiss	
President	Secretary	Authorized Signature

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the Certificate, in every particular, without alteration or enlargement, or any change whatever.

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND
Merrill Lynch Multi-State Municipal Series Trust

A full statement of the designations and any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the shares of each series and class thereof which the Trust is authorized to issue and the differences in the relative rights and preferences between the shares of each series and class thereof to the extent that they have been set, and the authority of the Board of Trustees to set the relative rights and preferences of subsequent series and classes thereof, will be furnished by the Trust to any shareholder, without charge, upon request to the Secretary of the Trust at its principal office.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common	UNIF GIFT MIN ACT -.....Custodian.....
	(Cust) (Minor)

TEN ENT - as tenants by the entireties

under Uniform Gifts to Minors

JT TEN - as joint tenants with right of survivorship and not as tenants in common

Act.....
(State)

Additional abbreviations may also be used though not in the above list.

For value received,..... hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

[.....]

.....
Please Print or Typewrite Name and Address including Postal Zip Code of Assignee

.....
.....
..... Shares represented by the within Certificate, and do hereby irrevocably constitute and appoint

.....
.....
.....
Attorney to transfer the said shares on the books of the within-named Corporation with full power of substitution in the premises.

Dated:.....

.....

[Signatures must be guaranteed by a national bank or other bank which is a member of the Federal Reserve System (not a savings bank) or by a member firm or any national or regional stock exchange. Notarized signatures are not sufficient.]

MANAGEMENT AGREEMENT

AGREEMENT made this 17th day of June, 1994, by and between MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST, a Massachusetts business trust (hereinafter referred to as the "Trust"), and FUND ASSET MANAGEMENT, L.P., a Delaware limited partnership (hereinafter referred to as the "Manager").

W I T N E S S E T H :
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WHEREAS, the Trust is engaged in business as an open-end investment company registered under the Investment Company Act of 1940, as amended (hereinafter referred to as the "Investment Company Act"); and

WHEREAS, the Trustees of the Trust (the "Trustees") are authorized to establish separate series relating to separate portfolios of securities, each of which will offer separate classes of shares; and

WHEREAS, the Trustees have established and designated the MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND (the "Fund") as a series of the Trust; and

WHEREAS, the Manager is engaged principally in rendering management and investment advisory services and is registered as an investment adviser under the Investment Advisers Act of 1940, as amended; and

WHEREAS, the Trust desires to retain the Manager to render management and investment advisory services to the Trust and the Fund in the manner and on the terms hereinafter set forth; and

WHEREAS, the Manager is willing to provide management and investment advisory services to the Trust and the Fund on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained, the Trust and the Manager hereby agree as follows:

ARTICLE I

Duties of the Manager

The Trust hereby employs the Manager to act as an investment manager and investment adviser of the Fund and to furnish or arrange for affiliates to furnish, the management and investment advisory services described below, subject to policies of, review by and overall control of the Trustees, for the period and on the terms and conditions set forth in this Agreement. The Manager hereby accepts such employment and agrees during such period, at its own

expense, to render, or arrange for the rendering of, such services and to assume the obligations herein set forth for the compensation provided for herein. The Manager and its affiliates shall for all purposes herein be deemed to be independent contractors and shall, unless otherwise expressly provided or authorized, have no authority to act for or represent the Trust

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or the Fund in any way or otherwise be deemed agents of the Trust or the Fund.

(a) Management Services. The Manager shall perform (or arrange for its

affiliates to perform) the management and administrative services necessary for the operation of the Trust and the Fund including administering shareholder accounts and handling shareholder relations. The Manager shall provide the Trust and Fund with office space, equipment and facilities and such other services as the Manager, subject to review by the Trustees, from time to time shall determine to be necessary or useful to perform its obligations under this Agreement. The Manager, also on behalf of the Trust and the Fund, shall conduct relations with custodians, depositories, transfer agents, dividend disbursing agents, other shareholder service agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable. The Manager generally shall monitor the Trust's and the Fund's compliance with investment policies and restrictions as set forth in the currently effective prospectus and statement of additional information relating to the shares of the Fund under the Securities Act of 1933, as amended (the "Prospectus" and "Statement of Additional Information", respectively). The Manager shall make reports to the Trustees of its performance of

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obligations hereunder and furnish advice and recommendations with respect to such other aspects of the business and affairs of the Trust and the Fund as it shall determine to be desirable.

(b) Investment Advisory Services. The Manager shall provide the Trust with

such investment research, advice and supervision as the latter may from time to time consider necessary for the proper supervision of the assets of the Fund, shall furnish continuously an investment program for the Fund and shall determine from time to time which securities shall be purchased, sold or exchanged and what portion of the assets of the Fund shall be held in the various money market securities or cash, subject always to the restrictions of the Declaration of Trust and By-Laws of the Trust, as amended from time to time, the provisions of the Investment Company Act and the statements relating to the Fund's investment objective, investment policies and investment restrictions as the same are set forth in the Prospectus and Statement of Additional Information. The Manager also shall make decisions for the Trust as to the manner in which voting rights, rights to consent to corporate action and any

other rights pertaining to the Fund's portfolio securities shall be exercised. Should the Trustees at any time, however, make any definite determination as to investment policy and notify the Manager thereof in writing, the Manager shall be bound by such determination for the period, if any, specified in such notice or

until similarly notified that such determination has been revoked. The Manager shall take, on behalf of the Fund, all actions which it deems necessary to implement the investment policies determined as provided above, and in particular to place all orders for the purchase or sale of portfolio securities for the Fund's account with brokers or dealers selected by it, and to this end the Manager is authorized as the agent of the Trust to give instructions to the custodian of the Fund as to deliveries of securities and payments of cash for the account of the Fund. In connection with the selection of such brokers or dealers and the placing of such orders with respect to assets of the Fund, the Manager is directed at all times to seek to obtain execution and price within the policy guidelines determined by the Trustees as set forth in the Prospectus and Statement of Additional Information. Subject to this requirement and the provisions of the Investment Company Act, the Securities Exchange Act of 1934, as amended, and other applicable provisions of law, the Manager may select brokers or dealers with which it or the Trust is affiliated.

(c) Notice Upon Change in Partners of Investment Adviser.

The Investment Adviser is a limited partnership and its limited partners are Merrill Lynch & Co., Inc. and Fund Asset Management, Inc. and its general partner is Princeton Services, Inc. The Investment Adviser will notify the Fund of any change in the

membership of the partnership within a reasonable time after such change.

ARTICLE II

Allocation of Charges and Expenses

(a) The Manager. The Manager assumes and shall pay for maintaining the

staff and personnel necessary to perform its obligations under this Agreement, and, at its own expense, shall provide the office space, equipment and facilities which it is obligated to provide under Article I hereof, and shall pay all compensation of officers of the Trust and all Trustees who are affiliated persons of the Manager.

(b) The Trust. The Trust assumes and shall pay or cause to be paid all

other expenses of the Trust and the Fund (except for the expenses paid by the Distributor), including, without limitation: redemption expenses, expenses of portfolio transactions, expenses of registering shares under federal and state securities laws, pricing costs (including the daily calculation of net asset value), expenses of printing shareholder reports, prospectuses and statements of additional information, Securities and Exchange Commission fees, interest, taxes, fees and actual out-of-pocket expenses of Trustees who are not affiliated persons of the Manager, fees for legal and auditing services, litigation expenses, costs of printing proxies and other expenses related to shareholder meetings, and other

expenses properly payable by the Trust and the Fund. It also is understood that the Trust will reimburse the Manager for its costs in providing accounting services to the Trust and the Fund. The Distributor will pay certain of the expenses of the Fund incurred in connection with the continuous offering of Fund shares.

ARTICLE III

Compensation of the Manager

(a) Investment Management Fee. For the services rendered, the facilities

furnished and expenses assumed by the Manager, the Trust shall pay to the Manager at the end of each calendar month a fee based upon the average daily value of the net assets of the Fund, as determined and computed in accordance with the description of the determination of net asset value contained in the Prospectus and Statement of Additional Information, at the annual rate of 0.55 of 1.0% (.55%) of the average daily net assets of the Fund not exceeding \$500 million, 0.525 of 1.0% (.525%) of the average daily net assets of the Fund exceeding \$500 million but not exceeding \$1.0 billion and 0.50 of 1.0% (.50%) of the average daily net assets of the Fund exceeding \$1.0 billion, commencing on the day following effectiveness hereof. If this Agreement becomes effective subsequent to the first day of a month or shall terminate before the last day of a month, compensation for the part of the month that this Agreement is in

effect shall be prorated in a manner consistent with the calculation of the fee as set forth above. Subject to the provisions of subsection (b) hereof, payment of the Manager's compensation for the preceding month shall be made as promptly as possible after completion of the computations contemplated by subsection (b) hereof. During any period when the determination of net asset value is suspended by the Trustees, the net asset value as of the last business day prior to such suspension shall for this purpose be deemed to be the net asset value at the close of each succeeding business day until it is again determined.

(b) Expense Limitations. In the event that the operating expenses of the

Fund, including amounts payable to the Manager pursuant to subsection (a) hereof, for any fiscal year ending on a date on which this Agreement is in effect exceed the expense limitations applicable to the Fund imposed by applicable state securities laws or regulations thereunder, as such limitations may be raised or lowered from time to time, the Manager shall reduce its management fee by the extent of such excess and, if required pursuant to any such laws or regulations, will reimburse the Fund in the amount of such excess, provided, however, to the extent permitted by law, there shall be excluded from such expenses the amount of any interest, taxes, brokerage commissions and extraordinary expenses (including but not limited to legal claims and liabilities and litigation costs and any

indemnification related thereto) paid or payable by the Trust with respect to the Fund. Whenever the expenses of the Fund exceed a pro rata portion of the applicable annual expense limitations, the estimated amount of reimbursement under such limitations shall be applicable as an offset against the monthly payment of the management fee due to the Manager. Should two or more such expense limitations be applicable as of the end of the last business day of the month, that expense limitation which results in the largest reduction in the Manager's fee shall be applicable.

ARTICLE IV

Limitation of Liability of the Manager

The Manager shall not be liable for any error of judgment or mistake of law or for any loss arising out of any investment or for any act or omission in the management of the Trust and the Fund, except for willful misfeasance, bad faith or gross negligence in the performance of its duties, or by reason of reckless disregard of its obligations and duties hereunder. As used in this Article IV, the term "Manager" shall include any affiliates of the Manager performing services for the Trust or the Fund contemplated hereby and directors, officers and employees of the Manager and such affiliates.

ARTICLE V

Activities of the Manager

The services of the Manager to the Trust and the Fund are not to be deemed to be exclusive, and the Manager and any person controlled by or under common control with the Manager (for purposes of Article V referred to as "affiliates") are free to render services to others. It is understood that

Trustees, officers, employees and shareholders of the Trust and the Fund are or may become interested in the Manager and its affiliates, as directors, officers, employees and shareholders or otherwise, and that directors, officers, employees and shareholders of the Manager and its affiliates are or may become similarly interested in the Trust and the Fund, and that the Manager may become interested in the Trust and the Fund as a shareholder or otherwise.

ARTICLE VI

Duration and Termination of this Contract

This Agreement shall become effective as of the date first above written and shall remain in force until May 31, 1996 and thereafter, but only for so long as such continuance is specifically approved at least annually by (i) the Trustees, or by the vote of a majority of the outstanding voting securities of the Fund, and (ii) by the vote of a majority of those Trustees who are not parties to this Agreement or interested persons of

any such party cast in person at a meeting called for the purpose of voting on such approval.

This Agreement may be terminated at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities of the Fund, or by the Manager, on sixty days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment.

ARTICLE VII

Amendment of this Agreement

This Agreement may be amended by the parties only if such amendment is specifically approved by the vote of (i) a majority of the outstanding voting securities of the Fund, and (ii) a majority of those Trustees who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

ARTICLE VIII

Definitions of Certain Terms

The terms "vote of a majority of the outstanding voting securities", "assignment", "affiliated person" and "interested person", when used in this Agreement, shall have the respective meanings specified in the Investment Company Act and the Rules and Regulations thereunder, subject, however, to such

exemptions as may be granted by the Securities and Exchange Commission under the Investment Company Act.

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ARTICLE IX

Governing Law

This Agreement shall be construed in accordance with laws of the State of New York and the applicable provisions of the Investment Company Act. To the extent that the applicable laws of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control.

ARTICLE X

Personal Liability

The Declaration of Trust establishing Merrill Lynch Multi-State Municipal Series Trust, dated August 2, 1985, a copy of which, together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of the Commonwealth of Massachusetts, provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of Merrill Lynch Multi-State Municipal Series Trust shall be held to any personal liability, nor shall resort be had to their private property for the satisfaction of any obligation or claim or otherwise in connection with the affairs of said Merrill Lynch Multi-State Municipal Series Trust, but the "Trust Property" only shall be liable.

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the day and year first above written.

MERRILL LYNCH MULTI-STATE
MUNICIPAL SERIES TRUST

By _____
Title:

FUND ASSET MANAGEMENT, L.P.

By _____
Title:

CLASS A SHARES
DISTRIBUTION AGREEMENT

AGREEMENT made as of the 17th day of June, 1994, between MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST, a Massachusetts business trust (the "Trust"), and MERRILL LYNCH FUNDS DISTRIBUTOR, INC., a Delaware corporation (the "Distributor").

W I T N E S S E T H :
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WHEREAS, the Trust is registered under the Investment Company Act of 1940, as amended to date (the "Investment Company Act"), as an open-end investment company and it is affirmatively in the interest of the Trust to offer its shares for sale continuously; and

WHEREAS, the Trustees of the Trust (the "Trustees") are authorized to establish separate series (the "Series") relating to separate portfolios of securities, each of which will offer separate classes of shares of beneficial interest, par value \$0.10 per share (collectively referred to as "shares") to selected groups of purchasers; and

WHEREAS, the Trustees have established and designated the Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") as a series of the Trust; and

WHEREAS, the Distributor is a securities firm engaged in the business of selling shares of investment companies either directly to purchasers or through other securities dealers; and

WHEREAS, the Trust and the Distributor wish to enter into an agreement with each other with respect to the subscription offering and the continuous offering of the Class A shares of beneficial interest of the Fund.

NOW, THEREFORE, the parties agree as follows:

Section 1. Appointment of the Distributor. The Trust hereby appoints the

Distributor as the principal underwriter and distributor of the Trust to sell Class A shares of beneficial interest of the Fund (sometimes herein referred to as "Class A shares") to the public and hereby agrees during the term of this Agreement to sell Class A shares of the Fund to the Distributor upon the terms and conditions herein set forth.

Section 2. Exclusive Nature of Duties. The Distributor shall be the

exclusive representative of the Trust to act as principal underwriter and distributor of the Class A shares of the Fund, except that:

(a) The Trust may, upon written notice to the Distributor, from time to time designate other principal underwriters and distributors of Class A shares with respect to areas other than the United States as to which the Distributor may have expressly waived in writing its right to act as such. If such designation is deemed exclusive, the right of the Distributor under this Agreement to sell Class A shares in the areas so designated shall terminate, but this Agreement shall remain otherwise in full effect until terminated in accordance with the other provisions hereof.

(b) The exclusive rights granted to the Distributor to purchase Class A shares from the Trust shall not apply to Class A shares issued in connection with the merger or consolidation of any other investment company or personal holding company with the Trust or the acquisition by purchase or otherwise of all (or substantially all) the assets or the outstanding Class A shares of any such company by the Trust.

(c) Such exclusive rights also shall not apply to Class A shares issued pursuant to reinvestment of dividends or capital gains distributions.

(d) Such exclusive rights also shall not apply to Class A shares issued pursuant to any reinstatement privilege afforded redeeming Class A shareholders.

Section 3. Purchase of Class A Shares from the Trust.

(a) Prior to the continuous offering of the Class A shares, commencing on a date agreed upon by the Trust and the Distributor, it is contemplated that the Distributor will solicit subscriptions for Class A shares during a subscription period which shall last for such period as may be agreed upon by the parties hereto. The subscriptions will be payable within five business days after the termination of the subscription period, at which time the Fund will commence operations.

(b) After the Fund commences operations, the Trust will commence an offering of Class A shares of the Fund and thereafter the Distributor shall have the right to buy from the Trust the Class A shares needed, but not more than the Class A shares

needed (except for clerical errors in transmission), to fill unconditional orders for Class A shares of the Fund placed with the Distributor by investors or securities dealers. The price which the Distributor shall pay for the Class A shares so purchased from the Trust shall be the net asset value, determined as set forth in Section 3(e) hereof, used in determining the public offering price on which such orders were based.

(c) The Class A shares are to be resold by the Distributor to investors at the public offering price, as set forth in Section 3(d) hereof, or to securities dealers having agreements with the Distributor upon the terms and conditions set forth in Section 7 hereof.

(d) The public offering price(s) of the Class A shares, i.e., the price per share at which the Distributor or selected dealers may sell Class A shares to the public, shall be the public offering price as set forth in the currently effective prospectus and statement of additional information (the "prospectus" and "statement of additional information," respectively) under the Securities Act of 1933, as amended (the "Securities Act"), relating to such Class A shares, but not to exceed the net asset value at which the Distributor is to purchase the Class A shares, plus a sales charge not to exceed 4.00% of the public offering price (4.17% of the net amount invested), subject to reductions for volume purchases. Initially it is contemplated that the maximum sales charge will be 4.00% of the public offering price. Class A shares may be sold, without a

sales charge, to certain Trustees, officers and employees of the Trust and to such other persons as may be agreed upon from time to time by the Trust and the Distributor, upon terms and conditions set forth in the prospectus and statement of additional information relating to the Fund. If the public offering price does not equal an even cent, the public offering price may be adjusted to the nearest cent. All payments to the Trust hereunder shall be made in the manner set forth in Section 3(g).

(e) The net asset value of Class A shares shall be determined by the Trust or any agent of the Trust in accordance with the method set forth in the prospectus and statement of additional information relating to the Fund and guidelines established by the Trustees.

(f) The Trust shall have the right to suspend the sale of Class A shares at times when redemption is suspended pursuant to the conditions set forth in Section 4(b) hereof. The Trust shall also have the right to suspend the sale of Class A shares if trading on the New York Stock Exchange shall have been suspended, if a banking moratorium shall have been declared by Federal or New York authorities, or if there shall have been some other event, which, in the judgment of the Trust, makes it impracticable or inadvisable to sell the Class A shares.

(g) The Trust, or any agent of the Trust designated in writing by the Trust, shall be promptly advised of all purchase orders for Class A shares received by the Distributor. Any order

may be rejected by the Trust; provided, however, that the Trust will not arbitrarily or without reasonable cause refuse to accept or confirm orders for the purchase of Class A shares. The Trust (or its agent) will confirm orders upon their receipt, will make appropriate book entries and, upon receipt by the Trust (or its agent) of payment therefor, will deliver deposit receipts or certificates for such Class A shares pursuant to the instructions of the Distributor. Payment shall be made to the Trust in New York Clearing House funds. The Distributor agrees to cause such payment and such instructions to be delivered promptly to the Trust (or its agent).

Section 4. Repurchase or Redemption of Class A Shares by the Trust. (a)

Any of the outstanding Class A shares may be tendered for redemption at any time, and the Trust agrees to repurchase or redeem the Class A shares so tendered in accordance with its obligations as set forth in Article VIII of the Declaration of Trust, as amended from time to time, and in accordance with the applicable provisions set forth in the prospectus and statement of additional information relating to the Fund. The price to be paid to redeem or repurchase the Class A shares shall be equal to the net asset value calculated in accordance with the provisions of Section 3(e) hereof, less the redemption fee or other charge, if any, set forth in the prospectus and statement of additional information relating to the Fund. All payments by the Trust hereunder shall be made in the manner set forth below. The redemption or repurchase by the

Trust of any of the Class A shares purchased by or through the Distributor will

not affect the sales charge secured by the Distributor or any selected dealer in the course of the original sale, except that if any Class A shares are tendered for redemption or repurchase within seven business days after the date of the confirmation of the original purchase, the right to the sales charge shall be forfeited by the Distributor and the selected dealer which sold such Class A shares.

The Trust shall pay the total amount of the redemption price as defined in the above paragraph pursuant to the instructions of the Distributor in New York Clearing House funds on or before the seventh business day subsequent to its having received the notice of redemption in proper form.

(b) Redemption of Class A shares or payment may be suspended at times when the New York Stock Exchange is closed, when trading on said Exchange is closed, when trading on said Exchange is restricted, when an emergency exists as a result of which disposal by the Trust of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Trust fairly to determine the value of the net assets of the Fund, or during any other period when the Securities and Exchange Commission, by order, so permits.

Section 5. Duties of the Trust. (a) The Trust shall furnish to the

Distributor copies of all information, financial statements and other papers which the Distributor may reasonably request for use in connection with the distribution of Class A

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shares of the Fund, and this shall include, upon request by the Distributor, one certified copy of all financial statements prepared for the Trust by independent public accountants. The Trust shall make available to the Distributor such number of copies of the prospectus and statement of additional information relating to the Fund as the Distributor shall reasonably request.

(b) The Trust shall take, from time to time, but subject to the necessary approval of the Class A shareholders, all necessary action to fix the number of authorized Class A shares and such steps as may be necessary to register the same under the Securities Act, to the end that there will be available for sale such number of Class A shares as the Distributor may reasonably be expected to sell.

(c) The Trust shall use its best efforts to qualify and maintain the qualification of an appropriate number of Class A shares for sale under the securities laws of such states as the Distributor and the Trust may approve. Any such qualification may be withheld, terminated or withdrawn by the Trust at any time in its discretion. As provided in Section 8(c) hereof, the expense of qualification and maintenance of qualification shall be borne by the Trust. The Distributor shall furnish such information and other material relating to its affairs and activities as may be required by the Trust in connection with such qualification.

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(d) The Trust will furnish, in reasonable quantities upon request by the Distributor, copies of annual and interim reports relating to the Fund.

Section 6. Duties of the Distributor. (a) The Distributor shall devote

reasonable time and effort to effect sales of Class A shares of the Fund, but

shall not be obligated to sell any specific number of Class A shares. The services of the Distributor to the Trust hereunder are not to be deemed exclusive and nothing herein contained shall prevent the Distributor from entering into like arrangements with other investment companies so long as the performance of its obligations hereunder is not impaired thereby.

(b) In selling the Class A shares of the Fund, the Distributor shall use its best efforts in all respects duly to conform with the requirements of all Federal and state laws relating to the sale of such securities. Neither the Distributor nor any selected dealer, as defined in Section 7 hereof, nor any other person is authorized by the Trust to give any information or to make any representations, other than those contained in the Fund's registration statement or related prospectus and statement of additional information and any sales literature specifically approved by the Trust.

(c) The Distributor shall adopt and follow procedures, as approved by the officers of the Trust, for the confirmation of sales to investors and selected dealers, the collection of amounts payable by investors and selected dealers on such sales,

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and the cancellation of unsettled transactions, as may be necessary to comply with the requirements of the National Association of Securities Dealers, Inc. (the "NASD"), as such requirements may from time to time exist.

Section 7. Selected Dealers Agreements. (a) The Distributor shall have

the right to enter into selected dealers agreements with securities dealers of its choice ("selected dealers") for the sale of Class A shares and fix therein the portion of the sales charge which may be allocated to the selected dealers; provided that the Trust shall approve the forms of agreements with dealers and the dealer compensation set forth therein. Class A shares sold to selected dealers shall be for resale by such dealers only at the public offering price(s) set forth in the prospectus and statement of additional information. The form of agreement with selected dealers to be used during the subscription period described in Section 3(a) is attached hereto as Exhibit A and the initial form of agreement with selected dealers to be used in the continuous offering of the Class A shares is attached hereto as Exhibit B.

(b) Within the United States, the Distributor shall offer and sell Class A shares only to such selected dealers as are members in good standing of the NASD.

Section 8. Payment of Expenses. (a) The Trust shall bear all costs and

expenses of the Fund, including fees and disbursements of its counsel and auditors, in connection with the preparation and filing of any required registration statements

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and/or prospectuses and statements of additional information under the Investment Company Act, the Securities Act, and all amendments and supplements thereto, and preparing and mailing annual and interim reports and proxy materials to Class A shareholders (including but not limited to the expense of setting in type any such registration statements, prospectuses, statements of additional information, annual or interim reports or proxy materials).

(b) The Distributor shall be responsible for any payments made to selected dealers as reimbursement for their expenses associated with payments of sales commissions to financial consultants. In addition, after the prospectuses, statements of additional information and annual and interim reports have been prepared and set in type, the Distributor shall bear the costs and expenses of printing and distributing any copies thereof which are to be used in connection with the offering of Class A shares to selected dealers or investors pursuant to this Agreement. The Distributor shall bear the costs and expenses of preparing, printing and distributing any other literature used by the Distributor or furnished by it for use by selected dealers in connection with the offering of the Class A shares for sale to the public and any expenses of advertising incurred by the Distributor in connection with such offering.

(c) The Trust shall bear the cost and expenses of qualification of the Class A shares for sale pursuant to this Agreement, and, if necessary or advisable in connection

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therewith, of qualifying the Trust as a broker or dealer, in such states of the United States or other jurisdictions as shall be selected by the Trust and the Distributor pursuant to Section 5(c) hereof and the cost and expenses payable to each such state for continuing qualification therein until the Trust decides to discontinue such qualification pursuant to Section 5(c) hereof.

Section 9. Indemnification. (a) The Trust shall indemnify and hold

harmless the Distributor and each person, if any, who controls the Distributor against any loss, liability, claim, damage or expense (including the reasonable cost of investigating or defending any alleged loss, liability, claim, damage or expense and reasonable counsel fees incurred in connection therewith), as incurred, arising by reason of any person acquiring any Class A shares, which may be based upon the Securities Act, or on any other statute or at common law, on the ground that the registration statement or related prospectus and statement of additional information relating to the Fund, as from time to time amended and supplemented, or an annual or interim report to shareholders of the Fund, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, unless such statement or omission was made in reliance upon, and in conformity with, information furnished to the Trust in connection therewith by or on behalf of the Distributor; provided, however, that in no case (i) is the indemnity of the Trust in favor of the Distributor and any such

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controlling persons to be deemed to protect such Distributor or any such controlling persons thereof against any liability to the Trust or its security holders to which the Distributor or any such controlling persons would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their obligations and duties under this Agreement; or (ii) is the Trust to be liable under its indemnity agreement contained in this paragraph with respect to any claim made against the Distributor or any such controlling persons, unless the Distributor or such controlling persons, as the case may be, shall have notified the Trust in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon the Distributor or such controlling persons (or after the Distributor or such controlling persons shall have received notice of such

service on any designated agent), but failure to notify the Trust of any such claim shall not relieve it from any liability which it may have to the person against whom such action is brought otherwise than on account of its indemnity agreement contained in this paragraph. The Trust will be entitled to participate at its own expense in the defense, or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but if the Trust elects to assume the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the Distributor or such controlling person or persons, defendant or

defendants in the suit. In the event the Trust elects to assume the defense of any such suit and retain such counsel, the Distributor or such controlling person or persons, defendant or defendants in the suit, shall bear the fees and expenses of any additional counsel retained by them, but, in case the Trust does not elect to assume the defense of any such suit, it will reimburse the Distributor or such controlling person or persons, defendant or defendants in the suit, for the reasonable fees and expenses of any counsel retained by them. The Trust shall promptly notify the Distributor of the commencement of any litigation or proceedings against it or any of its officers or Trustees in connection with the issuance or sale of any of the Class A shares.

(b) The Distributor shall indemnify and hold harmless the Trust and each of its Trustees and officers and each person, if any, who controls the Trust against any loss, liability, claim, damage or expense described in the foregoing indemnity contained in subsection (a) of this Section, but only with respect to statements or omissions made in reliance upon, and in conformity with, information furnished to the Trust in writing by or on behalf of the Distributor for use in connection with the registration statement or related prospectus and statement of additional information, as from time to time amended, or the annual or interim reports to Class A shareholders. In case any action shall be brought against the Trust or any person so indemnified, in respect of which indemnity may be sought against

the Distributor, the Distributor shall have the rights and duties given to the Trust, and the Trust and each person so indemnified shall have the rights and duties given to the Distributor by the provisions of subsection (a) of this Section 9.

Section 10. Merrill Lynch Mutual Fund Adviser Program. In connection with

the Merrill Lynch Mutual Fund Adviser Program, the Distributor and its affiliate, Merrill Lynch, Pierce, Fenner & Smith Incorporated, are authorized to offer and sell shares of the Fund, as Agent for the Trust, to participants in such program. The terms of this Agreement shall apply to such sales, including terms as to the offering price of shares, the proceeds to be paid to the Trust, the duties of the Distributor, the payment of expenses and indemnification obligations of the Trust and the Distributor.

Section 11. Duration and Termination of this Agreement. This Agreement

shall become effective as of the date first above written and shall remain in force until May 31, 1996 and thereafter, but only so long as such continuance is specifically approved at least annually by (i) the Trustees, or by the vote of a majority of the outstanding Class A voting securities of the Fund, and (ii) by the vote of a majority of those Trustees who are not parties to this Agreement

or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

This Agreement may be terminated at any time, without the payment of any penalty, by the Trustees or by vote of a majority

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of the outstanding Class A voting securities of the Fund, or by the Distributor, on sixty days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment.

The terms "vote of a majority of the outstanding voting securities," "assignment," "affiliated person" and "interested person," when used in this Agreement, shall have the respective meanings specified in the Investment Company Act.

Section 12. Amendment of this Agreement. This Agreement may be amended by

the parties only if such amendment is specifically approved by (i) the Trustees, or by the vote of a majority of outstanding Class A voting securities of the Fund, and (ii) by the vote of a majority of those Trustees of the Trust who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

Section 13. Governing Law. The provisions of this Agreement shall be

construed and interpreted in accordance with the laws of the State of New York as at the time in effect and the applicable provisions of the Investment Company Act. To the extent that the applicable law of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control.

Section 14. Personal Liability. The Declaration of Trust establishing

Merrill Lynch Multi-State Municipal Series Trust, dated August 2, 1985, a copy of which, together with all

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amendments thereto (the "Declaration"), is on file in the office of the Secretary of the Commonwealth of Massachusetts, provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of said Trust shall be held to any personal liability, nor shall resort be had to their private property for the satisfaction of any obligation or claim or otherwise in connection with the affairs of said Trust, but the "Trust Property" only shall be liable.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

MERRILL LYNCH MULTI-STATE MUNICIPAL
SERIES TRUST

By _____
Title:

By _____
Title:

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EXHIBIT A

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

CLASS A SHARES OF BENEFICIAL INTEREST

SELECTED DEALERS AGREEMENT
FOR SUBSCRIPTION PERIOD

Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Multi-State Municipal Series Trust, a Massachusetts business trust (the "Trust"), pursuant to which it acts as the distributor for the sale of Class A shares of beneficial interest, par value \$0.10 per share (herein referred to as "Class A shares"), of the Trust relating to Merrill Lynch Arkansas Municipal Bond Fund (the "Fund"), and as such has the right to distribute Class A shares of the Fund for resale. The Trust is an open-end investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and the Fund's Class A shares being offered to the public are registered under the Securities Act of 1933, as amended (the "Securities Act"). Such Class A shares and certain of the terms on which they are being offered are more fully described in the enclosed Prospectus and Statement of Additional Information. You have received a copy of the Class A Shares Distribution Agreement (the "Distribution Agreement") between ourself and the Trust and reference is made herein to certain provisions of such Distribution Agreement. This Agreement relates solely to the subscription period described in Section 3(a) of such Distribution Agreement. Subject to the foregoing, as principal, we offer to sell to you, as a member of the Selected Dealers Group, Class A shares of the Fund upon the following terms and conditions:

1. The subscription period referred to in Section 3(a) of the Distribution Agreement will continue through September 23, 1994. The subscription period may be extended upon agreement between the Trust and the Distributor. Subject to the provisions of such Section and the conditions contained herein, we will sell to you on the fifth business day following the termination of the subscription period, or such other date as we may advise (the "Closing Date"), such number of Class A shares as to which you have placed orders with us not later than 5:00 P.M. on the second full business day preceding the Closing Date.

2. In all sales of these Class A shares to the public you shall act as dealer for your own account, and in no transaction shall you have any authority to act as agent for the Trust, for us or for any other member of the Selected Dealers Group.

3. Except as provided in paragraph 4, below, the public offering prices, sales charges and the related Selected Dealers' concession are as follows:

<TABLE>

<CAPTION>

Amount of Purchase	Sales Charge as Percentage of Offering Price	Sales Charge as Percentage* of the Net Amount Invested	Discount to Selected Dealers of the Offering Price
<S>	<C>	<C>	<C>
Less than \$25,000	4.00%	4.17%	3.75%
\$25,000 but less than \$50,000	3.75	3.90	3.50
\$50,000 but less than \$100,000	3.25	3.36	3.00
\$100,000 but less than \$250,000	2.50	2.56	2.25
\$250,000 but less than \$1,000,000	1.50	1.52	1.25
\$1,000,000 and over	0.50	0.50	0.40

</TABLE>

* Rounded to the nearest one-hundredth percent.

4. Initial sales charges will be waived for purchases of \$1 million or more in a single transaction by an investor (other than a tax qualified retirement plan under Section 401 of the Internal Revenue Code of 1986, as amended (the "Code"), or a deferred compensation plan under Section 403(b) and Section 457 of the Code), or a purchase by a TMS/sm/ Managed Trust, of Class A shares of the Fund. Such purchases will be subject to a contingent deferred sales charge if the shares are redeemed within one year after purchase at the following rates:

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Amount of Purchase	Contingent Deferred Sales Charge as a Percentage of Dollar Amount of Purchase
-----	-----
\$1 million up to \$2.5 million	0.75%
Over \$2.5 million up to \$3.5 million	0.40%
Over \$3.5 million up to \$5.0 million	0.25%
Over \$5.0 million	0.20%

The proceeds per Class A share to the Fund from the sale of all shares sold during the subscription period will be \$10.00.

The term "purchase" refers to a single purchase by an individual, or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual, his spouse and their children under the age of 21 years purchasing shares for his or their own account and to single purchases by a trustee or other fiduciary purchasing shares for a single trust estate or single fiduciary account although more than one beneficiary is involved. The term "purchase" also includes purchases by any "company" as that term is defined in the Investment Company Act of 1940, but does not include purchases by any such company which has not been in existence for at least six months or which has no purpose other than the purchase of shares of the Fund or

shares of other registered investment companies at a discount; provided, however, that it shall not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser.

The reduced sales charges are applicable through a right of accumulation under which eligible investors are permitted to purchase Class A shares of the Fund at the offering price applicable to the total of (a) the dollar amount then being purchased plus (b) an amount equal to the then current net asset value or cost, whichever is higher, of the purchaser's combined holdings of the Class A and Class B shares of the Fund and of any other investment company with an initial sales charge or deferred sales charge for which the Distributor acts as the distributor. For any such right of accumulation to be made available, the Distributor must be provided at the time of purchase, by the purchaser or you, with sufficient information to permit confirmation of qualification, and acceptance of the purchase order is subject to such confirmation.

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The reduced sales charges are applicable to purchases aggregating \$10,000 or more of the Class A shares or of shares of any other investment company with an initial sales charge or deferred sales charge for which the Distributor acts as the distributor made through you within a thirteen-month period starting with the first purchase pursuant to a Letter of Intention in the form provided in the Prospectus. A purchase not originally made pursuant to a Letter of Intention may be included under a subsequent letter executed within 90 days of such purchase if the Distributor is informed in writing of this intent within such 90-day period. If the intended amount of shares is not purchased within the thirteen-month period, an appropriate price adjustment will be made pursuant to the terms of the Letter of Intention.

You agree to advise us promptly at our request as to amounts of any sales made by you to the public qualifying for reduced sales charges. Further information as to the reduced sales charges pursuant to the right of accumulation or a Letter of Intention is set forth in the Prospectus.

5. You shall not place orders for any of the Class A shares unless you have already received purchase orders for such shares at the applicable public offering prices and subject to the terms hereof and of the Distribution Agreement. All orders are subject to acceptance by the Distributor or the Trust in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the Prospectus, as amended from time to time. You agree that you will not offer or sell any of the Class A shares except under circumstances that will result in compliance with the applicable Federal and state securities laws and that in connection with sales and offers to sell Class A shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus and, if requested, the Statement of Additional Information (as then amended or supplemented) relating to the Fund and will not furnish to any person any information relating to the Class A shares of the Fund which is inconsistent in any respect with the information contained in the Prospectus and Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Trust.

6. All Class A shares purchased by Selected Dealers will be delivered in the first instance at a settlement price computed on the basis of all sales having been made in a purchase (as such term is defined above) involving a public

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offering price of less than \$10,000. All sales to you will be deemed to have been made in such a transaction unless within 30 days after the Closing Date you furnish to us, on forms supplied by us for the purpose, a statement acceptable to us setting forth sales in purchases involving a public offering price of \$10,000 or more, in which case we will compute such Selected Dealers' concessions on the basis of the information set forth in such statement.

7. Payment for Class A shares purchased by you is to be made by Federal funds wire or by certified or official bank check at the office of Merrill Lynch Funds Distributor, Inc., Box 9011, Princeton, New Jersey 08543-9011, on such date as we may advise, in New York Clearing House funds payable to the order of Merrill Lynch Funds Distributor, Inc. against delivery by us of non-negotiable share deposit receipts ("Receipts") issued by Financial Data Services Inc., as shareholder servicing agent, acknowledging the deposit with it of the Class A shares so purchased by you. You agree that as promptly as practicable after the delivery of such Class A shares you will issue appropriate written transfer instructions to the Trust or to the shareholder servicing agent as to the purchasers to whom you sold the Class A shares.

8. If any Class A shares sold to you under the terms of this Agreement are repurchased by the Trust or by us for the account of the Trust or are tendered for redemption within seven business days after the Closing Date, it is agreed that you shall forfeit your right to, and refund to us, any discount received by you on such Class A shares.

9. No person is authorized to make any representations concerning Class A shares of the Fund except those contained in the current Prospectus and Statement of Additional Information of the Fund and in such printed information subsequently issued by us or the Trust as information supplemental to such Prospectus and Statement of Additional Information. In purchasing Class A shares through us you shall rely solely on the representations contained in the Prospectus and Statement of Additional Information and supplemental information above mentioned. Any printed information which we furnish you other than the Fund's Prospectus and Statement of Additional Information, periodic reports and proxy solicitation material are our sole responsibility and not the responsibility of the Trust, and you agree that the Trust shall have no liability or

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responsibility to you in these respects unless expressly assumed in connection therewith.

10. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus and, if requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials of the Fund. You further agree to endeavor to obtain proxies from such purchasers. Additional copies of the Prospectus and Statement of Additional Information, annual or interim reports and proxy solicitation materials of the Fund will be supplied to you in reasonable quantities upon request.

11. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Class A shares entirely. Each party hereto has the right to cancel this Agreement upon notice to the other party.

12. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We

shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act or of the rules and regulations of the Securities and Exchange Commission issued thereunder.

13. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales in the United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

14. Upon application to us, we will inform you as to the states in which we believe the Class A shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no responsibility or obligation as to your right to sell shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the shares, if necessary.

15. All communications to us should be sent to the address below. Any notice to you shall be duly given if

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mailed or telegraphed to you at the address specified by you below.

16. You agree that you will not sell any Class A shares of the Trust to any account over which you exercise discretionary authority.

17. This Agreement shall terminate at the close of business on the Closing Date, unless earlier terminated, provided, however, this Agreement shall continue after termination for the purpose of Section 7 hereof and for the purpose of settlement of accounts hereunder.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By _____
(Authorized Signature)

Please return one signed copy
of this Agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.
Box 9011
Princeton, New Jersey 08543-9011

Accepted:

Firm Name: _____

By: _____

Address: _____

Date: _____

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MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

CLASS A SHARES OF BENEFICIAL INTEREST

SELECTED DEALERS AGREEMENT

Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Multi-State Municipal Series Trust, a Massachusetts business trust (the "Trust"), pursuant to which it acts as the distributor for the sale of Class A shares of beneficial interest, par value \$0.10 per share (herein referred to as "Class A shares"), of the Trust relating to Merrill Lynch Arkansas Municipal Bond Fund (the "Fund"), and as such has the right to distribute Class A shares of the Fund for resale. The Trust is an open-end investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and the Fund's Class A shares being offered to the public are registered under the Securities Act of 1933, as amended (the "Securities Act"). You have received a copy of the Distribution Agreement between ourself and the Trust and reference is made herein to certain provisions of such Distribution Agreement. The terms "Prospectus" and "Statement of Additional Information" used herein refer to the prospectus and statement of additional information, respectively, on file with the Securities and Exchange Commission (the "Commission") which is part of the most recent effective registration statement pursuant to the Securities Act. As principal, we offer to sell to you, as a member of the Selected Dealers Group, Class A shares of the Fund upon the following terms and conditions:

1. In all sales of these Class A shares to the public you shall act as dealer for your own account, and in no transaction shall you have any authority to act as agent for the Trust, for us or for any other member of the Selected Dealers Group.

2. Orders received from you will be accepted through us only at the public offering price applicable to each order, as set forth in the current Prospectus and Statement of Additional Information relating to the Fund. The procedure

relating to the handling of orders shall be subject to Section 5 hereof and instructions which we or the Trust shall forward from time to time to you. All orders are subject to acceptance or rejection by the Distributor or the Trust in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the current Prospectus and Statement of Additional Information of the Fund.

3. Except as provided in paragraph 4, below, the sales charges for sales to the public, computed as percentages of the public offering price and the amount invested, and the related discount to Selected Dealers are as follows:

<TABLE>

<CAPTION>

Sales Charge

Discount to

Amount of Purchase	Sales Charge as Percentage of Offering Price	as Percentage* of the Net Amount Invested	Selected Dealers of the Offering Price
<S>	<C>	<C>	<C>
Less than \$25,000	4.00%	4.17%	3.75%
\$25,000 but less than \$50,000	3.75	3.90	3.50
\$50,000 but less than \$100,000	3.25	3.36	3.00
\$100,000 but less than \$250,000	2.50	2.56	2.25
\$250,000 but less than \$1,000,000	1.50	1.52	1.25
\$1,000,000 and over	0.50	0.50	0.40

</TABLE>

* Rounded to the nearest one-hundredth percent.

4. Initial sales charges will be waived for purchases of \$1 million or more in a single transaction by an investor (other than a tax qualified retirement plan under Section 401 of the Internal Revenue Code of 1986, as amended (the "Code"), or a deferred compensation plan under Section 403(b) and Section 457 of the Code), or a purchase by a TMS/sm/ Managed Trust, of Class A shares of the Fund. Such purchases will be subject to a contingent deferred sales charge if the shares are redeemed within one year after purchase at the following rates:

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Amount of Purchase	Contingent Deferred Sales Charge as a Percentage of Dollar Amount of Purchase
\$1 million up to \$2.5 million	0.75%
Over \$2.5 million up to \$3.5 million	0.40%
Over \$3.5 million up to \$5.0 million	0.25%
Over \$5.0 million	0.20%

The proceeds per Class A share to the Trust from the sale of all shares sold during the subscription period will be \$10.00.

The term "purchase" refers to a single purchase by an individual, or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual, his spouse and their children under the age of 21 years purchasing Class A shares for his or their own account and to single purchases by a trustee or other fiduciary purchasing Class A shares for a single trust estate or single fiduciary account although more than one beneficiary is involved. The term "purchase" also includes purchases by any "company" as that term is defined in the Investment Company Act, but does not include purchases by any such company which has not been in existence for at least six months or which has no purpose other than the purchase of shares of the Fund or shares of other registered investment companies at a discount; provided, however, that it shall not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser.

The reduced sales charges are applicable through a right of accumulation under which eligible investors are permitted to purchase Class A shares of the

Fund at the offering price applicable to the total of (a) the dollar amount then being purchased plus (b) an amount equal to the then current net asset value or cost, whichever is higher, of the purchaser's combined holdings of the Class A and Class B shares of the Fund and of any other investment company with an initial sales charge or a deferred sales charge for which the Distributor acts as the distributor. For any such right of accumulation to be made available, the Distributor must be provided at the time of purchase, by the purchaser or you, with sufficient information to permit confirmation of qualification, and acceptance of the purchase order is subject to such confirmation.

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The reduced sales charges are applicable to purchases aggregating \$10,000 or more of the Class A shares or of shares of any other investment company with an initial sales charge or deferred sales charge for which the Distributor acts as the distributor made through you within a thirteen-month period starting with the first purchase pursuant to a Letter of Intention in the form provided in the Prospectus. A purchase not originally made pursuant to a Letter of Intention may be included under a subsequent letter executed within 90 days of such purchase if the Distributor is informed in writing of this intent within such 90-day period. If the intended amount of shares is not purchased within the thirteen-month period, an appropriate price adjustment will be made pursuant to the terms of the Letter of Intention.

You agree to advise us promptly at our request as to amounts of any sales made by you to the public qualifying for reduced sales charges. Further information as to the reduced sales charges pursuant to the right of accumulation is set forth in the Prospectus and Statement of Additional Information.

5. You shall not place orders for any of the Class A shares unless you have already received purchase orders for such Class A shares at the applicable public offering prices and subject to the terms hereof and of the Distribution Agreement. You agree that you will not offer or sell any of the Class A shares except under circumstances that will result in compliance with the applicable Federal and state securities laws and that in connection with sales and offers to sell Class A shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus and, if requested, the Statement of Additional Information (as then amended or supplemented) relating to the Fund and will not furnish to any person any information relating to the Class A shares of the Fund, which is inconsistent in any respect with the information contained in the Prospectus and Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Trust.

6. As a selected dealer, you are hereby authorized (i) to place orders directly with the Trust for Class A shares of the Fund to be resold by us to you subject to the applicable terms and conditions governing the placement of orders by us set forth in Section 3 of the Distribution

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Agreement and subject to the compensation provisions of Section 3 hereof, and (ii) to tender Class A shares directly to the Trust or its agent for redemption subject to the applicable terms and conditions set forth in Section 4 of the Distribution Agreement.

7. You shall not withhold placing orders received from your customers so as to profit yourself as a result of such withholding: e.g., by a change in the "net asset value" from that used in determining the offering price to your customers.

8. If any Class A shares sold to you under the terms of this Agreement are repurchased by the Trust or by us for the account of the Trust or are tendered for redemption within seven business days after the date of the confirmation of the original purchase by you, it is agreed that you shall forfeit your right to, and refund to us, any discount received by you on such Class A shares.

9. No person is authorized to make any representations concerning Class A shares of the Fund except those contained in the current Prospectus and Statement of Additional Information of the Fund and in such printed information subsequently issued by us or the Trust as information supplemental to such Prospectus and Statement of Additional Information. In purchasing Class A shares through us you shall rely solely on the representations obtained in the Prospectus and Statement of Additional Information and supplemental information above mentioned. Any printed information which we furnish you other than the Fund's Prospectus, Statement of Additional Information, periodic reports and proxy solicitation material are our sole responsibility and not the responsibility of the Trust, and you agree that the Trust shall have no liability or responsibility to you in these respects unless expressly assumed in connection therewith.

10. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus and, if requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials of the Fund. You further agree to endeavor to obtain proxies from such purchasers. Additional copies of the Prospectus and Statement of Additional Information, annual or interim reports and proxy solicitation materials of the Fund will be supplied to you in reasonable quantities upon request.

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11. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Class A shares entirely. Each party hereto has the right to cancel this agreement upon notice to the other party.

12. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act or of the rules and regulations of the Commission issued thereunder.

13. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales of the United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

14. Upon application to us, we will inform you as to the states in which we believe the Class A shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no responsibility or obligation as to your right to sell Class A shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the Class A shares, if necessary.

15. All communications to us should be sent to the address below. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

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16. Your first order placed pursuant to this Agreement for the purchase of Class A shares of the Fund will represent your acceptance of this Agreement.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By _____
(Authorized Signature)

Please return one signed copy
of this agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.
Box 9011
Princeton, New Jersey 08543-9011

Accepted:

Firm Name: _____

By: _____

Address: _____

Date: _____

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CLASS B SHARES
DISTRIBUTION AGREEMENT

AGREEMENT made as of the 17th day of June, 1994, between MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST, a Massachusetts business trust (the "Trust"), and MERRILL LYNCH FUNDS DISTRIBUTOR, INC., a Delaware corporation (the "Distributor").

W I T N E S S E T H :

WHEREAS, the Trust is registered under the Investment Company Act of 1940, as amended to date (the "Investment Company Act"), as an open-end investment company and it is affirmatively in the interest of the Trust to offer its shares for sale continuously; and

WHEREAS, the Trustees of the Trust (the "Trustees") are authorized to establish separate series (the "Series") relating to separate portfolios of securities, each of which will offer separate classes of shares of beneficial interest, par value \$0.10 per share (collectively referred to as "shares") to selected groups of purchasers; and

WHEREAS, the Trustees have established and designated the Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") as a series of the Trust; and

WHEREAS, the Distributor is a securities firm engaged in the business of selling shares of investment companies either directly to purchasers or through other securities dealers; and

WHEREAS, the Trust and the Distributor wish to enter into an agreement with each other with respect to the subscription offering and the continuous offering of the Class B shares of beneficial interest of the Fund.

NOW, THEREFORE, the parties agree as follows:

Section 1. Appointment of the Distributor. The Trust hereby appoints the

Distributor as the principal underwriter and distributor of the Trust to sell Class B shares of beneficial interest of the Fund (sometimes herein referred to as "Class B shares") to the public and hereby agrees during the term of this Agreement to sell shares of the Fund to the Distributor upon the terms and conditions herein set forth.

Section 2. Exclusive Nature of Duties. The Distributor shall be the

exclusive representative of the Trust to act as principal underwriter and distributor of Class B shares of the Fund, except that:

(a) The Trust may, upon written notice to the Distributor, from time to time designate other principal underwriters and distributors of Class B shares with respect to areas other than the United States as to which the Distributor may have expressly waived in writing its right to act as such. If such designation is deemed exclusive, the right of the Distributor under this Agreement to sell Class B shares in the areas so designated shall terminate, but this Agreement shall remain otherwise in full effect until terminated in accordance with the other provisions hereof.

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(b) The exclusive rights granted to the Distributor to purchase Class B shares from the Trust shall not apply to Class B shares issued in connection with the merger or consolidation of any other investment company or personal holding company with the Trust or the acquisition by purchase or otherwise of all (or substantially all) the assets or the outstanding Class B shares of any such company by the Trust.

(c) Such exclusive rights also shall not apply to Class B shares issued pursuant to reinvestment of dividends or capital gains distributions.

(d) Such exclusive rights also shall not apply to Class B shares issued pursuant to any reinstatement privilege afforded redeeming shareholders.

Section 3. Purchase of Class B Shares from the Trust.

(a) Prior to the continuous offering of the Class B shares, commencing on a date agreed upon by the Trust and the Distributor, it is contemplated that the Distributor will solicit subscriptions for Class B shares during a subscription period which shall last for such period as may be agreed upon by the parties hereto. The subscriptions will be payable within five business days after the termination of the subscription period, at which time the Fund will commence operations.

(b) After the Fund commences operations, the Trust will commence an offering of Class B shares of the Fund and thereafter the Distributor shall have the right to buy from the Trust the Class B shares needed, but not more than the Class B shares

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needed (except for clerical errors in transmission), to fill unconditional orders for Class B shares of the Fund placed with the Distributor by investors or securities dealers. The price which the Distributor shall pay for the Class B shares so purchased from the Trust shall be the net asset value, determined as set forth in Section 3(d) hereof.

(c) The Class B shares are to be resold by the Distributor to investors at net asset value, as set forth in Section 3(d) hereof, or to securities dealers

having agreements with the Distributor upon the terms and conditions set forth in Section 7 hereof.

(d) The net asset value of Class B shares of the Fund shall be determined by the Trust or any agent of the Trust in accordance with the method set forth in the prospectus and statement of additional information relating to the Fund and guidelines established by the Board of Trustees.

(e) The Trust shall have the right to suspend the sale of Class B shares at times when redemption is suspended pursuant to the conditions set forth in Section 4(b) hereof. The Trust shall also have the right to suspend the sale of Class B shares if trading on the New York Stock Exchange shall have been suspended, if a banking moratorium shall have been declared by Federal or New York authorities, or if there shall have been some other event, which, in the judgment of the Trust, makes it impracticable or inadvisable to sell the shares.

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(f) The Trust, or any agent of the Trust designated in writing by the Trust, shall be promptly advised of all purchase orders for Class B shares received by the Distributor. Any order may be rejected by the Trust; provided, however, that the Trust will not arbitrarily or without reasonable cause refuse to accept or confirm orders for the purchase of Class B shares. The Trust (or its agent) will confirm orders upon their receipt, will make appropriate book entries and, upon receipt by the Trust (or its agent) of payment therefor, will deliver deposit receipts or certificates for such Class B shares pursuant to the instructions of the Distributor. Payment shall be made to the Trust in New York Clearing House funds. The Distributor agrees to cause such payment and such instructions to be delivered promptly to the Trust (or its agent).

Section 4. Repurchase or Redemption of Class B Shares by the Trust. (a)

Any of the outstanding Class B shares may be tendered for redemption at any time, and the Trust agrees to repurchase or redeem the Class B shares so tendered in accordance with its obligations as set forth in Article VIII of its Declaration of Trust, as amended from time to time, and in accordance with the applicable provisions set forth in the prospectus and statement of additional information relating to the Fund. The price to be paid to redeem or repurchase the Class B shares shall be equal to the net asset value calculated in accordance with the provisions of Section 3(d) hereof, less the redemption fee or other charge, if any, set forth in the

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prospectus and statement of additional information relating to the Fund. All payments by the Trust hereunder shall be made in the manner set forth below.

The Trust shall pay the total amount of the redemption price as defined in the above paragraph pursuant to the instructions of the Distributor on or before the seventh business day subsequent to its having received the notice of

redemption in proper form. The proceeds of any redemption of shares shall be paid by the Trust as follows: (i) any applicable contingent deferred sales charge shall be paid to the Distributor and (ii) the balance shall be paid to or for the account of the shareholder, in each case in accordance with the applicable provisions of the prospectus and statement of additional information.

(b) Redemption of Class B shares or payment may be suspended at times when the New York Stock Exchange is closed, when trading on said Exchange is closed, when trading on said Exchange is restricted, when an emergency exists as a result of which disposal by the Trust of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Trust fairly to determine the value of the net assets of the Fund, or during any other period when the Securities and Exchange Commission, by order, so permits.

Section 5. Duties of the Trust. (a) The Trust shall furnish to the

Distributor copies of all information, financial statements and other papers which the Distributor may reasonably request for use in connection with the distribution of Class B

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shares of the Fund, and this shall include, upon request by the Distributor, one certified copy of all financial statements prepared for the Trust by independent public accountants. The Trust shall make available to the Distributor such number of copies of its prospectus and statement of additional information relating to the Fund as the Distributor shall reasonably request.

(b) The Trust shall take, from time to time, but subject to the necessary approval of the shareholders, all necessary action to fix the number of authorized shares and such steps as may be necessary to register the same under the Securities Act of 1933, as amended (the "Securities Act"), to the end that there will be available for sale such number of Class B shares as the Distributor reasonably may be expected to sell.

(c) The Trust shall use its best efforts to qualify and maintain the qualification of an appropriate number of Class B shares for sale under the securities laws of such states as the Distributor and the Trust may approve. Any such qualification may be withheld, terminated or withdrawn by the Trust at any time in its discretion. As provided in Section 8(c) hereof, the expense of qualification and maintenance of qualification shall be borne by the Trust. The Distributor shall furnish such information and other material relating to its affairs and activities as may be required by the Trust in connection with such qualification.

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(d) The Trust will furnish, in reasonable quantities upon request by the Distributor, copies of annual and interim reports relating to the Fund.

Section 6. Duties of the Distributor. (a) The Distributor shall devote

reasonable time and effort to effect sales of Class B shares of the Fund, but shall not be obligated to sell any specific number of shares. The services of the Distributor to the Trust hereunder are not to be deemed exclusive and nothing herein contained shall prevent the Distributor from entering into like arrangements with other investment companies so long as the performance of its obligations hereunder is not impaired thereby.

(b) In selling the Class B shares of the Fund, the Distributor shall use its best efforts in all respects duly to conform with the requirements of all Federal and state laws relating to the sale of such securities. Neither the Distributor nor any selected dealer, as defined in Section 7 hereof, nor any other person is authorized by the Trust to give any information or to make any representations, other than those contained in the registration statement or related prospectus and statement of additional information and any sales literature specifically approved by the Trust.

(c) The Distributor shall adopt and follow procedures, as approved by the officers of the Trust, for the confirmation of sales to investors and selected dealers, the collection of amounts payable by investors and selected dealers on such sales, and the cancellation of unsettled transactions, as may be

necessary to comply with the requirements of the National Association of Securities Dealers, Inc. (the "NASD"), as such requirements may from time to time exist.

Section 7. Selected Dealer Agreements. (a) The Distributor shall have

the right to enter into selected dealer agreements with securities dealers of its choice ("selected dealers") for the sale of Class B shares; provided, that the Trust shall approve the forms of agreements with dealers. Class B shares sold to selected dealers shall be for resale by such dealers only at net asset value determined as set forth in Section 3(d) hereof. The form of agreement with selected dealers to be used during the subscription period described in Section 3(a) is attached hereto as Exhibit A and the initial form of agreement with selected dealers to be used in the continuous offering of the shares is attached hereto as Exhibit B.

(b) Within the United States, the Distributor shall offer and sell Class B shares only to such selected dealers as are members in good standing of the NASD.

Section 8. Payment of Expenses. (a) The Trust shall bear all costs and

expenses of the Fund, including fees and disbursements of its counsel and auditors, in connection with the preparation and filing of any required registration statements and/or prospectuses and statements of additional

information under the Investment Company Act, the Securities Act, and all amendments and supplements thereto, and preparing and mailing annual and interim reports and proxy materials to Class B

shareholders (including but not limited to the expense of setting in type any such registration statements, prospectuses, statements of additional information, annual or interim reports or proxy materials).

(b) The Distributor shall be responsible for any payments made to selected dealers as reimbursement for their expenses associated with payments of sales commissions to financial consultants. In addition, after the prospectuses, statements of additional information and annual and interim reports have been prepared and set in type, the Distributor shall bear the costs and expenses of printing and distributing any copies thereof which are to be used in connection with the offering of Class B shares to selected dealers or investors pursuant to this Agreement. The Distributor shall bear the costs and expenses of preparing, printing and distributing any other literature used by the Distributor or furnished by it for use by selected dealers in connection with the offering of the Class B shares for sale to the public and any expenses of advertising incurred by the Distributor in connection with such offering. It is understood and agreed that, so long as the Fund's Class B Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act remains in effect, any expenses incurred by the Distributor hereunder may be paid from amounts recovered by it from the Fund under such Plan.

(c) The Trust shall bear the cost and expenses of qualification of the Class B shares for sale pursuant to this Agreement, and, if necessary or advisable in connection therewith, of qualifying the Trust as a broker or dealer, in such states of the United States or other jurisdictions as shall be selected by the Trust and the Distributor pursuant to Section 5(c) hereof and the cost and expenses payable to each such state for continuing qualification therein until the Trust decides to discontinue such qualification pursuant to Section 5(c) hereof.

Section 9. Indemnification. (a) The Trust shall indemnify and hold

harmless the Distributor and each person, if any, who controls the Distributor against any loss, liability, claim, damage or expense (including the reasonable cost of investigating or defending any alleged loss, liability, claim, damage or expense and reasonable counsel fees incurred in connection therewith), as incurred, arising by reason of any person acquiring any Class B shares, which may be based upon the Securities Act, or on any other statute or at common law, on the ground that the registration statement or related prospectus and statement of additional information relating to the Fund, as from time to time amended and supplemented, or an annual or interim report to Class B shareholders of the Fund, includes an untrue statement of a material fact or omits to state a

material fact required to be stated therein or necessary in order to make the statements therein not misleading, unless such statement or omission was made in reliance upon, and in conformity with,

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information furnished to the Trust in connection therewith by or on behalf of the Distributor; provided, however, that in no case (i) is the indemnity of the Trust in favor of the Distributor and any such controlling persons to be deemed to protect such Distributor or any such controlling persons thereof against any liability to the Trust or its security holders to which the Distributor or any such controlling persons would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their obligations and duties under this Agreement; or (ii) is the Trust to be liable under its indemnity agreement contained in this paragraph with respect to any claim made against the Distributor or any such controlling persons, unless the Distributor or such controlling persons, as the case may be, shall have notified the Trust in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon the Distributor or such controlling persons (or after the Distributor or such controlling persons shall have received notice of such service on any designated agent), but failure to notify the Trust of any such claim shall not relieve it from any liability which it may have to the person against whom such action is brought otherwise than on account of its indemnity agreement contained in this paragraph. The Trust will be entitled to participate at its own expense in the defense, or, if it so elects, to assume the defense of any suit brought to

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enforce any such liability, but if the Trust elects to assume the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the Distributor or such controlling person or persons, defendant or defendants in the suit. In the event the Trust elects to assume the defense of any such suit and retain such counsel, the Distributor or such controlling person or persons, defendant or defendants in the suit, shall bear the fees and expenses, as incurred, of any additional counsel retained by them, but, in case the Trust does not elect to assume the defense of any such suit, it will reimburse the Distributor or such controlling person or persons, defendant or defendants in the suit, for the reasonable fees and expenses, as incurred, of any counsel retained by them. The Trust shall promptly notify the Distributor of the commencement of any litigation or proceedings against it or any of its officers or Trustees in connection with the issuance or sale of any of the Class B shares.

(b) The Distributor shall indemnify and hold harmless the Trust and each of its Trustees and officers and each person, if any, who controls the Trust against any loss, liability, claim, damage or expense, as incurred, described in the foregoing indemnity contained in subsection (a) of this Section, but only with respect to statements or omissions made in reliance upon, and in conformity

with, information furnished to the Trust in writing by or on behalf of the Distributor for use in connection with the registration statement or related prospectus and statement of additional information, as from time to time

amended, or the annual or interim reports to shareholders. In case any action shall be brought against the Trust or any person so indemnified, in respect of which indemnity may be sought against the Distributor, the Distributor shall have the rights and duties given to the Trust, and the Trust and each person so indemnified shall have the rights and duties given to the Distributor by the provisions of subsection (a) of this Section 9.

Section 10. Duration and Termination of this Agreement. This Agreement

shall become effective as of the date first above written and shall remain in force until May 31, 1996 and thereafter, but only so long as such continuance is specifically approved at least annually by (i) the Trustees, or by the vote of a majority of the outstanding Class B voting securities of the Fund, and (ii) by the vote of a majority of those Trustees who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

This Agreement may be terminated at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding Class B voting securities of the Fund, or by the Distributor, on sixty days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment.

The terms "vote of a majority of the outstanding voting securities," "assignment," "affiliated person" and "interested

person," when used in this Agreement, shall have the respective meanings specified in the Investment Company Act.

Section 11. Amendment of this Agreement. This Agreement may be amended by

the parties only if such amendment is specifically approved by (i) the Trustees, or by the vote of a majority of outstanding Class B voting securities of the Fund, and (ii) by the vote of a majority of those Trustees of the Trust who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

Section 12. Governing Law. The provisions of this Agreement shall be

construed and interpreted in accordance with the laws of the State of New York as at the time in effect and the applicable provisions of the Investment Company Act. To the extent that the applicable law of the State of New York, or any of

the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control.

Section 13. Personal Liability. The Declaration of Trust establishing

Merrill Lynch Multi-State Municipal Series Trust, dated August 2, 1985, a copy of which, together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of the Commonwealth of Massachusetts, provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of said Trust shall be

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held to any personal liability, nor shall resort be had to their private property for the satisfaction of any obligation or claim or otherwise in connection with the affairs of said Trust, but the "Trust Property" only shall be liable.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

MERRILL LYNCH MULTI-STATE MUNICIPAL
SERIES TRUST

By _____
Title:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By _____
Title:

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EXHIBIT A

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

CLASS B SHARES OF BENEFICIAL INTEREST

SELECTED DEALERS AGREEMENT
FOR SUBSCRIPTION PERIOD

Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Multi-State Municipal Series Trust, a Massachusetts business trust (the "Trust"), pursuant to which it acts as the distributor for the sale of Class B shares of beneficial interest, par value \$0.10 per share (herein referred to as "Class B shares"), of the Trust relating to Merrill Lynch Arkansas Municipal Bond Fund (the "Fund"), and as such has the right to distribute Class B shares of the Fund for resale. The Trust is an open-end investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and the Fund's Class B shares being offered to the public are registered under the Securities Act of 1933, as amended (the "Securities Act"). Such Class B Shares and certain of the terms on which they are being offered are more fully described in the enclosed Prospectus and Statement of Additional Information. You have received a copy of the Class B Shares Distribution Agreement (the "Distribution Agreement") between ourself and the Trust and reference is made herein to certain provisions of such Distribution Agreement. This Agreement relates solely to the subscription period described in Section 3(a) of such Distribution Agreement. Subject to the foregoing, as principal, we offer to sell to you, as a member of the Selected Dealers Group, Class B shares of the Fund upon the following terms and conditions:

1. The subscription period referred to in Section 3(a) of the Distribution Agreement will continue through September 23, 1994. The subscription period may be extended upon agreement between the Trust and the Distributor. Subject to the provisions of such Section and the conditions contained herein, we will sell to you on the fifth business day following the termination of the subscription period, or such other date as we may advise (the "Closing Date"), such number of Class B shares as to which you have placed orders with us not later than 5:00 P.M. on the second full business day preceding the Closing Date.

2. In all sales of these Class B shares to the public you shall act as dealer for your own account, and in no transaction shall you have any authority to act as agent for the Trust, for us or for any other member of the Selected Dealers Group.

3. You shall not place orders for any of the Class B shares unless you have already received purchase orders for such Class B shares at the applicable public offering prices and subject to the terms hereof and of the Distribution Agreement. All orders are subject to acceptance by the Distributor or the Trust in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the Prospectus, as amended from time to time. You agree that you will not offer or sell any of the Class B shares except under circumstances that will result in compliance with the applicable Federal and state securities laws and that in connection with sales and offers to sell Class B shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus and, if requested, the Statement of Additional Information (as then amended or supplemented) relating to the Fund and will not

furnish to any person any information relating to the Class B shares of the Fund which is inconsistent in any respect with the information contained in the Prospectus and Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Trust.

4. Payment for Class B shares purchased by you is to be made by Federal funds wire or by certified or official bank check at the office of Merrill Lynch Funds Distributor, Inc., Box 9011, Princeton, New Jersey 08543-9011, on such date as we may advise, in New York Clearing House funds payable to the order of Merrill Lynch Funds Distributor, Inc. against delivery by us of non-negotiable share deposit receipts ("Receipts") issued by Financial Data Services, Inc., as shareholder servicing agent, acknowledging the deposit with it of the Class B shares so purchased by you. You agree that as promptly as practicable after the delivery of such Class B shares you will issue appropriate written transfer instructions to the Trust or to the shareholder servicing agent as to the purchasers to whom you sold the Class B shares.

5. No person is authorized to make any representations concerning Class B shares of the Fund except those contained in the current Prospectus and Statement of Additional Information relating to the Fund and in such printed information subsequently issued by us or the Trust as information supplemental to such

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Prospectus and Statement of Additional Information. In purchasing Class B shares through us you shall rely solely on the representations contained in the Prospectus and Statement of Additional Information and supplemental information above mentioned. Any printed information which we furnish you other than the Fund's Prospectus and Statement of Additional Information, periodic reports and proxy solicitation material are our sole responsibility and not the responsibility of the Trust, and you agree that the Trust shall have no liability or responsibility to you in these respects unless expressly assumed in connection therewith.

6. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus and, if requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials relating to the Fund. You further agree to endeavor to obtain Proxies from such purchasers. Additional copies of the Prospectus and Statement of Additional Information, annual or interim reports and proxy solicitation materials of the Trust will be supplied to you in reasonable quantities upon request.

7. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Class B shares entirely. Each party hereto has the right to cancel this Agreement upon notice to the other party.

8. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act or of the rules and regulations of the Commission issued thereunder.

9. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales in the United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

10. Upon application to us, we will inform you as to the states in which we believe the Class B shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no

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responsibility or obligation as to your right to sell Class B shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the Class B shares, if necessary.

11. All communications to us should be sent to the address below. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

12. You agree that you will not sell any Class B shares of the Trust to any account over which you exercise discretionary authority.

13. This Agreement shall terminate at the close of business on the Closing Date, unless earlier terminated, provided, however, this Agreement shall continue after termination for the purpose of settlement of accounts hereunder.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By _____
(Authorized Signature)

Please return one signed copy
of this Agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.
Box 9011
Princeton, New Jersey 08543-9011

Accepted:

Firm Name: _____

By: _____

Address: _____

Date: _____

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EXHIBIT B

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

CLASS B SHARES OF BENEFICIAL INTEREST

SELECTED DEALERS AGREEMENT

Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Multi-State Municipal Series Trust, a Massachusetts business trust (the "Trust"), pursuant to which it acts as the distributor for the sale of Class B shares of beneficial interest, par value \$0.10 per share (herein referred to as the "Class B shares"), of the Trust relating to Merrill Lynch Arkansas Municipal Bond Fund (the "Fund"), and as such has the right to distribute Class B shares of the Fund for resale. The Trust is an open-end investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and the Fund's Class B shares being offered to the public are registered under the Securities Act of 1933, as amended (the "Securities Act"). You have received a copy of the Class B shares Distribution Agreement (the "Distribution Agreement") between ourself and the Trust and reference is made herein to certain provisions of such Distribution Agreement. The terms "Prospectus" and "Statement of Additional Information" as used herein refer to the prospectus and statement of additional information, respectively, on file with the Securities and Exchange Commission (the "Commission") which is part of the most recent effective registration statement pursuant to the Securities Act. As principal, we offer to sell to you, as a member of the Selected Dealers Group, Class B shares of the Fund upon the following terms and conditions:

1. In all sales of these Class B shares to the public you shall act as dealer for your own account, and in no transaction shall you have any authority

to act as agent for the Trust, for us or for any other member of the Selected Dealers Group.

2. Orders received from you will be accepted through us only at the public offering price applicable to each order, as set forth in the current Prospectus and Statement of Additional Information relating to the Fund. The procedure relating to the handling of orders shall be subject to Section 4 hereof and instructions which we or the Trust shall forward from time to

time to you. All orders are subject to acceptance or rejection by the Distributor or the Trust in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the current Prospectus and Statement of Additional Information relating to the Fund.

3. You shall not place orders for any of the Class B shares unless you have already received purchase orders for such Class B shares at the applicable public offering prices and subject to the terms hereof and of the Distribution Agreement. You agree that you will not offer or sell any of the Class B shares except under circumstances that will result in compliance with the applicable Federal and state securities laws and that in connection with sales and offers to sell Class B shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus and, if requested, the Statement of Additional Information (as then amended or supplemented) and will not furnish to any person any information relating to the Class B shares of the Fund, which is inconsistent in any respect with the information contained in the Prospectus and Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Trust.

4. As a selected dealer, you are hereby authorized (i) to place orders directly with the Trust for Class B shares of the Fund to be resold by us to you subject to the applicable terms and conditions governing the placement of orders by us set forth in Section 3 of the Distribution Agreement, and (ii) to tender Class B shares directly to the Trust or its agent for redemption subject to the applicable terms and conditions set forth in Section 4 of the Distribution Agreement.

5. You shall not withhold placing orders received from your customers so as to profit yourself as a result of such withholding: e.g., by a change in the "net asset value" from that used in determining the offering price to your customers.

6. No person is authorized to make any representations concerning Class B shares of the Fund except those contained in the current Prospectus and Statement of Additional Information relating to the Fund and in such printed information subsequently issued by us or the Trust as information supplemental to such Prospectus and Statement of Additional Information. In purchasing Class B shares through us you shall rely solely on the representations contained in the Prospectus and Statement of Additional Information and supplemental information above

mentioned. Any printed information which we furnish you other than the Prospectus, Statement of Additional Information, periodic reports and proxy solicitation material are our sole responsibility and not the responsibility of the Trust, and you agree that the Trust shall have no liability or responsibility to you in these respects unless expressly assumed in connection therewith.

7. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus and, if requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials relating to the Fund. You further agree to endeavor to obtain proxies from such purchasers. Additional copies of the Prospectus and Statement of Additional Information, annual or interim reports and proxy solicitation materials will be supplied to you in reasonable quantities upon request.

8. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Class B shares entirely. Each party hereto has the right to cancel this Agreement upon notice to the other party.

9. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act or of the rules and regulations of the Commission issued thereunder.

10. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales in the United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

11. Upon application to us, we will inform you as to the states in which we believe the Class B shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no responsibility or obligation as to your right to sell Class B shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the Class B shares, if necessary.

12. All communications to us should be sent to the address below. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

13. Your first order placed pursuant to this Agreement for the purchase of Class B shares of the Fund will represent your acceptance of this Agreement.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By _____
(Authorized Signature)

Please return one signed copy
of this Agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.
Box 9011
Princeton, New Jersey 08543-9011

Accepted:

Firm Name: _____

By: _____

Address: _____

Date: _____

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MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

National Westminster Bank NJ
100 Wall Street
20th Floor
New York, New York 10005

Ladies and Gentlemen:

We are hereby informing you that we are establishing a new series of shares for the Merrill Lynch Multi-State Municipal Series Trust. The specific series is as follows:

Merrill Lynch Arkansas Municipal Bond Fund

If you agree to render custody services for the above fund, under the terms of the existing Merrill Lynch Multi-State Municipal Series Trust contract dated November 1, 1985, please so indicate by signing this letter agreement.

MERRILL LYNCH MULTI-STATE MUNICIPAL
SERIES TRUST

By: _____

Date: _____

Agreed

NATIONAL WESTMINSTER BANK NJ

By: _____

Date: _____

MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

Financial Data Services, Inc.
4800 Deer Lake Drive East
Jacksonville, Florida 32246-6484

Ladies and Gentlemen:

We are hereby informing you that we are establishing a new series of shares for the Merrill Lynch Multi-State Municipal Series Trust. The specific series is as follows:

Merrill Lynch Arkansas Municipal Bond Fund

If you agree to render transfer agency, dividend disbursing agency and shareholder servicing agency services for the above fund, under the terms of the existing Merrill Lynch Multi-State Municipal Series Trust contract dated July 12, 1991 together with the related fee schedule dated July 12, 1991, please so indicate by signing this letter agreement.

Merrill Lynch Multi-State Municipal
Series Trust

By: _____

Date: _____

Agreed

Financial Data Services, Inc.

By: _____

Date: _____

BROWN & WOOD
One World Trade Center
New York, New York 10048-05577

August 1, 1994

Merrill Lynch Arkansas Municipal Bond Fund of
Merrill Lynch Multi-State Municipal Series Trust
Box 9011
Princeton, New Jersey 08543-9011

Dear Sirs:

This opinion is furnished in connection with the registration by Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") of Merrill Lynch Multi-State Municipal Series Trust, a Massachusetts business trust (the "Trust"), of an indefinite number of Class A shares of beneficial interest, par value \$0.10 per share, and Class B shares of beneficial interest, par value \$0.10 per share, (together, the "Shares"), under the Securities Act of 1933 pursuant to a registration statement on Form N-1A (File No. 33-54341), as amended (the "Registration Statement").

As counsel for the Fund, we are familiar with the proceedings taken by it in connection with the authorization, issuance and sale of the Shares. In addition, we have examined and are familiar with the Declaration of Trust of the Trust, the By-Laws of the Trust, the instrument establishing the Fund as a

series of the Trust, the instrument designating the Class A and Class B Shares, and such other documents as we have deemed relevant to the matters referred to in this opinion.

Based upon the foregoing, we are of the opinion that the Shares, upon issuance and sale in the manner referred to in the Registration Statement for consideration not less than the par value thereof, will be legally issued, fully paid and nonassessable shares of beneficial interest of the Fund.

In rendering this opinion, we have relied as to matters of Massachusetts law upon an opinion of Bingham, Dana & Gould rendered to the Trust.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the use of our name in the Prospectus and Statement of Additional Information constituting parts thereof.

Very truly yours,

/s/ Brown & Wood

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INDEPENDENT AUDITORS' CONSENT

Merrill Lynch Arkansas Municipal Bond Fund of
Merrill Lynch Multi-State Municipal Series Trust

We consent to the use in Pre-Effective Amendment No. 1 to Registration Statement No. 33-54341 of our report dated August 1, 1994 appearing in the Statement of Additional Information, which is part of such Registration Statement.

/s/ Deloitte & Touche
Princeton, New Jersey
August 1, 1994

Certificate
of FAM
- -----

CERTIFICATE OF SOLE SHAREHOLDER

Fund Asset Management, L.P. ("FAM"), the holder of 5,000 Class A shares of beneficial interest, par value \$0.10 per share, and 5,000 Class B shares of beneficial interest, par value \$0.10 per share, of Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") of Merrill Lynch Multi-State Municipal Series Trust (the "Trust"), a Massachusetts business trust, does hereby confirm to the Trust its representation that it purchased such shares for investment purposes, with no present intention of redeeming or reselling any portion thereof, and does further agree that if it redeems any portion of such shares prior to the amortization of the Fund's organizational expenses, the proceeds thereof will be reduced by the proportionate amount of unamortized organizational expenses which the number of shares being redeemed bears to the number of shares initially purchased and outstanding at the time of redemption. FAM further agrees that in the event such shares are sold or otherwise transferred to any other party, that prior to such sale or transfer FAM will obtain on behalf of the Fund an agreement from such other party to comply with the foregoing as to the reduction of redemption proceeds and to obtain a similar agreement from any transferee of such party.

FUND ASSET MANAGEMENT, L.P.

By: /s/ Philip L. Kirstein

Title: Senior Vice President

Dated: July 28, 1994

CLASS B SHARES DISTRIBUTION PLAN

OF

MERRILL LYNCH ARKANSAS MUNICIPAL BOND FUND

MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

PURSUANT TO RULE 12b-1

DISTRIBUTION PLAN made as of the 17th day of June, 1994, by and between Merrill Lynch Multi-State Municipal Series Trust, a Massachusetts business trust (the "Trust"), and Merrill Lynch Funds Distributor, Inc., a Delaware corporation ("MLFD").

W I T N E S S E T H :

WHEREAS, the Trust is engaged in business as an open-end investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"); and

WHEREAS, the Trust is authorized to establish separate ("Series") each of which will offer separate classes of shares of beneficial interest par value \$0.10 per share (the "Shares") to selected groups of purchasers; and

WHEREAS, MLFD is a securities firm engaged in the business of selling shares of investment companies either directly to purchasers or through other securities dealers; and

WHEREAS, the Trust proposes to enter into a Class B Shares Distribution Agreement with MLFD, pursuant to which MLFD will act as the exclusive distributor and representative of the Trust in the offer and sale of Class B shares of beneficial interest, par value \$0.10 per share (the "Class B shares"), of the Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") series of the Trust to the public; and

WHEREAS, the Trust desires to adopt this Class B Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act, pursuant to which the Trust will pay an account maintenance fee and a distribution fee to MLFD with respect to the Fund's Class B shares; and

WHEREAS, the Trustees of the Trust have determined that there is a reasonable likelihood that adoption of the Plan will benefit the Fund and its Class B shareholders;

NOW, THEREFORE, the Trust hereby adopts, and MLFD hereby agrees to the terms of, the Plan in accordance with Rule 12b-1 under the Investment Company Act on the following terms and conditions:

1. The Trust shall pay MLFD an account maintenance fee under the Plan at the end of each month at the annual rate of 0.25% of average daily net assets of the Fund relating to Class B shares to compensate MLFD and securities firms with which MLFD enters into related agreements pursuant to Paragraph 3 hereof ("Sub-Agreements") for account maintenance activities with respect to Class B shareholders of the Fund.

2. The Trust shall pay MLFD a distribution fee under the Plan at the end of each month at the annual rate of 0.25% of the Fund's average daily net assets relating to Class B shares of the Fund to compensate MLFD and Securities Firms (as defined below) with which MLFD enters into related Sub-Agreements for providing sales and promotional activities and services. Such activities and services will relate to the sale, promotion and marketing of the Class B shares of the Fund. Such expenditures may consist of sales commissions to financial consultants for selling Class B shares of the Fund, compensation, sales incentives and payments to sales and marketing personnel, and the payment of expenses incurred in its sales and promotional activities, including advertising expenditures related to the Fund and the costs of preparing and distributing promotional materials. The distribution fee may also be used to pay the financing costs of carrying the unreimbursed expenditures described in this Paragraph 2. Payment of the distribution fee described in this Paragraph 2 shall be subject to any limitations set forth in any applicable regulation of the National Association of Securities Dealers, Inc.

3. The Trust hereby authorizes MLFD to enter into Sub-Agreements with certain securities firms ("Securities Firms"), including Merrill Lynch, Pierce, Fenner & Smith Incorporated, to provide compensation to such Securities Firms for activities and services of the type referred to in Paragraphs 1 and 2 hereof. MLFD may reallocate all or a portion of its account maintenance fee or distribution fee to such Securities Firms as compensation for the above-mentioned activities and services. Such compensation will be in an amount as set forth in the individual Sub-Agreements. Such Sub-Agreement shall provide that the Securities Firms shall provide MLFD with such information as is reasonably necessary to permit MLFD to comply with the reporting requirements set forth in Paragraph 4 hereof.

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4. MLFD shall provide the Trust for review by the Board of Trustees, and the Trustees shall review at least quarterly, a written report complying with the requirements of Rule 12b-1 regarding the disbursement of the account

maintenance fee and the distribution fee during such period. This report shall include an itemization of the distribution expenditures incurred on behalf of the Fund and its Class B shareholders, the purpose of such distribution expenditures and a description of the benefits derived by the Fund and its Class B shareholders therefrom.

5. The Plan shall not take effect until it has been approved by a vote of at least a majority, as defined in the Investment Company Act, of the outstanding Class B voting securities of the Fund.

6. The Plan shall not take effect until it has been approved, together with any related agreements, by votes of a majority of both (a) the Trustees of the Trust and (b) those Trustees of the Trust who are not "interested persons" of the Trust, as defined in the Investment Company Act, and have no direct or indirect financial interest in the operation of this Plan or any agreements related to it (the "Rule 12b-1 Trustees"), cast in person at a meeting or meetings called for the purpose of voting on the Plan and such related agreements.

7. The Plan shall continue in effect for so long as such continuance is specifically approved at least annually in the manner provided for approval of the Plan in Paragraph 6.

8. The Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Trustees, or by vote of a majority of the outstanding Class B voting securities of the Fund.

9. The Plan may not be amended to increase materially the rate of payments by the Fund provided for herein unless such amendment is approved by at least a majority, as defined in the Investment Company Act, of the outstanding Class B voting securities of the Fund, and by the Trustees of the Fund in the manner provided for in Paragraph 6 hereof, and no material amendment to the Plan shall be made unless approved in the manner provided for approval and annual renewal in Paragraph 6 hereof.

10. While the Plan is in effect, the selection and nomination of Trustees who are not interested persons, as defined in the Investment Company Act, of the Trust shall be committed to the discretion of the Trustees who are not interested persons.

11. The Trust shall preserve copies of the Plan and any related agreements and all reports made pursuant to Paragraph 4 hereof, for a period of not less than six years from the date of

this Plan, or the agreements or such report, as the case may be, the first two years in an easily accessible place.

12. The Declaration of Trust establishing the Trust, dated August 2, 1985,

a copy of which, together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of the Commonwealth of Massachusetts, provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust shall be held to any personal liability, nor shall resort be had to their private property for the satisfaction of any obligation or claim of the Trust but the "Trust Property" only shall be liable.

IN WITNESS WHEREOF, the parties hereto have executed this Plan as of the date first above written.

MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

By _____

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By _____

CLASS B SHARES DISTRIBUTION PLAN SUB-AGREEMENT

AGREEMENT made as of the 17th day of June, 1994, by and between Merrill Lynch Funds Distributor, Inc. ("MLFD"), and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Securities Firm").

W I T N E S S E T H :

WHEREAS, MLFD has entered into an agreement with Merrill Lynch Multi-State Municipal Series Trust, a Massachusetts business trust (the "Trust"), pursuant to which it acts as the exclusive distributor for the sale of Class B shares of beneficial interest, par value \$0.10 per share (the "Class B shares"), of the Merrill Lynch Arkansas Municipal Bond Fund (the "Fund") series of the Trust; and

WHEREAS, MLFD and the Trust have entered into a Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended (the "Investment Company Act"), pursuant to which MLFD receives an account maintenance fee from the Fund at the annual rate of 0.25% of average daily net assets of the Fund relating to Class B shares for account maintenance activities related to Class B shares of the Fund and a distribution fee from the Fund at the annual rate of 0.25% of average daily net assets of the Fund relating to Class B shares for providing sales and promotional activities and

services related to the distribution of Class B shares of the Fund; and

WHEREAS, MLFD desires the Securities Firm to perform certain account maintenance activities and sales and promotional activities and services for the Fund's Class B shareholders and the Securities Firm is willing to perform such activities and services;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereby agree as follows:

1. The Securities Firm shall provide account maintenance activities with respect to the Class B shares of the Fund of the types referred to in Paragraph 1 of the Plan.

2. The Securities Firm shall provide sales and promotional activities and services with respect to the sale of the Class B shares of the Fund, and incur distribution expenditures, of the types referred to in Paragraph 2 of the Plan.

3. As compensation for its activities and services performed under this Sub-Agreement, MLFD shall pay the Securities

Firm an account maintenance fee and a distribution fee at the end of each calendar month in an amount agreed upon by the parties hereto.

4. The Securities Firm shall provide MLFD, at least quarterly, such information as reasonably requested by MLFD to enable MLFD to comply with the reporting requirements of Rule 12b-1 regarding the disbursement of the account maintenance fee and the distribution fee during such period referred to in Paragraph 4 of the Plan.

5. This Sub-Agreement shall not take effect until it has been approved by votes of a majority of both (a) the Trustees of the Trust and (b) those Trustees of the Trust who are not "interested persons" of the Trust, as defined in the Investment Company Act, and have no direct or indirect financial interest in the operation of the Plan, this Agreement or any agreements related to the Plan or this Agreement (the "Rule 12b-1 Trustees"), cast in person at a meeting or meetings called for the purpose of voting on this Agreement.

6. This Agreement shall continue in effect for as long as such continuance is specifically approved at least annually in the manner provided for approval of the Plan in Paragraph 6.

7. This Agreement shall automatically terminate in the event of its assignment or in the event of the termination of the Plan or any amendment to the Plan that requires such termination.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By _____

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By _____